


# Asset Accounting Policy: Capitalisation

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## **1 OUTCOMES**

- 1.1 This policy ensures that there is a distinction between expenditure on long-lived assets and expenditure on goods and services for immediate consumption. Consistent policy decision becomes critically important in determining the cost of providing Council services.
- 1.2 As a result of having a consistent asset accounting rules for capitalisation, Council provides materially accurate and comparable information on its financial position and financial performance.

## **2 POLICY**

- 2.1 When assets are acquired or created, they are capitalised in the financial statements to reflect the long-life value they have in providing future economic benefits to the QPRC Community.
- 2.2 This policy sets the capital expenditure thresholds for recognising capital expenditure. The capitalisation threshold is the new, upgrade or renewal value of an asset, below which the project cost will be accounted for as operational expenditure, and above which it will be included in Council's asset register and accounted for as an asset.
- 2.3 Assets are capitalised at least monthly throughout the year to 31 March. At the March quarter, a full review of all capital projects is prepared to determine completed projects, work in progress, and carry-forward project budgets.

## **3 SCOPE OF THE POLICY**

- 3.1 This policy applies to the accounting treatment for non-current infrastructure, property, plant and equipment. Other assets such as receivables, inventory, intangibles and cash are excluded.

## **4 DEFINITIONS**

- 4.1 Operational Expenditure – Includes expenditure on operations and maintenance and is excluded from the capital cost of the asset.
- 4.2 Operations – Regular activities / expenditure to provide services such as running costs, public health, safety and amenity eg street sweeping, grass mowing and utility costs such as street lighting. These are day to day (often continuous) operational activities that have no effect on asset condition but are necessary to keep the asset appropriately utilised and operating.
- 4.3 Maintenance – All periodic or reactive actions necessary for retaining an asset in a condition that allows it to deliver the designed service levels throughout its intended life. Eg road patching. Maintenance is periodic or reactive expenditure and does not increase the service potential of the asset or keep it in its original condition. Rather, it slows down deterioration and delays the necessity of rehabilitation or renewal. Maintenance activities fall into two categories, planned and reactive.
- 4.4 Planned maintenance – is proactive maintenance to prevent asset failure. Work is carried out on a predetermined schedule or planned in association with other works.
- 4.5 Reactive maintenance – is action taken to correct asset malfunctions and failures on an as-required basis, or in response to reported problems. Eg potholes, repairs, breakdowns, emergency repairs.

- 4.6 Capital expenditure – costs incurred over the life of an asset that either renew, upgrade or extend the asset’s underlying service potential. Such costs are capitalised as an addition to the carrying value of existing assets.
- 4.7 Renewal – expenditure that increases the useful life or increases the service potential of the asset beyond its current condition but not exceeding its current maximum design level, for example, resealing of a road. Includes rehabilitation and replacement activities.
- 4.8 Rehabilitation activities – major reinstatement, often of structural component assets to ensure required levels of service are met and prolonged asset life is achieved.
- 4.9 Replacement works – the disposal and substitution (complete replacement) of an asset which has reached the end of its useful life, with an equivalent standard or agreed alternate asset.
- 4.10 Upgrade – expenditure that enhances an asset to provide a longer useful life or increases the service potential of the asset beyond its current maximum design level, for example, widening a road to add an extra traffic lane. Includes expenditure on new assets where existing assets are replaced at a higher level of service, and part of the cost relates to the upgrade.
- 4.11 Materiality – omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make based on the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

## 5 LEGISLATIVE OBLIGATIONS AND/OR RELEVANT STANDARDS

- 5.1 OLG Code of Accounting Practice and Financial Reporting
- 5.2 AASB 116 Property, Plant and Equipment
- 5.3 IPWEA Australian Infrastructure Financial Management Guidelines

## 6 CONTENT

### 6.1 Capitalisation

- 6.1.1 The cost of acquiring or creating fixed assets is determined in accordance with Australian Accounting Standards and includes: the purchase price, directly attributable costs for bringing the asset to the required location and condition to operate in its intended manner, and the estimated cost of an obligation to dismantle and remove the asset and restore the site.
- 6.1.2 The cost of a constructed asset is determined using the same principles as for an acquired asset. When an asset is contributed to Council for no or low cost, the asset cost is measured at its estimated fair value from the date of acquisition. Included and excluded costs are detailed in the table below.

Activity	Operating Expenditure	Capital Expenditure
All activities prior to the decision made to proceed with investment including: <ul style="list-style-type: none"> <li>• Strategic planning reports</li> <li>• Project scoping and investigation, valuation reports, planning approvals</li> <li>• Sewer line camera inspections</li> </ul>	X	

Activity	Operating Expenditure	Capital Expenditure
All activities following decision made to proceed with investment including: <ul style="list-style-type: none"> <li>• Survey and design</li> <li>• Professional fees</li> <li>• Site preparation, including demolition of old assets</li> <li>• Construction and contract payments</li> <li>• Council direct costs - wages, plant hire, inventory and on-costs</li> <li>• Project management, supervision and overheads</li> <li>• Transport, installation, assembly and testing</li> <li>• Costs associated with implementing a new module to Council's information system</li> </ul>		X
If Council has an obligation for site restoration: <ul style="list-style-type: none"> <li>• Initial estimate of dismantling and removal of asset and site restoration (e.g. tips)</li> </ul>		X
All activities after the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management: <ul style="list-style-type: none"> <li>• Costs of opening a new facility</li> <li>• Advertising and promotional activities</li> <li>• Administration and general overhead costs</li> <li>• Staff relocation and training</li> <li>• Costs of relocating, reorganising operations or redeploying an item</li> </ul>	X	
Incidental operations that occur in connection with construction or development: <ul style="list-style-type: none"> <li>• Income and expenses associated with renting / operating an asset before or during development</li> </ul>	X	
Internal profits	X	
Cost of abnormal amounts of wasted material, labour or other resources	X	

## 6.2 Derecognition of assets

6.2.1 When a complete asset is replaced (including a complete asset component), the cost of the renewal / rehabilitation / reconstruction is recognised as a renewed asset and any residual value of the replaced asset is disposed from the asset register.

6.2.2 Partial derecognition of an infrastructure asset is to occur whenever:

- a) A significant component or section of an infrastructure asset is destroyed, abandoned or decommissioned with no future economic benefits expected to be generated from its use; or
- b) Major renewal works have been undertaken resulting in a significant component or section of an infrastructure asset being replaced.

6.2.3 When an asset is partially replaced, the replaced portion should be disposed (often expressed as a percentage). The replacement cost is recognised as an addition to the remaining asset value. The remaining useful life of the renewed asset is reviewed to recognise the restored economic benefits.

6.2.4 For partial road pavement renewals, due to the variability of actual pavement thickness and thin renewal component, even minor construction variations will have a significant impact on the write off estimation so that a reasonable estimate cannot be made. Therefore, for partial pavement renewals the capital cost is recognised by adding the renewal cost to the existing asset value and the remaining useful life of the renewed asset is reviewed to recognise the restored economic benefits.

### 6.3 Capitalisation Thresholds

6.3.1 The capitalisation thresholds provided in the following tables will be applied to capitalisation decisions.

Table 1 – Plant and equipment, office equipment and furniture and fittings			
Operations	Maintenance	Renewal	Upgrade and Expansion
<ul style="list-style-type: none"> <li>Fuel, oil, electricity</li> </ul>	<ul style="list-style-type: none"> <li>Reactive maintenance and repairs</li> <li>Programmed servicing</li> <li>Upgrade or replace parts &lt; \$5,000</li> </ul>	<ul style="list-style-type: none"> <li>Replacement asset &gt; \$5,000</li> <li>Replacement of asset parts &gt; \$5,000</li> <li>Replacement system or network assets where the individual components are less than the capitalisation threshold but the total acquisition &gt; \$10,000</li> <li>Replacement of major asset component such as an engine in a motor vehicle</li> </ul>	<ul style="list-style-type: none"> <li>New asset &gt; \$5,000</li> <li>New system or network assets where the individual components are less than the capitalisation threshold but the total acquisition &gt; \$10,000</li> <li>Bulk mobile, laptops and computer equipment &gt; \$10,000 per annum</li> </ul>

Table 2 – Operational land, community land, crown land, land under roads (post 01/07/2008), land improvements (non-depreciable)			
Operations	Maintenance	Renewal	Upgrade and Expansion
<ul style="list-style-type: none"> <li>Utility costs such as land rates &amp; insurance</li> <li>Asset inspections, supervision and management</li> <li>Legal costs where purchase did not eventuate</li> <li>Mowing, cleaning, gardening, waste removal</li> <li>Pest treatments</li> </ul>	<ul style="list-style-type: none"> <li>Mulch and grass refill/repair</li> <li>Land Improvement &lt;\$10,000</li> </ul>	<ul style="list-style-type: none"> <li>Renewal of land improvements &gt; \$10,000</li> </ul>	<ul style="list-style-type: none"> <li>All land acquisition costs are capitalised</li> <li>Land improvements, including levelling, formation, landscaping &gt; \$10,000</li> </ul>

<b>Operations</b>	<b>Maintenance</b>	<b>Renewal</b>	<b>Upgrade and Expansion</b>
<ul style="list-style-type: none"> <li>Asset management including condition assessment and defect inspections</li> <li>Utility costs</li> <li>Statutory testing and certification</li> <li>Cleaning</li> <li>Graffiti removal</li> <li>Pest control</li> <li>Clearing roof drains and gutters</li> </ul>	<ul style="list-style-type: none"> <li>Reactive and programmed maintenance and repair</li> <li>Partial renewal of building component &lt; \$10,000</li> <li>Painting</li> </ul>	<ul style="list-style-type: none"> <li>Partial renewal of building component &gt; \$10,000</li> <li>Complete renewal or replacement of building component</li> <li>Renewal or replacement at same or modern equivalent standard &gt; \$10,000</li> <li>Major repainting of a building's external walls, which effectively reseals the external structure</li> </ul>	<ul style="list-style-type: none"> <li>New building asset</li> <li>Fit out &gt; \$10,000</li> <li>Upgrade assets &gt; \$10,000</li> <li>Grouped assets - relevant new small value assets purchased &gt; \$10,000 per annum. e.g. security pads, cctv cameras</li> </ul>

<b>Operations</b>	<b>Maintenance</b>	<b>Renewal</b>	<b>Upgrade and Expansion</b>
<ul style="list-style-type: none"> <li>Asset management including condition assessment and defect inspections</li> <li>Street sweeping (kerb and gutter)</li> <li>Cleaning and jetting of footpaths</li> <li>Sweeping and litter control</li> <li>Clearing of subsoil drains</li> <li>Silt control</li> <li>Line marking renewal</li> <li>Replacing traffic indicators and raised pavement markers</li> <li>Verge mowing</li> <li>Street lighting construction /expansion</li> <li>Utility costs</li> <li>Graffiti removal</li> <li>Litter control</li> <li>Weed &amp; pest control</li> </ul>	<ul style="list-style-type: none"> <li>Reactive maintenance and repair eg pothole repairs, minor patching</li> <li>Emergency repairs</li> <li>Programmed maintenance</li> <li>Reapplication of bridge surface coatings e.g. painting, galvanising</li> <li>Footpath trip hazard repairs and surface patching</li> </ul>	<ul style="list-style-type: none"> <li>Partial asset renewal &gt; \$5,000 or more than 10% of the area of the asset segment</li> <li>Complete asset segment renewal or replacement</li> <li>Gravel resheeting</li> <li>Replacement of sub-soil drains</li> <li>Heavy patching and localised (partial) surface renewal &gt; \$5,000 or greater than 10% of the area of the asset segment</li> </ul>	<ul style="list-style-type: none"> <li>New asset</li> <li>Asset expansion e.g. road widening, extra lanes</li> <li>Sealing of unsealed road</li> <li>Upgraded pathways and footpath assets e.g. change from asphalt footpath to concrete footpath</li> <li>Costs associated with new line marking or raised pavement markers in association with asset renewal or construction are capitalised as part of the acquisition cost.</li> </ul>

<b>Operations</b>	<b>Maintenance</b>	<b>Renewal</b>	<b>Upgrade and Expansion</b>
<ul style="list-style-type: none"> <li>Asset management including condition assessment and defect inspections</li> <li>Clearing drains and pits</li> <li>Clearing gross pollutant traps (GPT), stormwater quality improvement devices (SQID) and water sensitive urbane design (WSUD) areas</li> </ul>	<ul style="list-style-type: none"> <li>Reactive maintenance (pipe repair, pit repair, GPTs and SQIDS)</li> <li>Programmed maintenance</li> <li>Partial asset renewal &lt; \$5,000</li> <li>Desilting surface drains</li> <li>Revegetation of WSUD areas</li> <li>Replacement of WSUD area filter media</li> </ul>	<ul style="list-style-type: none"> <li>Replacement or refurbishment of the constructed flood mitigation and drainage assets</li> <li>Partial asset renewal &gt; \$5,000</li> <li>Replacement of segment length of pipeline</li> <li>Renewal or relining of segment length of pipeline</li> <li>Replacement of complete pit, end structure or fitting</li> <li>Complete asset renewal or replacement</li> </ul>	<ul style="list-style-type: none"> <li>Constructed flood mitigation and drainage assets</li> <li>New asset</li> <li>Replace with larger diameter pipe including increased standard or capacity</li> </ul>

<b>Operations</b>	<b>Maintenance</b>	<b>Renewal</b>	<b>Upgrade and Expansion</b>
<ul style="list-style-type: none"> <li>Asset management including condition assessment and defect inspections</li> <li>Utility costs</li> <li>Street bins</li> <li>General gardening: mowing, cleaning, tree and shrub trimming, weed control, litter control, leaf control etc.</li> </ul>	<ul style="list-style-type: none"> <li>Reactive and programmed maintenance</li> <li>Painting facilities and structures</li> <li>Partial asset renewal &lt; \$5,000</li> <li>Replanting garden beds, trees and shrubs</li> <li>Re-turfing</li> </ul>	<ul style="list-style-type: none"> <li>Partial asset renewal &gt; \$5,000 (eg replacing damaged sections of fencing, irrigation, edging)</li> <li>Complete asset renewal or replacement &gt; \$5,000</li> </ul>	<ul style="list-style-type: none"> <li>New asset &gt; \$5,000</li> <li>Replace entire asset with higher standard or capacity &gt; \$5,000</li> </ul>

<b>Operations</b>	<b>Maintenance</b>	<b>Renewal</b>	<b>Upgrade and Expansion</b>
<ul style="list-style-type: none"> <li>Soft landscaping</li> <li>Water meter relocation</li> <li>Inspections or condition assessments not requiring dismantling of the asset</li> <li>Sewer line camera Inspections</li> </ul>	<ul style="list-style-type: none"> <li>Reactive and programmed maintenance and repair</li> <li>Partial asset renewal &lt; \$5,000</li> <li>Manhole replacement</li> </ul>	<ul style="list-style-type: none"> <li>Partial asset renewal &gt; \$5,000</li> <li>Complete asset renewal or replacement &gt; \$10,000</li> <li>Sewer relining</li> </ul>	<ul style="list-style-type: none"> <li>New asset &gt; \$10,000</li> <li>Replace complete asset with higher standard / capacity &gt; \$10,000</li> <li>New meters and service connections to private properties are capitalised initially at cost as bulk network assets and at revaluation are included with the cost of the network asset.</li> </ul>

Table 8 – Library books and other assets			
Operations	Maintenance	Renewal	Upgrade and Expansion
<ul style="list-style-type: none"> <li>Annual online licences, subscriptions, annual platform access to e-formats, periodicals and newspapers</li> </ul>	<ul style="list-style-type: none"> <li>n/a</li> </ul>	<ul style="list-style-type: none"> <li>Bulk or network library book acquisition</li> </ul>	<ul style="list-style-type: none"> <li>Bulk or network new asset &gt; \$5,000</li> </ul>

## 7 REVIEW

7.1 This policy will be reviewed every two years or earlier as necessary if:

- a) legislation requires it, or
- b) Council's functions, structure or activities change