

Asset Capitalisation Policy

Date Adopted: 26 November 2024

Version: 1.0

Policy Objectives

The objective of this policy is to provide a distinction between expenditure on long-lived assets and expenditure on goods and services for immediate consumption.

As a result of having a consistent accounting rules for capitalisation, Council provides materially accurate information on its financial position and financial performance.

Policy Scope

This policy applies to the accounting treatment for infrastructure, property, plant and equipment (IPPE).

Policy Statement

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 Maitland Community.

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.

Assets are capitalised regularly 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.

Policy Definitions

Operational Expenditure – Includes expenditure on operations and maintenance and is excluded from the capital cost of the asset.

Operations – Regular activities / expenditure to provide services such as running costs, public health, safety and amenity e.g. 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.

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. E.g. 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.

Planned maintenance – is proactive maintenance to prevent asset failure. Work is carried out on a predetermined schedule or planned in association with other works.

Reactive maintenance – is action taken to correct asset malfunctions and failures on an as-required basis, or in response to reported problems. E.g. potholes, repairs, breakdowns, emergency repairs.

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.

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.

Rehabilitation activities – major reinstatement, often of structural component assets to ensure required levels of service are met and prolonged asset life is achieved.

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.

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.

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.

LEGISLATIVE OBLIGATIONS AN/OR RELEVANT STANDARDS

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

CONTENT

Capitalisation

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.

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"> • Strategic planning reports • Project scoping and investigation, valuation reports, planning approvals. 	X	

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

Derecognition of assets

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.

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.

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.

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.

Capitalisation Thresholds

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

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

Operations	Maintenance	Renewal	Upgrade and Expansion
<ul style="list-style-type: none"> Utility costs such as land rates & insurance Asset inspections, supervision and management Legal costs where purchase did not eventuate. Mowing, cleaning, gardening, waste removal Pest treatments 	<ul style="list-style-type: none"> Mulch and grass refill/repair. Land Improvement <\$10,000 	<ul style="list-style-type: none"> Renewal of land improvements > \$10,000 	<ul style="list-style-type: none"> All land acquisition costs are capitalised including legals. Land improvements, including levelling, formation, landscaping > \$10,000

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

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

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

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

Operations	Maintenance	Renewal	Upgrade and Expansion
<ul style="list-style-type: none"> Annual online licences, subscriptions, annual platform access to e-formats, periodicals and newspapers 	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> Bulk or network library book acquisition 	<ul style="list-style-type: none"> Bulk or network new asset > \$5,000. Dedications / purchases >\$5,000

Policy Administration

Business Group:	Finance
Responsible Officer:	Chief Financial Officer
Council Reference:	Ordinary Council Meeting 26 November 2024
Policy Review Date:	Four (4) years from date of adoption
File Number	12/1
Relevant Legislation:	<ul style="list-style-type: none"> AASB 116 Property, Plant and Equipment OLG Code of Accounting Practice and Financial Reporting IPWEA Australian Infrastructure Financial Management Guidelines
Related Policies / Procedures / Protocols	<ul style="list-style-type: none"> Asset Revaluation Policy Plant and Equipment Replacement Policy Asset Disposal Policy

Policy History

VERSION	DATE APPROVED	DESCRIPTION OF CHANGES
1.0	26 November 2024	New policy adopted