

Council Policy



Policy Title:	Asset Capitalisation
Policy Number:	11.17
Focus Area:	Undertake long term financial planning & ensure compliance with financial regulation
Responsibility:	Asset Systems and Planning
Meeting Adopted:	17 October 2023 - 171023/10

INTRODUCTION

The purpose of the policy is to ensure the appropriate recognition of physical infrastructure assets by Council, in accordance with Australian Accounting Standards and the *Local Government Act 1993*.

The policy provides consistent guidelines regarding which assets are to be capitalised (as opposed to expensed) in Council's corporate finance system and defines Council's reporting requirements for classifying and recording capital expenditure relating to the renewal or upgrade of an existing asset and to the creation of a new asset.

The policy supports Council's commitment to sustainable financial planning by providing clear guidelines on the distinctions between maintenance, renewal, upgrade and new capital expenditure for accounting purposes.

OBJECTIVE

The objective of this policy is to define Council's capital expenditure threshold for asset capitalisation purposes.

SCOPE

This policy applies to physical infrastructure assets controlled or owned by Council, including Roads, bridges, footpaths, stormwater drainage, water supply network, sewerage network, land, buildings, and open space/recreational assets.

This policy does not apply to cash, inventory, library books, office furniture and fittings, office equipment, mobile plant and equipment or heritage collections.

LEGAL FRAMEWORK

Local Government Act 1993 (NSW)

POLICY

Council is committed to ensuring that the values of its physical infrastructure assets are reported in a true, proper manner, and in accordance with the Integrated Planning & Reporting Framework. This policy aims to ensure that assets acquired or created are capitalised to reflect the value that they have in providing future economic benefits to the community.

Capitalisation Thresholds

Items of infrastructure are not capitalised unless their cost of acquisition exceeds the following values:

Land

- Council land 100% Capitalised
- Open space 100% Capitalised

Buildings and Land Improvements

- Park Furniture and Equipment > \$2,000
- Building
 - Construction/Extensions 100% Capitalised
 - Renovations > \$10,000
- Other Structures > \$2,000

Water and Sewer Assets

- Reticulation extensions > \$5,000
- Pumps/motor/electrical 100% Capitalised
- Relining 100% Capitalised
- Sewer junction repairs 100% Capitalised
- Other > \$5,000

Stormwater Drainage Assets

- Drains and culverts > \$5,000
- Other > \$5,000

Roads and Transport Assets

- Road construction and reconstruction 100% Capitalised
- Resealed/re-sheet and major repairs 100% Capitalised
- Bridge construction and reconstruction 100% Capitalised
- Footpath and cycleways > 20% of asset segment or > \$5,000
- Furniture, traffic devices > \$2,000
- Guard rails, surface drainage > \$5,000
- Other (bus shelters, roadside furniture) > \$2,000

Other Infrastructure Assets

- Swimming pools > \$10,000
- Other open space/recreational assets > \$10,000
- Other Infrastructure > \$10,000

Council records group and network assets within the asset register (capitalised) that individually fall below the asset acquisition threshold but are collectively of a material/locational value that exceeds the threshold. Group asset examples include water meters, bollards in a park, street signs, outdoor furniture and hydrants.

Minor assets being acquired less than the capitalisation threshold is treated as an expense funded by maintenance and operational budgets.

Project Lifecycle Accounting

Council's whole-of-life asset accounting treatment of project expenditure is detailed in the following table:

Project Stage	Activity	Accounting Treatment
Planning and Feasibility Studies	Strategic Planning Feasibility Studies Master Plans ++	Expense
Site Preparation and Approvals	Survey Design Professional Fees Licences and application approvals Master Plans ++	Capitalised
Construction	Contract fees Professional Fees Council's direct costs Supervision Transport Overheads Installation Assembly Testing Project Management	Capitalised
Costs in defect period	Repairs Construction	Capitalised
Repairs and Maintenance	Repairs Maintenance Minor part replacements *	Expense
Repairs and Maintenance	Major part replacement *	Capitalised
Refurbishments	Renewals	Capitalised
Demolition	Demolition (no rebuild)	Expense
Demolition	Demolition (if rebuilding) Site Rehabilitation	Capitalised

*In deciding the difference between a minor or major part replacement, consideration is given based on if the maintenance improves the condition of the asset (i.e increasing useful lives) as well as the financial expense incurred for the replacement.

++ Master Plans that are produced as part of site upgrades, with project commencement within 12 months of plan adoption are considered capital. All other long-term masterplan documents that provide a conceptual layout to guide future growth and development are expensed.

Asset Valuation

Council's assets are progressively revalued to fair value in accordance with a staged implementation advised by the Office of Local Government (OLG). Full revaluations are undertaken for all assets on a five-year cycle.

All new assets fair value are initially at their cost of acquisition. The initial fair value of developer-provided assets are determined based on Council asset unit rate cost.

Unit rate cost is determined at revaluation and CPI annually.

For all assets not due for a comprehensive revaluation in the current financial year, Council undertakes an assessment of the estimated movement in fair value to determine whether there has been a material movement from the previous reporting period by reviewing potential changes in valuation inputs.

Valuation inputs between comprehensive valuations is based on indexations.

- Water and sewerage network assets, if indexed, are in accordance with the Rates Reference Manual issued by Department of Planning, Industry & Environment – Water.
- Road network, stormwater drainage, buildings, other structures and land Improvement's assets, if indexed, are in accordance with Australian Bureau of Statistics NSW Producer Price Indexes.
- Land assets, if index, is based on a desktop indexation provided by an external Valuer.

Depreciation

Land and Bulk Earthworks are not depreciated.

Depreciation on other assets is calculated using the straight-line method which determines the residual values. The assets estimated useful lives include:

Other Equipment

- | | |
|------------------------|----------------|
| • Playground equipment | 10 to 60 years |
| • Benches, seats etc | 30 to 90 years |

Road and Transport Assets

- | | |
|-----------------------------|------------------|
| • Sealed Roads: Surface | 12 to 60 years |
| • Sealed Roads: Structure | 50 to 200 years |
| • Unsealed roads | 15 to 60 years |
| • Bridge: Concrete & Timber | 100 to 200 years |
| • Kerb and Gutter | 70 to 150 years |
| • Footpaths and Cycleways | 12 to 100 years |
| • Minor and Major Culverts | 70 to 150 years |

Water and Sewer Assets

- | | |
|----------------------------------|-----------------|
| • Dams and reservoirs | 25 to 200 years |
| • Treatment Plant Structures | 15 to 200 years |
| • Treatment Plant mech and elect | 20 to 25 years |
| • Pump station structure | 15 to 200 years |
| • Pump station mech and elect | 20 to 25 years |
| • Reticulation pipes: PVC | 70 to 160 years |
| • Reticulation pipes: Other | 70 to 160 years |

Buildings and Other Structures

- Buildings 10 to 200 years

Stormwater Drainage

- Drains and Culverts 80 years

Other Infrastructure Assets

- Bulk earthworks Infinite
- Swimming Pools 40 to 120 years
- Other Open space/recreational assets 10 to 200 years

The assets useful lives are reviewed and adjusted if appropriate, at each reporting date.

REFERENCES

Local Government Code of Accounting Practice and Financial Reporting – Section 5, Appendix E – Guidance for determining fair value of infrastructure, property, plant and equipment. <https://www.olg.nsw.gov.au/wp-content/uploads/2020/12/Section-5.pdf>

REVIEW

This policy will be reviewed at the time of any relevant legislative changes, compliance requirements or at least every four years.

Version Number	Date	Reason / Comments
1	17 October 2023	New policy