Policy No. 2024 - 66

Asset Management Capitalisation Policy

1. INTRODUCTION

Council has an obligation to ensure that all assets are managed efficiently in accordance with the council's Asset Management Plan. This policy outlines the mandatory asset management accounting requirements to maintain compliance with the Local Government Act 1993 and Australian Accounting Standards.

The purpose of this policy is to provide guidance, clarity and consistency regarding the treatment of capital expenditure, depreciation, revaluations, disposals and acquisitions which will provide greater understanding and accuracy of council's capital requirement.

2. RECOGNITION OF NON-CURRENT ASSETS

This section of the policy sets out when council's non-current assets should be recognised in the Statement of Financial Position and how to treat those assets which do not satisfy the recognition criteria.

3. RECOGNITION CRITERIA

Where an asset is constructed, all relevant costs will be recognised as it is incurred. Projects are to be capitalised within three months of being completed and available for use by council.

Where an asset is contributed / donated by a developer it is recognised when the council assumes responsibility for the asset.

This is:

- where the construction of contributed assets has been completed prior to the lodgement of a Plan of Survey, the date of registration of a Plan of Survey with the Department of Natural Resources and Environment Tasmania; or

- where the construction of contributed assets has not been commenced or completed prior to the lodgement of a Plan of Survey, the date of the first day in the 'on maintenance' period; or

- in cases where no Plan of Survey is involved, the date of the first day in the 'on maintenance' period.

Council will recognise a non-current asset when:

- The recognition criteria have been met; and

- The cost exceeds the recognition threshold set by council;

- All non-current assets are initially recognised at cost when it exceeds the recognition threshold, with the exception of network assets.

Recognition of assets taking into account the following:

- Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including all planning and design costs incurred.
- For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition.
- The cost of non-current assets constructed by council includes the cost of all materials used in construction, direct labour and plant costs and relevant on-costs on the project.
- Capital work-in-progress is to be disclosed as a separate category for financial reporting purposes, at accumulated cost.
- Once the project is completed the total costs should be transferred from work in progress to the relevant property, plant and equipment asset class.
- At completion of project, a Capital Completion Form is required as formal documentation recognising the capitalisation of the work-in-progress.
- Costs on assets incurred after initial recognition are to be capitalised whenever the associated work either renews, extends or upgrades the asset’s completed or underlying service potential.
- Capital expenditure below the asset recognition threshold will be treated as an operational expenditure and expensed during the financial accounting period unless the cost is associated with a network asset, or unless construction is staged over different accounting periods.

4. RENEWAL / UPGRADE / IMPROVEMENT FOR EXISTING NON – CURRENT ASSETS

After initial recognition of all non-current assets at cost, assets are maintained to their optimum service potential through annual capital programs. Each year capital programs are budgeted, and the asset custodians will have input into projects related to the asset classes.

Based on the asset conditions, the use or consumption of assets and service potential, projects will be budgeted. This will include renewals, upgrades or improvements to the assets.

Renewals	Re-establishing an existing asset's service potential; required once an asset's condition degrades to the point the related service can no longer be adequately provided.
Upgrade	Enhancement to existing assets to provide a higher level of service from the current level of service.
Improvement	Improve an existing assets condition from the current condition or service potential which will then improve the useful life and remaining useful life.

Renewals, upgrades and improvements will be subject to the same accounting treatment as the underlying asset. When capitalising the cost of renewals, upgrades and improvements, council will assess the service potential of the asset and review the asset's useful life.

5. TABLE OF ASSET CLASSES AND ASSET RECOGNITION THRESHOLD

Asset Financial Class	Asset Class	Asset Recognition Threshold	Useful life (Years)	Measurement Model	Valuation Approach
Land	Land	$5,000		Fair Value	Fair Value
	Land improvements	$5,000	50	Cost	Cost
	Land under roads	$5,000		Fair Value	Fair Value
Buildings	Buildings	$5,000	10 - 100	Fair Value	Fair Value
	Building improvements	$5,000	10 - 20	Fair Value	Fair Value
	Heritage buildings	$5,000	10 - 100	Fair Value	Fair Value
Plant and Equipment	Plant, machinery and equipment	$1,000	2 - 30	Cost	Cost
	Fixtures, fittings and furniture	$1,000	5 - 20	Cost	Cost
	Computers and telecommunications	$1,000	2 - 10	Cost	Cost
	Leased plant and equipment	$1,000	2 - 15	Cost	Cost
Roads	Road pavements and seals	$5,000	15 - 80	Fair Value	Fair Value
	Road substructure	$5,000		Fair Value	Fair Value
	Road formation and earthworks	$5,000	Infinite	Fair Value	Fair Value
	Road kerb, channel and minor culverts	$5,000	50 - 80	Fair Value	Fair Value
Bridges	Bridge deck	$5,000	20 - 80	Fair Value	Fair Value
	Bridge substructure	$5,000	25 - 50	Fair Value	Fair Value
Other infrastructure	Footpaths and cycleways	$5,000	5 - 80	Fair Value	Fair Value
	Drainage	$5,000	100	Fair Value	Fair Value
	Recreational, leisure and community facilities	$5,000	10 - 100	Cost	Cost

	Waste management	$5,000	10 - 50	Fair Value	Fair Value
	Parks, open space and streetscapes	$5,000	10 - 100	Fair Value	Fair Value
	Off street car parks	$5,000	10 - 20	Fair Value	Fair Value
Intangible assets	Intangible assets	$1,000		Cost	Cost

*Council may recognise assets below the threshold where the asset is assessed as an attractive item and council want to record asset in its asset register or the asset is part of a network of assets.

6. DEPRECIATION OR AMORTISATION

Buildings, land improvements, plant and equipment, infrastructure and other assets having limited useful life are systematically depreciated over their useful life to the Council in a manner which reflects consumption of the service potential embodied in those assets. Estimates of remaining useful life and residual values are made on a regular basis with major asset classes reassessed annually. Depreciation rates and methods are reviewed annually.

Where assets have separate identifiable components that are subject to regular replacement, these components are assigned distinct useful life and residual values and a separate depreciation rate is determined for each component.

Land and road earthworks are not depreciated on the basis that they are assessed as not having a limited useful life.

Straight line depreciation is charged based on the useful life as determined each year.

7. REVALUATIONS

In accordance with AASB116, all non-current assets subject to a revaluation process are to be revalued at fair value. The gross revaluation method is to be applied, whereby any accumulated depreciation at the date of revaluation is restated proportionally to the change in the asset's gross carrying amount. Except for assets that remain valued at cost, a full revaluation is undertaken every three to five years.

Assets will be valued where applicable considering economic obsolescence, surplus capacity and asset optimisation.

An interim revaluation using indices developed via a desktop approach is to be undertaken at the end of the financial year for an asset class subject to regular revaluations whenever there has been a material movement in replacement (or, where applicable, market) values since the last comprehensive revaluation.

8. IMPAIRMENT

Non-current assets should always be carried at amounts that are not more than their recoverable amounts. An impairment loss arises when the recoverable amount of a non-current asset is less than the asset's carrying amount and the carrying amount of the asset is reduced to its recoverable amount. As per section 9 of AASB136, council is required to assess at each reporting date whether any assets are impaired. The indicators of impairment include:

- Economic performance.
- Obsolescence by design.
- Significant changes to its primary use.
- Assets valued at fair value.

9. MATERIALITY

Materiality plays an essential part in the decision-making process and preparation of the financial statements. This is because information contained or omitted from the financial statements can impair its usefulness to users.

The materiality concept requires professional judgement as an omission or misstatement of an item if material, individually or collectively, would influence the economic decisions of users of the financial statements or the accountability of management or governing body.

Assessment of materiality should take into account the surrounding circumstances along with evaluation of the size and nature of the omission or misstatement as these are usually evaluated together.

The preliminary levels of materiality can be obtained from the Tasmanian Audit Office's Annual External Audit Plan for Central Highlands Council.

In considering materiality thresholds, the following are to be used:

- an amount equal to or greater than 10% of the appropriate base may be presumed to be material
- an amount equal to or less than 5% may be presumed to be not material, and
- an amount between 5% and 10% will be subject to council's judgement.

10. DEFINITIONS

Accumulated Depreciation is the total of the depreciation expense applied to the asset since the asset was capitalised by Council.

Asset Class refers to the categories of assets used by the council for asset management and accounting purposes, such as land, buildings, facilities, infrastructure assets, plant and equipment, furniture and fittings.

Capital Works in Progress refers to capital works not completed within the financial year and carried into the next financial year.

Current Asset refers to assets controlled by the council that have an economic life less than one year and are expected to be consumed, converted to cash or sold within one fiscal year or operating cycle.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair Value refers to the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. For infrastructure assets, replacement cost represents fair value.

Completed projects occur after the practical completion of a project where all the project expenditure is processed to the general ledger, excluding any retention costs.

Future Economic Benefit (or service potential) are the goods and services to be provided by the asset, whether or not the entity received a net cash inflow for their provision.

Maintenance of an asset is periodic expenditure required to ensure that the asset lasts as long as it is expected to last (useful life) and that it provides and continues to provide future economic benefits. Maintenance can also include expenditure on non-current assets that do not meet the capitalisation criteria.

Materiality is a concept which requires professional judgement. An omission or misstatement of an item is material if, individually or collectively, it would influence the economic decisions of users of the financial statements or the accountability of management or governing body. In assessing materiality, the size and nature of the omission or misstatement are usually evaluated together along with consideration of the surrounding circumstances.

Network assets are a chain of interconnected but dissimilar assets connected for the provision of the one simultaneous service. Individually, these assets are below capitalisation thresholds but require recognition in the financial statements due to their collective value.

Practically completed projects are where the majority of the project is practically complete, or the core asset is placed in service and commissioned.

Residual Value is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Retention Costs are costs due to the contractor withheld by the council for a period of time as stipulated in the construction contract.

The Act shall mean the *Local Government Act 1993* (as amended).

Useful Life is the period over which an asset is expected to be available for use.

Valuation refers to the process of determining the value of an asset.

Written down value (WDV) refers to the amount at which a non-current asset is recorded in an entity's financial statements after deducting the accumulated depreciation and accumulated impairment losses.