

# ASSET CAPITALISATION POLICY

## (COMMUNITY POLICY)

### 1. Scope

The Asset Capitalisation Policy (this 'Policy') applies to the asset management activities of Livingstone Shire Council.

### 2. Purpose

To determine asset classes and set a monetary threshold value by asset class for the capitalisation of non-current assets for Council in accordance with the *Local Government Regulation 2012*.

Council is committed to:

- providing accurate capture and recording of non-current asset information for timely and accurate reporting to management, Councillors and the community; and
- meeting all statutory requirements.

### 3. References (legislation/related documents)

#### Legislative reference

*Local Government Act 2009*

*Local Government Regulation 2012*

#### Related documents

AASB116 – Property, Plant and Equipment Accounting Standard

AASB13 – Fair Value Measurement Accounting Standard

AASB Framework for the Preparation and Presentation of Financial Statements

Asset Disposal Directive

Asset Management Policy

### 4. Definitions

To assist in interpretation, the following definitions shall apply:

AASB	Australian Accounting Standards Board.
Asset Class	A grouping of assets of a similar nature and use in its operations.
Asset Measurement	<p>The measurement of the value of an asset is its cost.</p> <p>As defined in paragraph 15 of the AASB116 – Property, Plant and Equipment Accounting Standard:</p> <p>(a) An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.</p> <p>(b) Notwithstanding the above, in respect of not-for-profit entities, where an asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of</p>

	acquisition/recognition.
Capital Expenditure	Expenditure used to procure, upgrade the capability, extend the life or restore the (non-current) asset.
Capitalisation Threshold	The amount below which the value of a non-current asset must be treated as an expense.
Council	Livingstone Shire Council.
Fair Value	AASB116 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
GST	Goods and Services Tax.
Maintenance Expenditure	Is the expenditure to maintain the condition of a non-current asset to ensure that it continues to operate at the current level of service until the end of its useful life to Council.
Networked Assets	A chain of interconnected but dissimilar assets connected for the provision of the one simultaneous service.

## 5. Policy Statement

### 5.1 Definition of an Asset

The Framework for the Preparation and Presentation of Financial Statements section 49 (a) defines an asset as:

- A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

The key features of an asset are:

- The entity must have control over the future economic benefits of the asset;
- There was a past transaction or event which gave rise to the control of the future economic benefits; and
- There must be future economic benefits expected to flow to the entity.

A non-current asset refers to an asset that is expected to be used during more than one financial year period.

### 5.2 Recognition of an Asset

The criteria for recognising an asset as outlined in Paragraph 7 of accounting standard AASB116 – Property, Plant and Equipment is stated below:

- The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:
  - (a) it is probable that future economic benefits associated with the item will flow to the entity; and
  - (b) the cost of the item can be measured reliably.

The key elements of recognition are detailed below:

- Probable future economic benefits – if the entity considers that it is more likely than not that future benefits will be realised; and
- Reliably measured – generally the value of goods and services can be measured reliably by the price charged by the supplier, while constructed assets can be measured from

labour and other costing systems. If the cost cannot be measured reliably, an asset should not be recognised.

The circumstances resulting in a non-current asset being acquired and recognised as a non-current asset by Council include:

- Acquisition involving consideration – such as purchased, constructed or internally developed assets.
- Acquisition at no cost or for nominal consideration – such as contributed or donated assets
- Assets not previously recognised (EANPR) or assets held at a nil carrying amount but subsequently identified for valuation, data cleanses or other processes. These assets may have been originally purchased, constructed, contributed or donated.

### 5.3 Asset Measurement

Council records intangible assets and plant and equipment assets at cost with all other asset classes in the table below recorded at fair value.

### 5.4 Classification of Assets

Accounting standard AASB116, paragraph 37 states that a class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations. Council adopts the following asset classes:

Asset Classes
Land
Buildings
Plant and Equipment (including Information Technology Equipment)
Road and Drainage Assets
Bridge Assets
Water Infrastructure
Sewerage Infrastructure
Site Improvements
Intangible Assets

### 5.5 Capitalisation Thresholds

Section 206(2) of the *Local Government Regulation 2012* requires a Local Government to set an amount for each different type of non-current physical asset below which the value of an asset of the same type must be treated as an expense. Council adopts the following thresholds:

Asset Class	Capitalisation Threshold (excluding GST)
Land	\$1
Buildings	\$10,000
Plant and Equipment (including Information Technology Equipment)	\$5,000
Road and Drainage Assets	\$10,000
Bridge Assets	\$10,000

Water Infrastructure	\$10,000
Sewerage Infrastructure	\$10,000
Site Improvements (including Heritage and Cultural assets)	\$10,000
Intangible Assets	\$10,000

## 5.6 Capital Expenditure

Where the expenditure is above the capitalisation threshold and is used to procure a new asset, upgrade the capability of the asset, extend the life of the asset or restore the asset, the expenditure shall be capital expenditure. The corresponding budget is held in the capital works budget.

Examples of general capital expenditure include, but are not limited to:

- purchase/construction of infrastructure;
- purchase/replacement of plant and equipment;
- purchase/resumption of land;
- addition of building extensions or partitions;
- replacement of roof or bathroom facilities in a building;
- upgrade of air conditioning system to increase its capacity or extend its life; and
- direct project management expenses as part of the cost of the asset, particularly where Council is constructing or facilitating the construction of its own assets.

### 5.6.1 Expenditure on Networked Assets

Multiple non-current assets, when taken to perform a whole service are classified as networked assets. Expenditure on networked assets for the purposes of procuring a new asset, upgrading the capability of the asset, extending the life or restoring the asset is classified as capital expenditure. If the total capital expenditure per project exceeds the asset class capitalisation threshold as stated in the table above, the project is capitalised irrespective of whether the individual asset components exceed the capitalisation threshold.

Networked Assets can be classified as follows:

- Roads and associated assets including kerb and channel, footpaths, cycleways and reseals or asphalt overlay of roads;
- Drainage – including lined channels, underground culverts and pipe components;
- Water and wastewater – underground pipe components, telemetry equipment, water meters and re-lining of pipes; and
- Site improvements that are interconnected assets within the confines of a parcel of land including waterway facilities, playgrounds, waste infrastructure, etc.

### 5.6.2 Treatment of Scoping and Feasibility Studies

Scoping, feasibility, pre-planning and research costs should be expensed as the degree of certainty that economic benefits will flow to the entity beyond the current accounting period is insufficient to warrant the recognition of this expense as an asset.

### 5.6.3 Date asset is available for use

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

- (a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;
- (b) initial operating losses, such as those incurred while demand for the item's output builds up; and
- (c) costs of relocating or reorganising part or all of an entity's operations.

A non-current asset's useful life starts when the asset is available for use by Council and is the date the depreciation of the asset begins.

Assets shall be recorded as available for use and depreciated from the following dates once provision of complete and accurate asset information is received to allow recognition of the assets (i.e. Practical Completion certificates, Operational Manuals, As Constructed Drawings etc.).

<b>Asset Type</b>	<b>Available for Use</b>
Individual Assets	Invoice or Delivery Date
Networked Assets	Completion Date provided in Monthly Capital Expenditure Report
Contributed or Donated Asset	On Defect Date as per Councils issued On Defects Letter

#### **5.6.4 Recognition of cloud-based IT solutions**

Council delivers many of its IT functions via cloud-based IT solutions.

The application of the requirements of AASB 138 Intangibles, is based on Councils control of the associated hardware and/or software. The degree to which Council controls the associated hardware and/or software is governed by the type of arrangement in place and can include:

- Infrastructure as a Service (IaaS)
- Platform as a Service (PaaS)
- Software as a Service (SaaS)
- Bureau (Backend) as a Service (BaaS)

Non-current assets are recognised for all hardware and infrastructure above the Asset Class recognition threshold in paragraph 5.5 above, where the asset is available for use and controlled by Council.

### **5.7 Maintenance Expenditure**

Where the expenditure is to ensure that an asset continues to operate at normal capacity until the end of its useful life, it is regarded as maintenance/operational expenditure and the corresponding budget is held in the operating budget. This type of expenditure is typically recurrent in nature and includes regular preventative maintenance as well as unscheduled emergency response repairs. Consideration as to whether or not expenditure is classified as maintenance/operational will include:

- Whether the expenditure has improved the fair value of the asset;
- The useful life of the improvement expenditure compared to the component/asset useful life – where improvements have substantially shorter useful lives to that of the assets, this is usually an indicator of maintenance expenditure.

## 5.8 Asset Disposal

Where physical non-current assets are disposed of during the financial period, the profit or loss on disposal of the asset will be considered in the general purpose financial statements.

Partial derecognition of an infrastructure assets are to occur whenever:

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

Council adoption of Capital Budgets/Projects indicates approval to dispose or partly dispose of assets subsequent to construction. Disposal of assets outside an approved project, for example disposal of assets as part of an asset management data cleanse, shall align with the Council officer with the appropriate level of financial delegation.

## 5.9 Write Off of Physical Non-Current Assets

Where an asset ceases to provide future economic benefits to Council, due to loss, theft, damage, obsolescence or other factors, the value of the asset will be written down to a nil value and if appropriate, disposed in the period that the write off occurs.

## 6. Changes to this Policy

This Policy is to remain in force until any of the following occur:

1. The related legislation/documents is amended/replaced; or
2. Other circumstances as determined from time to time by the CEO.

## 7. Repeals/Amendments

This Policy repeals the Livingstone Shire Council Directive titled 'Asset Capitalisation Directive (v2.1)'.

Version	Date	Action
1.0	16/12/2014	Adopted
2.0	19/06/2018	Amended Policy Adopted
2.1	16/06/2024	Policy Document Reviewed – no changes required
3.0	15/04/2025	Policy Document Adopted – full review undertaken

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