TATIARA DISTRICT COUNCIL

ASSET CAPITALISATION

AND

MATERIALITY THRESHOLD

POLICY

Version:	7
Last revised date:	8/8/2023
Minutes reference:	Agenda item 16.3, 8/8/23 Resolution #2023/289
Next review date:	Council will review this policy every year
Applicable Legislation:	
Related Policies:	Asset Management Policy
Related Procedures:	
Other relevant documentation:	Australian Accounting Standards, Annual Business Plan, Asset Management Plans, Long Term Financial Plan 2021 to 2031.

1. PURPOSE

The purpose of this policy is to provide direction to Council officers who are charged with the accounting for Council assets, including the capitalisation of new or upgraded assets in accordance with Australian Accounting Standards, and best practice asset management.

The policy:

- States what Council's Asset Classes are, and the assets that each Asset Class contains.
- Specifies the principles for recognising an asset for capitalisation.
- States what 'measurement after recognition' model Council applies to its assets.

2. BACKGROUND

Australian Accounting Standards (particularly AASB 116 – Property, Plant and Equipment) require a distinction to be made between expenditure that is consumed immediately in operations (or within one financial year) and expenditure on physical assets that will provide service over more than one financial year. Typical non-current physical assets managed by Council include roads, bridges, pathways, drains, parks, buildings, and other items such as plant and equipment used to construct and maintain Councils assets along with helping deliver other services offered by Council to the community.

This policy is to provide staff involved in budgeting and expenditure decisions clear guidance when classifying expenditure in Council's corporate financial information management system. It establishes the capitalisation criteria at the point of recognition of an asset.

The recording of expenditure as an asset means that it is recorded in the Council's balance sheet and the details are entered into the corporate asset register. The process is often referred to as capitalisation. Such expenditure on assets is referred to as capital expenditure. Importantly, capital expenditure is divided between renewal, upgrade, expansion, and new expenditure classifications. This distinction provides information to assist the organisation to determine whether it is maintaining assets to a sustainable level of service.

3. DEFINITIONS

For the purposes of this policy the following definitions apply:

Asset: An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Asset Management: The combination of management, financial, economic, engineering, and other practices applied to physical assets with the objective of providing the required level of service in the most cost-effective manner.

Asset Register: A register for reliably recording inventory type details of an asset and may incorporate other information such as condition, valuation, and location.

Asset Renewal: Expenditure on an asset which renews the service potential of that asset to its original potential.

Asset Upgrade: Expenditure on an asset which upgrades the service potential of that asset to greater than its original potential.

Capitalisation: Relates to the treatment of asset values recognised in the current financial year, that is, whether they are capitalised or expensed. However, it should be noted that when the asset group is re-valued, the net effect of (expensed) maintenance work may be reflected in the asset condition, and hence in the new written-down value assigned to the asset.

Capital Expenditure: Large (material) expenditure that produces economic benefits expected to last for more than 12 months. Capital expenditure includes renewal, expansion, and upgrade. Where capital projects involve a combination of renewal, expansion and upgrade expenditures, the total project cost needs to be allocated accordingly.

Capitalisation Threshold: The new, upgrade or renewal value of an asset, below which the project cost is normally expensed and above which it is normally capitalised. A predetermined 'threshold' may be used which indicates the level of expenditure deemed to be material in accordance with Council's policy.

Class of assets: A group of assets of a similar nature and use in Council's operations.

Collective assets: Certain assets, or components of assets, are made up of collections of many individual items, each of which is individually below any reasonable capitalisation threshold. Assets which form part of a network or asset group such as Street Furniture, Playground Equipment.

Depreciation: The systematic allocation of the depreciable amount of an asset over its useful life, or in other words, the allocation of the wearing out of the asset over its useful life.

Expense: An expense is recognised immediately in the statement of comprehensive statement when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the balance sheet as an asset.

Infrastructure: Consists of buildings, roads, bridges, kerbing and channel, community waste water management system (CWMS), footpaths and cycleways, drainage, cemeteries, airfields, parks, open space and streetscapes, street furniture and off street car parks.

Materiality: Information is material if its omission, misstatement, or non-disclosure has the potential, individually or collectively, to:

a) Influence the economic decisions of users taken on the basis of the financial statements; or
b) Affect the discharge of accountability by the management or governing body of the entity.

Maintenance: Includes all actions necessary for retaining an asset as near as practicable to its original condition, including regular ongoing day-to-day work necessary to keep assets operating e.g., road patching.

Materiality threshold: The amount at which items of expenditure will be recognised as assets in Council's Balance Sheet.

Non-Current Asset: Are assets that have an estimated life of greater than one year. They also include some financial assets that are not expected to be recovered within a year of the reporting date.

Property, plant and equipment: Is the long term or noncurrent asset section of the balance sheet. Included in this classification are infrastructure, land, buildings, plant & equipment, office equipment, fleet vehicles, furniture and fixtures used in a business.

New Asset: Expenditure which creates an asset which did not previously exist, therefore providing a service potential that did not previously exist.

Renewal or Replacement: Of an asset is where a previously existing asset is replaced, or its service life extended, without enhancement of the service capability except where this is incidental and unavoidable. e.g., gravel re-sheeting, reseal, etc.

Upgrade: Is the enhancement of an existing asset to provide a higher level of service, e.g., sealing an unsealed road.

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

4. SCOPE

This Policy is applied to Council's non-current assets that are referred to in AASB 116 Property, Plant and Equipment, these are:

- Land
- Buildings and Other Structures
- Roads
- Bridges
- Footways
- Sewerage – Effluent Drainage
- Stormwater Drainage
- Other Structures
- Plant & Equipment
- Other Community Assets

5. POLICY STATEMENT - MATERIALITY

Council is responsible for providing and maintaining many assets for the benefit of the community. These assets are of relatively high values. To manage these assets in a financially responsible manner, financial information must be presented in a manner that is useful in decision making.

The relevance of information is affected by its nature and materiality. Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of 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.

In the context of materiality, it is not necessary to recognise every non-current asset. For example, a calculator may have a useful life greater than 12 months, but its value is small and does not warrant the cost of recording in the asset register, so it is more appropriate to expense it. Where a non-current asset is not material and as such is not capitalised, it is referred to as a minor asset.

Expenditure may still be capitalised on items that are individually immaterial, however are significant when considered as a group of assets, such as playground equipment and park/street furniture.

The purpose of setting capital expenditure threshold levels is to provide the greatest balance between efficiency in administrative effort associated with maintaining records and the need to 'expense' items, through depreciation.

The general principle applied to the capitalisation thresholds within this policy, is that if the asset has been replaced in full, then it is generally treated as Capital expenditure. If only part of the asset has been replaced, then the decision to capitalise or expense the costs will be based in the first instance on any capitalisation rules defined in terms of physical work activities and subsequently in accordance with the capitalisation threshold, for the relevant Asset Category / Asset Component. To aid clarity, examples of physical work activities that are considered operating or maintenance expenditure have also been provided.

Council's capitalisation thresholds for assets are contained in the following pages, to guide staff in applying consistent approaches for asset recognition. These thresholds are applied to the overall cost of the capital projects major component. For example, a minor road construction job may cost $15,000, however this can include a number of different components such as kerb and channel, drainage and footpath works. This may result in each asset component falling below its relevant threshold. However, the overall cost of the project exceeds the capitalisation threshold for the major component of the job all components of the job will be capitalised.

A Summary of the Capitalisation Thresholds is listed in Table 1. Assets or components may be capitalised when their value or expenditure is less than Council's asset capitalisation threshold if the asset or component is deemed to be of importance or value for asset management purposes. All expenditure above the asset capitalisation threshold must be capitalised.

6. COMMUNITY ORGANISATIONS - ASSETS ON COUNCIL LAND

As is the practice in Local Government, many community and sport and recreation groups occupy land which is owned freehold by the Council or is under Council's Care and Control, with ownership retained by the Crown.

Many of these organisations' erect buildings and structures on the said land. This built infrastructure is not owned or maintained by Council. It is acknowledged by the Tatiara District Council that ownership of infrastructure is retained by the relevant community organisation. However, it is a requirement that the community organisation remove all built infrastructure from the land at cessation of occupation.

The Tatiara District Council does not account for this infrastructure in its Asset Register and subsequently, does not account for depreciation in relation to it.

If an organisation ceases to exist and does not remove its infrastructure as required under the lease or permit or subject to this Clause, the Tatiara District Council will recognise the infrastructure in its Asset Register effective as at the date of cessation of occupation by the community organisation.

7. CAPITAL EXPENDITURE

General 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. According to the Model Set of Financial Statements, expenditure that results in a new asset or an upgrade to an existing asset generally must be separately disclosed. The corresponding budget is held in the Capital Budget.

While there are four types of capital expenditure, Council only considers Types 2, 3 and 4:

- Type 1: Asset Expansion: Expenditure that extends the capacity of an existing asset to provide benefits to new users at the same standard as is provided to existing beneficiaries.
- Type 2: Asset Renewal: Expenditure on an existing asset or on replacing an existing asset that returns the service capability of the asset to its original capability.
- Type 3: Asset Upgrade: Expenditure that: (a) enhances an existing asset to provide a higher level of service; or (b) increases the life of the asset beyond its original life.
- Type 4: New Asset: Expenditure that creates a new asset that provides a service that does not currently exist.

Examples of capital expenditure include but are not limited to:

- Purchase / construction of infrastructure – (new capital).
- Purchase of land - (new capital).
- Purchase / replacement of plant & equipment – (renewal capital).
- Replacement of roof or kitchen in a building – (renewal capital).
- Upgrade of air conditioning system to increase capacity to extend its life – (upgrade capital).
- Addition of building partitions or extensions – (upgrade capital).
- Upgrade drainage pipe size when replacing pipes - (upgrade capital).

Collective Assets Capital Expenditure

Multiple non-current assets, which are taken to perform a whole service (see examples below) are classified as Collective assets. All expenditure on collective assets for purposes of procuring a new asset or upgrading the capability of the asset, extending the life, or restoring the asset (i.e.,' expenditure that is capital in nature), is to be capitalised, whether or not the individual asset items exceed the capitalisation threshold.

Collective assets are classified as follows:

- Roads and Associated Assets: including kerbing and watertable, streetscapes and footways. Includes expenditure on reseal or material overlay of roads.
- Drainage: underground culverts and pipe components. Includes expenditure for re-lining pipes

Maintenance Expenditure

Where the expenditure is to ensure that an asset continues to operate at the current level of service until the end of its life, it is regarded as maintenance / operational expenditure and the corresponding budget held in the Operating Budget.

8. INITIAL RECOGNITION

An asset that qualifies for recognition as an asset shall be measured at its cost. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including architects' fees and engineering design fees and all other 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 the Council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

All non-current assets purchased or constructed are capitalised at year end, but date of recognition is when ready to use and depreciation is calculated from this date. This does not include Land and Buildings.

9. COST MODEL

Measurement at Recognition

In accordance with AASB 116 (paragraph 15):

a) An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.
b) Not-withstanding this, where an asset is acquired at no cost, or for a nominal cost (as is the case with developer and other contributed assets), the cost is its fair value as at the date of acquisition.
c) Existing assets identified as not being reported in the financial statements for the preceding financial reporting period (found assets), will be treated in accordance with b) above.

Recognition Cost

AASB 116 (paragraph 16) defines the cost of an item of property, plant and equipment as comprising:

a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
b) Any costs directly attributable to bring the assets to the location and condition necessary for it to be capable of operating in the manner intended by management.
c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurred either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Examples of costs that are not costs of an item of property, plant and equipment are:

a) Costs of opening a new facility.
b) Costs of introducing a new product or service (including advertising).
c) Costs of conducting business in a new location.
d) Administration and other general overhead costs.

10. REVALUATION MODEL

Asset classes are to be revalued on a regular basis to ensure that the carrying values are not materially different from fair value. For infrastructure and other asset classes where no active market exists, fair value is determined to be the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

To maintain the value of assets in current terms, comprehensive revaluations of noncurrent physical assets will be carried out at least every five years. In addition, annual interim revaluations of these asset classes may be carried out, based on relevant indices to reflect the increase in the capital value. Where possible, indices will take into account technological change in addition to the effects of specific or general price levels but will need to ensure that the current replacement cost doesn't exceed the fair value, otherwise an impairment adjustment will be required.

Revaluation increments arising upon revaluation are credited directly to the asset revaluation reserve. Non-current physical assets that are acquired between revaluations are held at cost until the next valuation, where they are revalued to depreciated replacement cost.

In relation to assets that are valued at fair value, three (3) levels of valuations apply:

- Level 1: where there are identical assets in an active market (applies to shares and financial assets).
- Level 2: identical assets in an active market (includes most freehold land and non-specialist buildings).
- Level 3: unobservable inputs (e.g., land with significant restrictions, specialised buildings, and structures. This includes most classes of assets owned by Council).

11. IMPAIRMENT

Assets that have an indefinite useful life are not subject to depreciation and are reviewed annually for impairment. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.

For assets whose future economic benefits are not dependent on the ability to generate cash flows, and where the future economic benefits would be replaced if Council were deprived thereof, the value in use is the depreciated replacement cost.

12. CAPITALISATION THRESHOLDS

The following shows the Capitalisation Thresholds contained in Note 1 of the Annual Financial Statements:

Table 1: Capitalisation Thresholds

Asset				Measurement		Materiality	Revaluation Period
Category	Class	Threshold	Useful Life (Years)	Model	Unit		
Land	Land Community		N/A	Revaluation		Major	Min 5 yearly
	Land Other		N/A	Revaluation		Major	Min 5 yearly
Buildings	Buildings	$5,000	20-100	Revaluation	Fair Value Level 2 or Level 3 Replacement Cost or Market Value	Major	Min 5 yearly
	Other structures	$5,000	20-100	Revaluation	Fair Value Level 2 or Level 3 Replacement Cost or Market Value	Major	Min 5 yearly
	Building / Structure (non-replaced)	$5,000	20-100	Revaluation	Fair Value Level 2 or Level 3 Replacement Cost or Market Value	Major	Min 5 yearly
Infrastructure	Roads Sealed	$10,000	17-80	Revaluation	Fair Value Level 3	Major	Min 5 yearly
	Roads Unsealed	$10,000	19-30	Revaluation	Fair Value Level 3	Major	Min 5 yearly
	Footpaths	$5,000	15-50	Revaluation	Fair Value Level 3	Major	Min 5 yearly
	Kerb & Gutter	$5,000	25-65	Revaluation	Fair Value Level 3	Major	Min 5 yearly
	Stormwater	$5,000	50-100	Revaluation	Fair Value Level 3	Minor	Min 5 yearly
	Bridges	$5,000	80-100	Revaluation	Fair Value level 3	Minor	Min 5 yearly
	CWMS	$5,000	15-100	Revaluation	Fair Value Level 3	Major	Min 5 yearly
	Parks & Gardens	$5,000	10-100	Revaluation	Fair Value Level 3	Minor	Min 5 yearly
Plant & Equipment	Plant & Equipment	$5,000	2-60	Cost	Fair Value Level 2	Major	N/A

Library books, IT equipment and office furniture are not depreciated as they are considered to be immaterial.

13. REGISTER OF SMALL, VALUABLE, PORTABLE ITEMS

Some items have a low value and therefore it is not efficient to include them on an asset register which requires all asset accounting entries, including depreciation, to be undertaken. These items will be included on a register to safeguard Council's assets. This register will include details such as where the asset is located, who is the officer responsible for the asset and the purchase and disposal date of the asset.

The register would be kept for, but not limited to, the following asset groups:

- Minor Plant – items under $5,000
- Cameras
- IT Equipment
- Mobile Phones
- Office Furniture

14. ROLES AND RESPONSIBILITIES

The following key roles, positions and groups have defined functions as follows:

Council:
Responsible for:
- Responsible for stewardship of community services and associated sustainment of infrastructure assets; and
- Responsible for providing resources for Policy implementation.

Chief Executive and Executive Management Team:
Responsible for:
- Asset Capitalisation Policy approval.

Director Corporate & Community Services and Finance Manager:
Responsible for the coordination of:
- Corporate asset capitalisation process.
- Managing and keeping the corporate Finance System up to date; and
- Reporting assets within the financial statements, in line with Australian Accounting Standards.

Director Infrastructure and Operations and Asset Manager:
Responsible for the coordination of:
- Managing and keeping the corporate Asset Management System up to date.
- Coordinating Collection of asset inventory and condition data.
- Maintaining an asset register of Infrastructure assets including Transport Assets, CWMS network, Stormwater, Parks and Gardens, and Plant & Equipment.

15. ADMINISTRATIVE UPDATES

It is recognised that, from time to time, circumstances may change leading to the need for minor administrative changes to this document. Where an update does not materially alter this, such a change may be made administratively. Examples include a change to the name of a Council unit, a change to the name of a Federal or State Government department, and a minor update to legislation which does not have a material impact. However, any change or update which materially alters this document must be made through consultation with the relevant staff Consultative Committee and with the approval of the Executive Management Team (EMT), Audit & Risk Committee or where required, resolution of Council.

16. FURTHER INFORMATION

This policy will be available for inspection at the Council offices listed below during ordinary business hours and available to be downloaded, free of charge, from Council's internet site: www.tatiara.sa.gov.au

- 43 Woolshed Street Bordertown, SA 5268
- 34 Hender Street Keith SA 5267

17. POLICY REVIEW

This policy may be amended at any time but must be reviewed on an annual basis.

RECORD OF AMENDMENTS

DATE	REVISION NO	REASON FOR AMENDMENT
9th October 2012	Rev: 00	Original Issue Draft
9th October 2012	Rev: 01	Adopted by Council Res: 205
12th May 2015	Rev: 02	Adopted by Council Res: 290
14th June 2016	Rev: 03	Revised policy
9 October 2018	Rev: 04	Reviewed policy
13 October 2020	Rev: 05	Reviewed policy, adopted by Council Res#2020/302
11 July 2023	Rev: 06	Reviewed and updated policy.
8 August 2023	Rev: 07	Reviewed and updated with changes recommended by Audit & Risk Committee 1/8/23