



Council Policy Manual

WEST WIMMERA SHIRE COUNCIL

COUNCIL POLICY	
ASSET CAPITALISATION POLICY	Policy No:
	Adopted by Council: 21 April 2021
	Next review date: April 2025
Senior Manager:	Director Corporate & Community Services
Responsible Officer:	Finance Coordinator
Functional Area:	Financial Services
Introduction & Background	<p>West Wimmera Shire Council is committed to ensuring that the value of its assets is reflected in a true and proper manner. To this end, this policy aims to ensure that assets created or purchased are capitalised to reflect the value that they have added and that these assets are depreciated at a rate consistent with accounting and industry standards.</p> <p>While most of the requirements which Council must meet are detailed in the Australian Accounting Standards, the <i>Local Government (Planning and Reporting) Regulations 2014</i> and the <i>Local Government Act 2020</i>, Council must also adopt various policies with respect to asset recognition and accounting in its annual financial statements.</p>
Purpose & Objectives	<ol style="list-style-type: none"> 1. To ensure that assets created or purchased are capitalised to reflect the fair value added to Council's asset base. 2. To ensure that the fair value of all assets (purchased or disposed of) are reflected in a true and fair manner in Council's annual financial statements.
Response to the Overarching Governance Principles of the Local Government Act 2020	<p>Section 9 of the <i>Local Government Act 2020</i> states that a Council must in the performance of its role give effect to the overarching governance principles.</p> <p>This policy is in response to the following overarching governance principle/s of the <i>Local Government Act 2020</i>:</p> <ol style="list-style-type: none"> 1. Financial management principles (section 101)
Policy Details	
1.	Definitions



Council Policy Manual

WEST WIMMERA SHIRE COUNCIL

	<ul style="list-style-type: none"> • <u>Assets</u> - Resources controlled by Council which are expected to provide future economic benefits or service potential. • <u>Asset Class</u> - The level at which a group of assets with a similar function are disclosed in the Balance Sheet. (e.g. Roads Asset Class includes sealed roads, unsealed roads, car parks, etc. • <u>Capitalisation Threshold</u> – Value of an asset below which the project cost is normally expensed and above which is normally capitalised. • <u>Recognition</u> - The decision to include an asset as capital expenditure • <u>Useful Life</u> - The period over which an asset is expected to be available for use. • <u>Asset Renewal</u> – 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 • New Asset – Expenditure which creates an asset which did not previously exist, therefore providing a service potential that did not previously exist • Asset Expansion – Expenditure on an asset which expands its already existing service potential to other users.
2.	<p>Capital vs Recurrent (Maintenance) Expenditure</p> <p>Accounting standards (in particular 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 services over more than one financial year.</p> <p>Maintenance costs will be recorded as an operating expense in the Council’s annual operating statement. In determining the nature of an expense, the following are indicators that it is maintenance rather than capital:</p> <ul style="list-style-type: none"> • the item has an expected life of less than one year, or • it is consumed in sustaining the continued operation of an existing asset, and or • it will not significantly increase the design life or useful life of the asset (e.g. road, footpath, etc.) and or • it relates to repair of localised problems such as subsidence, breaking up of part of the asset (road or footpath) structure and or • the basic qualities of the asset are not being renewed or upgraded and or • Council does not have control of the asset. <p>Expenditure on an asset should be capitalised where:</p> <ul style="list-style-type: none"> • the asset has an expected life of more than one year; • Council either owns or has control of the asset; • the expenditure extends the asset’s economic/useful life; • it is for the purchase or development of an asset; • it adds attributes which were not previously part of the asset. <p>Capital expenditure is transferred to various asset classes at the end of, or during, the</p>



Council Policy Manual

WEST WIMMERA SHIRE COUNCIL

	<p>financial year and recognised in the Balance Sheet. All assets are recorded in Council's asset register. Capital expenditure is further categorised as either new, renewal or upgrade/expansion expenditure, to assist in determining whether council is maintaining its assets to a sustainable level of service.</p>
3.	<p>Acquisition of Assets</p> <p>The purchase method of accounting will be used for the initial recording of all acquisitions of assets. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. Incidental costs are defined in AASB 116 "Property, Plant and Equipment" and include architects' fees, engineering design fees and all other costs incurred in getting the assets ready for use.</p> <p>Non-monetary assets received in the form of grants or donations are recognised as assets and revenues at their fair value at the date of receipt.</p> <p>Fair value means 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 (AASB13 para 9)</p> <p>Each asset shall be assigned to the fair value hierarchy as defined form paragraph 72 of AASB 13 <i>Fair Value</i>.</p>
4.	<p>Non Current Assets Constructed by the Council</p> <p>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.</p> <p>In cases where it is not possible to make the distinction between capital and recurrent, the item should be referred to the Finance Coordinator for decision.</p> <p>The classification as to capital or recurrent shall be made at the time the item is included in the budget.</p>
5.	<p>Works in Progress</p> <p>Works in progress as at 30 June, will be identified and recorded as a non-current asset in Council's Balance Sheet</p>
6.	<p>Land Held for Resale</p> <p>Land held for development and/or resale will be valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development and interest incurred on financing of that land during its development. Interest and other holding charges incurred after development is complete, will be recognised immediately as expenses.</p> <p>Revenue arising from the sale of land will be recognised in the Comprehensive Income Statement on the signing of a valid unconditional contract of sale.</p>
7.	<p>Materiality</p>



Council Policy Manual

WEST WIMMERA SHIRE COUNCIL

	<p>Council recognises, in the Balance Sheet, expenditure on non-current assets for each class where expenditure on separate items is in excess of the following thresholds, unless otherwise determined by the Finance Coordinator.</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Asset Class</u></th> <th style="text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Land and Land Improvements</td> <td style="text-align: right;">5,000</td> </tr> <tr> <td>Roads</td> <td style="text-align: right;">5,000</td> </tr> <tr> <td>Buildings</td> <td style="text-align: right;">5,000</td> </tr> <tr> <td>Other Structures</td> <td style="text-align: right;">5,000</td> </tr> <tr> <td>Parks, Open Space and Streetscapes</td> <td style="text-align: right;">5,000</td> </tr> <tr> <td>Plant & Equipment</td> <td style="text-align: right;">1,000</td> </tr> <tr> <td>Furniture & Fittings</td> <td style="text-align: right;">1,000</td> </tr> <tr> <td>Bridges</td> <td style="text-align: right;">5,000</td> </tr> <tr> <td>Drainage</td> <td style="text-align: right;">5,000</td> </tr> <tr> <td>Footpaths and Kerb and Channel</td> <td style="text-align: right;">5,000</td> </tr> </tbody> </table> <p>These thresholds will also apply to smaller assets where there are numerous assets of similar characteristics e.g. and office chairs. These assets will be recorded as one asset in the asset register but will not have a value for capitalisation and depreciation purposes.</p> <p>Where estimated useful lives are clearly inappropriate, Council, by reference to appropriately qualified professionals, will determine the useful lives of assets. Determination of useful lives in this manner will be fully documented and provide compelling assessments as to appropriate useful lives.</p>	<u>Asset Class</u>	\$	Land and Land Improvements	5,000	Roads	5,000	Buildings	5,000	Other Structures	5,000	Parks, Open Space and Streetscapes	5,000	Plant & Equipment	1,000	Furniture & Fittings	1,000	Bridges	5,000	Drainage	5,000	Footpaths and Kerb and Channel	5,000
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8.	<p>Depreciation</p> <p>All non-current assets having a limited useful life will be systematically depreciated over their useful lives in a manner which reflects the consumption of the service potential embodied in those assets. Land is not a depreciable asset.</p> <p>Depreciation is recognised on a straight-line basis, using a range of rates which are reviewed annually.</p> <p>Newly acquired assets will be depreciated from the date of acquisition and assets disposed of or scrapped are depreciated up to the date of disposal or scrapping.</p>																						
9.	<p>Fixed Asset Register</p> <p>All assets must be recorded in Council's Asset Register and must reflect the purchase/construction cost, along with the assets useful life, depreciation rate and accumulated depreciation.</p>																						



Council Policy Manual

WEST WIMMERA SHIRE COUNCIL

Policy Adopted:	Ordinary Meeting 31/08/00	Minute Book Page 8048	
Policy Reviewed:	Ordinary Meeting 26/09/02	Minute Book Page 10410	
	Ordinary Meeting 06/04/06	Minute Book Page 13682	
	Ordinary Meeting 11/03/10	Minute Book Page 17759	
	Ordinary Meeting 19/04/12	Minute Book Page _____	RecFind 12/009466
	Ordinary Meeting 18/06/15	Minute Book Page 30667	RecFind 15/002501
	Ordinary Meeting 15/03/17	Minute Book Page 34967	RecFind 17/001009
	Council Meeting 21/04/21	Minute Book Page	RecFind