



# Non-Current Asset Capitalisation

<b>ADOPTION DATE:</b>	<b>July 2019</b>
<b>REVISION DATE:</b>	<b>June 2020</b>
<b>DIVISION</b>	<b>Finance</b>
<b>RESPONSIBLE OFFICER:</b>	<b>Director Finance and Administration</b>
Note: P – Primary Author, S – Secondary Author	

## **POLICY OBJECTIVE:**

This policy outlines the accounting policies to be followed when identifying, recognising, recording, classifying, valuing, and capitalisation (recording) of Non- Current Assets for Lockhart River Aboriginal Shire Council.

## **DEFINITIONS:**

<b><i>Non-Current Assets</i></b>	The Australian Accounting Standard (AASB 116) defines a Non-Current Asset to be a physical item that provides future benefits for more than one period (12 months). In simpler terms a Non-Current Asset may generally be any item with a life of more than 12 months. Any item that has a life of less than 12 months is expensed under a maintenance or operational budget and cannot be categorised as a Non-Current Asset.
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## **RELEVANT LEGISLATION:**

Local Government Act 2009

## **BACKGROUND:**

Council is required to review and nominate the capitalisation threshold by asset class. All Non-Current Assets that are above the capitalisation threshold or are a networked asset are required to be recorded by Council in its financial statements.

The process for this to occur is the capitalisation process, and is achieved by recording the capital cost/expenditure of assets into the fixed asset register and then into the general ledger.

## **POLICY STATEMENT:**

Non-Current Assets are often made up of several items that should be individually capitalised if they perform a separate function or have different asset lives (as they depreciate at different rates).

E.g. Water infrastructure can be made up of pipes, hydrants, valves, meters, etc. Each item would be regarded as a Non-Current Asset and as such capitalised. The capitalisation threshold for Non-Current Assets is therefore set in the following table:-

<b>Asset Class</b>	<b>Capitalisation Threshold</b>
<b>Land</b>	\$1
<b>Office Furniture &amp; Equipment</b>	\$5,000
<b>Computer Equipment</b>	\$5,000
<b>Communication Equipment</b>	\$5,000
<b>Plant &amp; Equipment</b>	\$5,000
<b>Buildings</b>	\$10,000
<b>Road Infrastructure</b>	\$10,000
<b>Drainage</b>	\$10,000
<b>Parks and infrastructure</b>	\$10,000
<b>Water</b>	\$10,000
<b>Sewerage</b>	\$10,000
<b>Solid Waste</b>	\$10,000
<b>All Other Infrastructure Assets</b>	\$10,000

## **PROCEDURES:**

### **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.

### **CAPITAL WORKS BUDGET:**

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

- Purchase/construction of infrastructure;
- Purchase/replacement of plant & equipment;
- Addition of building partitions or extensions;
- Replacement of roof, kitchen or bathroom in a building;
- Upgrade of air conditioning system to increase capacity or to extend its life; and
- Purchase/resumption of land.

### **EXPENDITURE ON NETWORKED ASSETS:**

Multiple Non-Current Assets, which when taken to perform a whole service are classified as Networked Assets. All expenditure on Networked Assets for purposes of procuring a new asset, upgrade the capability of the asset, extending the life or restoring the asset (ie that is capital in nature), is to be capitalised, whether or not the individual asset items exceed the capitalisation threshold.

Networked Assets are classified as follows:-

- Roads and associated assets including kerb and channel, streetscapes, footpaths, and cycleways. Includes expenditure on reseal or asphalt overlay of roads.
- Drainage and lined channels, underground culverts and pipe components. Includes expenditure for re-lining of pipes.
- Water and Wastewater underground pipe components, telemetry equipment, water meters. Includes expenditure for re-lining of pipes.
- Computer Equipment – including servers, desktops, laptops, printers.
- Communication Equipment – including PABX, TMR, and communications towers.

**MAINTENANCE EXPENDITURE:**

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

**BUDGETARY IMPLICATIONS:**

Council needs to accommodate for non-capitalised assets in the budget or capital works budget accordingly and in line with Council policy.

**IMPLEMENTATION:**

Policy to be implemented by the Director of Administration and Finance

Policy commences immediately on adoption by Council

Policy applies to all employees of the Council.

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