The District Council of Ceduna	**ASSET CAPITALISATION & DEPRECIATION**	Policy #	4.14 / 2
		Issued:	May 2021
POLICY		Next review	June 2025

Category	4. Finance	**Classification:**	Public
First Issued:	15/03/2017	**Review Frequency:**	Each term of Council – 4 years
Legislation:	Local Government Act 1999		
Relevant Policies:		Signed:	
Related Procedures:			
Responsible Officer:	Manager Administration & Finance		
Adopted by Council :	16/06/2021		

1. Purpose

This policy provides direction to Council officers who are charged with the accounting for Councils assets, including the capitalisation of new or upgraded assets in addition to the treatment of depreciation on depreciable assets.

2. Definitions

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.

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

Useful Life: The period over which an asset is expected to be available for use by the Council; or the number of production or similar units expected to be obtained from the asset.

3. Policy Statement

3.1. Asset Capitalisation

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

The relevance of information is affected by its nature and materiality. Information is material if its omission or misstatement could influence the decisions of users or assessments made by users on the basis of the financial statements. Materiality depends on the nature and size of the item judged in the particular circumstances of its omission or misstatement.

Thus materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic that information must have if it is to be useful. The concept of materiality leads to the recognition that, in the case of non-current assets, it is not necessary to recognise each and every non-current asset in the balance sheet.

For example, a small calculator may have a useful life greater than 12 months, but its $45 cost in the context of thousands of dollars of office equipment suggests it would be simpler to expense it. The same principal would be applied to a minor refurbishment of a non-current asset.

The purpose of setting a threshold is to minimise the expense and effort associated with maintaining accounting records. This must be balanced with the need to "expense" items, through depreciation, against more than one financial year so that the revenues and expenses are matched and the need to present financial information fairly.

Care needs to be taken to ensure that assets which may be under the threshold, but which form part of a collection or asset group such as desktop PCs; office furniture eg office chairs and desks etc, are treated as a group.

The capitalisation process is achieved by recording the capital expenditure of assets into the fixed asset register and then into the balance sheet.

3.1.1. 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 has to be separately disclosed. The corresponding budget is held in the Capital Works Budget.

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, bathroom or painting in a building – (renewal capital)
- Upgrade drainage pipe size when replacing pipes (upgrade capital)

3.1.2. Collective Assets Capital Expenditure

Multiple non-current assets, which when 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 (ie 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 kerb and watertable, streetscapes, footpaths and cycleways. Includes expenditure on reseal or asphalt overlay of roads.
- Drainage – lined channels, underground culverts and pipe components. Includes expenditure for re-lining of pipes.
- Computer equipment – including servers, desktops, laptops and printers.

- Communication equipment – servers.
- Other communication equipment such as smart phones; digital cameras; mobile phones are discussed in the section titled *Register of Small, Valuable and Portable Items.*

3.1.3. 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.

3.1.4. Capitalisation Thresholds

The Capitalisation Thresholds as contained in Note 1 of the Annual Financial Statements is as follows:

- Land $1,000
- Office Furniture & Equipment $1,000
- Other Plant & Equipment $1,000
- Buildings – new construction / extensions $5,000
- Park & Playground Furniture & Equipment $3,000
- Road construction & reconstruction $5,000
- Paving & Footpaths, Kerb & Gutter $5,000
- Drains & Culverts $5,000
- Reticulation extensions $5,000

3.1.5. 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. It may be advisable however to include these items on a register to safeguard Council's assets. This register would 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:

- Cameras
- Personal digital assistants (PDAs) with printers
- Smartphones (iphones, HCTs)
- Mobile phones
- Miscellaneous which would capture assets of which there may be one or two. Eg global positioning system unit (GPS); wireless presenter.

3.2. Depreciation

AASB 116 Property, Plant and Equipment, states that the depreciation method used by an organisation to depreciate an item of Property, plant and equipment shall reflect the pattern in which the assets future economic benefits are expected to be consumed.

As such, Council has elected to use the straight line depreciation methodology for all its assets on the basis that the economic benefits provided by the assets (the service provided), are generally used in a consistent manner throughout the useful life of the asset. This methodology results in a constant depreciation charge over the useful life of the asset, provided that the asset's useful life or residual values do not change.

Estimates for useful lives, asset measurements, conditions and residuals used to calculate depreciation charges are based on information derived from the prior knowledge and experience of council staff and the audit and inspection of assets conducted by both officers of Council and appropriately experienced external parties.

Councils applied depreciation methods and estimates for asset useful lives and residual values are reviewed on an annual basis to ensure their continued relevance and appropriateness in accordance with Australian Accounting Standards.

3.3. Asset Registers

Managers are responsible for implementing the Asset Capitalisation and Materiality Thresholds Policy.

Employees with financial delegation are responsible for ensuring that purchase or procurement of non-current assets complies with the Asset Capitalisation and Materiality Thresholds Policy.

The Manager Administration & Finance and Manager Infrastructure & Engineering Services are responsible for maintaining the asset registers

4. Review

This Policy will be reviewed every four years after each general election.

5. Availability

This Policy is available for inspection without charge at the following location during ordinary business hours:

- Council Administration Building, 44 O'Loughlin Terrace Ceduna; or,
- Council Website: www.ceduna.sa.gov.au