Asset Capitalisation and Depreciation Policy
POL-FCM 09

CITY OF MANDURAH

Objective

To provide a framework to ensure the City's financial information is reported to Council with consistent application of Australian Accounting Standards and in compliance with statutory requirements under the *Local Government Act 1995* (the "Act") and *Local Government (Financial Management) Regulations 1996* (the "Regulations").

Statement

This policy will provide guidance in the development and presentation of the following:

- Management Reports
- Annual Financial Report
- Annual Budget
- Long Term Financial Plan (LTFP)

The correct recognition of capital expenditure and the subsequent capitalisation, depreciation, revaluation and disposal of assets has a direct impact on the operating financial position of the City.

AASB 116 provides the criteria as to the correct recognition of non-current assets. Expenditure for non-current assets must meet the following criteria:

- It must have a physical substance other than for an intangible asset;
- The City has control over the asset;
- It is probable that future economic benefits or service potential associated with the item will flow to the City;
- The item is not held for sale and it is expected to be used by the City for greater than 12 months;
- The cost of the item can be measured reliably; and
- Its value exceeds the City's capitalisation threshold.

Subsequent Measurement

Expenditure on a capitalised asset subsequent to initial acquisition (i.e. expenditure on an existing asset) is to be either expensed as operating expenditure (maintenance) or capitalised to the asset as capital expenditure.

If the following criteria (1) is met <u>and</u> one of either criteria (2) or (3) applies then it will be considered capital expenditure;

1) The value of the works exceeds the capitalisation threshold (unless the works were assumed maintenance in determining the remaining life at initial acquisition);
2) The work extends the life of the asset, by a period of greater than 12 months beyond the current useful life;

3) The works provide material additional economic benefit or service potential for the asset.

If either the above criteria (1) is not met, or where the above criteria (1) is met but not criteria (2) or (3), then it will be maintenance and considered operating expenditure.

Capitalisation Threshold

The capitalisation threshold value is greater than or equal to $5,000 (exc GST). This is applicable to all asset classes.

Portable and Attractive Assets

Assets under $5,000 do not meet the criteria to be capitalised but are defined as portable and attractive are to be properly recorded and monitored. This will include the following:

- Appropriate records for assets should include information to enable identification, management and maintenance of assets;
- Annual process to prevent theft or loss of non-consumable assets that are susceptible to theft or loss due to their portable nature and attractiveness for personal use or resale; and
- Reporting on any discrepancies from the annual process.

Asset Classification - Renewal, Upgrade or New

Expenditure on assets requires a classification of renewal, upgrade or new. These categories impact the financial ratios, LTFP and sustainability measures.

Capital expenditure is classified as renewal when the expenditure is over the capitalisation threshold and is expected to increase the remaining useful life of the original asset.

Capital expenditure is classified as an upgrade when it is expected to increase the economic benefit or service potential of the asset.

A new asset is an asset that has not previously been recognised.

Note: If expenditure relates to replacing a part of an existing asset and the useful life does not increase or there is not an increase in economic benefit or service potential, then the expenditure is classified as maintenance in nature.

Measurement Basis

All assets that qualify for recognition are to be initially measured at cost. However, where an asset is acquired at below or no cost (such as contributed assets), the cost is its fair value at the date of acquisition. If there is no readily available market for the asset then the cost is its current replacement cost.

Where an asset was acquired in a prior financial year and has yet to be recorded in the accounts, the asset is to be brought to account at current replacement cost at the date of recognition. This can be:

- By market value, if there is a readily available market; or
- Using depreciated replacement cost, if there is no readily available market.

Annual Reviews

The following are required to be reviewed for all assets at the end of each financial year to ascertain whether there have been any changes since the last revaluation:

- Replacement costs/unit rates
- Condition/ consumption rating
- Pattern of consumption
- Useful life
- Residual value
- Recoverable amount

Depreciation

The depreciable amount of each component of all non-current assets are to be depreciated on a systematic basis over their useful life using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the City. Consideration is required to be given to ensuring:

- The method used matches the expected pattern of consumption of the asset's future economic benefits;
- Where the asset has a number of different components with varying patterns of consumption, each major component is depreciated separately;
- Depreciation is to be calculated on a systematic basis over the asset's useful life;
- A residual value has been determined to ensure the depreciation is allocated against the depreciable amount; and
- Residual value is reviewed annually in line with the table below.

Asset Class	Components	Years
Roads		
	Asphalt surface	15-35
	Base course	55-150
	Bitumen seal	10-30
	Brick paved	15-35
	Concrete	50-120
	Earthworks/Formation>100	50-120
	Kerbing	55-100
	Sub-base	55-150
	Unsealed	5-15
	Footpaths Asphalt	20-50
	Footpaths Brick paved	30-60
	Footpaths Concrete	40-80
	Footpaths Gravel/Limestone	5-40
	Light poles	10-25

Drainage		
	Culverts (RCBCs)	60-100
	Headwalls	50-100
	Pipes (concrete)	60-150
	Pipes (uPVC)	60-100
	Pits and Manholes	50-100
Bridges		
	Footbridge	60
	Road Bridge	100
Marina & Waterways		
	Boat Ramps	20
	Canoe Launching Ramp	40
	Fishing Platforms	40
	Fixed Jetties	40
	Floating Jetties	20
	Groynes	50
	Rock Protection	50
	Sea Walls	50
	Swimming Enclosure	20
	Swimming Pontoon	20
	Wharf	40
Parks		
	Fencing and gates	20-35
	Park furniture	10-50
	Playground equipment	8-35
	Light poles	10-25
Buildings		
	Electrical	12-50
	Fit out and fittings	10-65
	Mechanical	3-80
	Roof	15-45
	Structural	30-150
	Substructural	10-90
Furniture & Fittings		5-25
Plant & Equipment		
	Boats	5-15
	Buses	10
	Heavy Plant	5-15
	Light Commercial	4
	Light Passenger	4
	Misc Plant & Equipment	3-20
	Mowers	4-15
	Trailers	10-15
	Trucks	5-20
Land Improvements		25-40

Revaluation

The City's physical assets will be revalued to fair value in accordance with regulation 17A of the *Local Government (Financial Management) Regulations 1996*. The fair value of each asset will be determined in accordance with AASB 13.

Non-Current Assets Held for Sale

Non-current assets that are held for sale are stated at the lower of either:

- Carrying amount; or
- Fair value less costs to sell

Non-current assets held for sale are recognised under AASB 5.

Legislative Context

Health (Miscellaneous Provisions) Act 1911

Public Health Act 2016

Responsible Directorate:	Business Services
Responsible Department:	Finance
Reviewer:	Manager Finance
Creation date and reference:	23 June 2020, G.19/6/20
Last Review:	N/A

Amendments

Version #	Council Approval Date, Reference	Date Document In force	Date Document Ceased