

# ASSET ACCOUNTING POLICY

## QUALITY CONTROL

COUNCIL POLICY			
<b>TRIM REFERENCES</b>	12/14 D16/13782		
<b>RESPONSIBLE POSITION</b>	CHIEF FINANCIAL OFFICER		
<b>APPROVED BY</b>	COUNCIL		
<b>REVIEW DATE</b>	1 <sup>st</sup> July 2018	<b>REVISION NO.</b>	1
<b>EFFECTIVE DATE</b>	<b>ACTION</b>	<b>MINUTE NO.</b>	
April 27, 2016	Public Exhibition	45242	
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### 1. INTRODUCTION

The asset accounting policy dictates the required accounting treatment of non-current assets that provide future economic benefits to Broken Hill City Council and the community.

### 2. POLICY OBJECTIVE

To ensure that there is a standardised approach used by Broken Hill City Council when accounting for non-current assets. Also, to ensure that the accounting treatment for such assets are in compliance with International and Australian Accounting Standards and relevant legislation.

### 3. POLICY SCOPE

This policy applies to all of Broken Hill City Councils non-current assets in relation to their treatment for financial purposes.

This policy does not apply to receivables, inventory or investments.

### 4. POLICY STATEMENT

#### Definition of an Asset

An asset is a physical resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity for more than 12 months. An asset is recognised in the Statement of Financial Position (Balance Sheet).

Any item which has a useful life of less than 12 months is recognised in the income statement and is classed as an expense under the operational or maintenance budget. It cannot be classed as an asset.

#### Recognition of Assets and Measurement at Recognition

Australian accounting standard AASB 116 paragraph 7 states that the cost of an item property, plant and equipment be recognised as an asset if and only if:

- *it is probable the future economic benefits associated with the item will flow to the entity; and*
- *the cost of the item can be measured reliably*

Paragraph 15 of AASB 116 requires an item of property, plant and equipment that qualifies for recognition as an asset to be measured initially at cost. Notwithstanding paragraph 15, where an asset is acquired at no cost, or for a nominal cost (as the case with developer and other contributed assets), the cost is its fair value as at the date of acquisition.

According to paragraph 16 of AASB, the cost of an item of property, plant and equipment is to comprise:

- *its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;*
- *any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;*

According to paragraph 17 of AASB 116 'directly attributable costs' include:

- *costs of employee benefits arising directly from the construction or acquisition of the item of property, plant and equipment;*
  - *costs of site preparation;*
  - *initial delivery and handling costs;*
  - *installation and assembly costs;*
  - *professional fees;*
  - *costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition*
- *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 incurs 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*

Purchase costs that are excluded from the cost of an asset as outlines in Paragraph 19 of AASB 116 include:

- *costs of opening a new facility*
- *costs of introducing a new product or service (including costs of advertising and promotional activities)*
- *costs of conducting business in a new location or with a new class of customer*
- *administration and other general overhead costs*

These accumulated costs represent the value of the asset at cost as at the date in which the asset is deemed to be complete and available for use. Not-for-profit entities may acquire assets at zero or at a nominal value, the asset is deemed to be valued at its fair value at date of acquisition. This initial valuation does not constitute a revaluation, a revaluation will only occur when it is the expressed decision of management to revalue a class of assets due to a change in the future economic benefits of that class.

### **Derecognition of Assets**

Australian Accounting Standard AASB 116 paragraph 67 states that the carrying amount of an item shall be de-recognised:

- a) *on disposal or;*
- b) *when no future benefits are expected to arise out of its use or disposal.*

AASB 116, paragraph 68, provides that:

- The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless AASB 117 requires otherwise on a sale and leaseback).

**Rules for Recognition of project cost elements:**

<b>Activity</b>	<b>Recurrent Expenditure</b>	<b>Capital Expenditure</b>
Activities prior to decision made to proceed with investment include: <ul style="list-style-type: none"> <li>• Strategic planning reports</li> <li>• Project scoping and investigation, valuation reports, planning approvals</li> </ul>	x	
Activities directly associated with investment include: <ul style="list-style-type: none"> <li>• Survey and design</li> <li>• Professional fees</li> <li>• Site preparation</li> <li>• Construction</li> <li>• Contract payments</li> <li>• Council direct costs, wages, salaries, plant hire, materials, on-costs</li> <li>• Supervision</li> <li>• Transport, installation, assembly and testing</li> <li>• Project management</li> <li>• Future dismantling and removing item and site restoration (where applicable)</li> </ul>		x

**Asset Revaluation**

As all assets are to be recorded at their 'Replacement Cost' (Fair Value), Broken Hill City Council are required to revalue all assets on a regular basis, not being more than 5 year intervals, to assess the assets carrying value against the assets fair value at reporting date.

**Materiality**

Information is material if its omission, misstatement or nondisclosure has the potential, individually or collectively, to influence the economic decisions made by users on the basis of the financial statements.

In the context of materiality it is not necessary to recognise every non-current asset in the balance sheet. 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 simpler to expense it.

**Minor Assets**

Minor assets are those items acquired for a cost less than the capital threshold for that applicable category. The acquisition of minor assets is treated as an expense.

**Useful Lives**

The useful life of an asset is defined as the period of time over which an asset is expected to be available for use by the entity. Over this period the useful life will be reviewed on a regular basis taking into account new information about future economic value, any adjustments resulting from this review will be made prospectively as changes in accounting estimates.

**Componentisation**

Some types of assets need to be componentised into the parts that make up that asset to allow for condition assessment and determination of depreciation expense. Each component should:

- Be significant in cost

- Have a different useful life or depreciation pattern
- Separately identify short-life and long-life parts consistent with the AASB decision of May 2015

Broken Hill City Council componentises its assets as per OLG guidance for infrastructure property, plant and equipment.

### **Depreciation & Impairment**

The depreciation method used by Broken Hill City Council for all depreciating assets is the Straight-Line Depreciation approach where the consumption of benefits is in a uniform manner over the useful life of an asset, calculated on asset fair value less residual value.

When impairment for an asset is found (the carrying amount is greater than the recoverable amount), the asset is then deemed to have been consumed at a faster rate than original estimates, resulting in the expected useful life being shorter. This change in expected useful life may be as a result of an event such as a flood, or a higher than expected natural rate of deterioration. This may result in expense.

AASB paragraph 60 states:

- *An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other standard.*

If an asset has been revalued, the impairment loss will be recognised by reducing the balance of the revaluation surplus as it pertains to a previous revaluation. Otherwise the impairment loss is recognised by recognising an expense directly.

### **Capital Expenditure Thresholds**

The capital expenditure threshold is the new, upgrade or renewal value of an asset, below which the project cost, is normally expensed and above which it is normally capitalised. Broken Hill City Council's capital thresholds for assets are outlined as follows. To aid clarity, examples of expenditures that will be considered operating or maintenance/repair are also provided.

### **Asset Categories**

- a) Land
- b) Plant and Equipment
- c) Buildings and Other Structures
- d) Transport Infrastructure
- e) Strom Water Network
- f) Furniture & Fittings and Office Equipment
- g) Other Assets

#### **a) Land**

Land assets are recognised as the following:

- Community land
- Operational land
- Easements
- Land under Roads (acquired after 1/7/2008)
- Crown Land with Council as the custodian

All land assets are capitalised on acquisition.

## b) Plant and Equipment

Plant and Equipment assets are recognised as the following:

- Earthmoving and other major plant– Trucks, loaders, graders, tractors, machinery, trailers, forklifts etc. – Useful Life 5-20 yrs
- Light Vehicles – Passenger vehicles, motorbikes etc. – Useful life 5-10 yrs
- Minor Plant - Pumps, pool mechanical and filtration equipment, computers and electronic devices, other minor plant (generators, chainsaws, whipper-snippers etc.) – Useful life 2-20 yrs

<b>Work Activity – Plant and Equipment</b>				
<b>Operating Expenditure</b>		<b>Capital Expenditure</b>		
Operations	Maintenance and Repair	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> <li>• Fuel, consumables, Registration</li> <li>• Supervision</li> <li>• Service delivery management</li> </ul>	<ul style="list-style-type: none"> <li>• Reactive maintenance to plant and equipment assets</li> <li>• Programmed servicing</li> <li>• Replacement of major components (engine, transmission)</li> <li>• Upgrade asset (adding air-conditioning)</li> <li>• Purchase and replacement of items</li> <li>• &lt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>• Replacement of plant and equipment asset with the same standard</li> <li>• &gt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>• Upgrade/ replacement of existing plant and equipment to a higher standard</li> <li>• &gt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>• New assets</li> <li>• &gt;\$5,000</li> </ul>

## c) Buildings and Other Structures

Building assets comprise of:

- Buildings
  - Structure – Useful life 50-150 yrs
  - Roof – Useful life 20-60 yrs
  - Mechanical Services - Useful life 20-40 yrs
  - Floor Coverings – Useful life 20-40 yrs
  - Fire Services – Useful life 20 -40 yrs
  - Transportation Services – useful life 20-40 yrs

(Broken Hill City Council will only componentise buildings that exceed a fair value of \$1,000,000.00)
- Other Structures – Fencing, picnic shelters, gazeboes, bus shelters etc.- Useful life 10-100 yrs

**Work Activity – Buildings and Other Structures**

Operating Expenditure		Capital Expenditure		
Operations	Maintenance and Repair	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> <li>• Service delivery and property management</li> <li>• Safety inspections</li> <li>• Security</li> <li>• Cleaning</li> </ul>	<ul style="list-style-type: none"> <li>• Reactive maintenance and repair</li> <li>• Programmed servicing</li> <li>• Component replacement (carpet)</li> <li>• &lt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>• Replacement of whole building asset with same standard</li> <li>• Component renewal/replace (rewiring, fit-out etc.)</li> <li>• &gt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>• Structure extensions</li> <li>• Structure enhancements at a higher level of service</li> <li>• &gt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>• New assets</li> <li>• &gt;\$5,000</li> </ul>

**d) Transport Infrastructure -**

Transportation Infrastructure assets are recognised as the following:

- Sealed Roads
  - Formation – Useful life indefinite
  - Pavement – Useful life 40-80 yrs
  - Seal – Useful life 15-25 yrs
- Unsealed Roads
  - Formation - Useful life indefinite
  - Pavement – Useful life 40-80 yrs
- Carpark
  - Sealed Surfaces – Useful life 15-25 yrs
  - Sealed Pavement – Useful life 40-80 yrs
  - Unsealed Pavement – Useful life 7-10 yrs
- Kerb and Gutter – Useful life 40-80 yrs
- Footpaths
  - Paved surfaces – Useful life 20-50 yrs
  - Unpaved Surfaces – Useful life 7-10 yrs
- Airport Runway
  - Formation- Useful life indefinite
  - Pavement – Useful life 40-80 yrs
  - Seal – Useful life 15-25 yrs

**Work Activity – Sealed Roads**

Operating Expenditure		Capital Expenditure		
Operations	Maintenance and Repair	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> <li>Supervision</li> <li>Service delivery management</li> <li>Line markings</li> <li>Road hazard/ defect inspections</li> <li>Condition inspections</li> </ul>	<ul style="list-style-type: none"> <li>Reactive maintenance to sealed roads</li> <li>Programmed servicing</li> <li>Sealed pavement partial renewal/ rehabilitation</li> <li>&lt;\$2,000</li> </ul>	<ul style="list-style-type: none"> <li>Pavement replacement/ renewal of asset with the same standard</li> <li>Resurfacing with the same standard</li> <li>&gt;\$2,000</li> </ul>	<ul style="list-style-type: none"> <li>Pavement replacement/ renewal of asset at a higher standard</li> <li>Resurfacing at a higher standard</li> <li>Road Widening</li> <li>&gt;\$2,000</li> </ul>	<ul style="list-style-type: none"> <li>New assets</li> <li>&gt;\$2,000</li> </ul>

**Work Activity – Unsealed Roads**

Operating Expenditure		Capital Expenditure		
Operations	Maintenance and Repair	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> <li>Supervision</li> <li>Service delivery management</li> <li>Road hazard/ defect inspections</li> <li>Condition inspections</li> </ul>	<ul style="list-style-type: none"> <li>Reactive maintenance to unsealed roads</li> <li>Programmed servicing</li> <li>Grading</li> <li>&lt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>&gt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>Widening of pavement</li> <li>&gt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>New assets</li> <li>&gt;\$5,000</li> </ul>

**Work Activity – Carparks**

Operating Expenditure		Capital Expenditure		
Operations	Maintenance and Repair	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> <li>Supervision</li> <li>Service delivery management</li> <li>Pavement markings</li> </ul>	<ul style="list-style-type: none"> <li>Reactive maintenance to carparks</li> <li>Programmed servicing</li> <li>Sealed pavement renewal/ rehabilitation</li> <li>&lt;\$2,000</li> </ul>	<ul style="list-style-type: none"> <li>Pavement replacement/ renewal with the same standard</li> <li>Resurfacing with the same standard</li> <li>&gt;\$2,000</li> </ul>	<ul style="list-style-type: none"> <li>Pavement replacement/ renewal at a higher standard</li> <li>Resurfacing at a higher standard</li> <li>&gt;\$2,000</li> </ul>	<ul style="list-style-type: none"> <li>New assets</li> <li>&gt;\$2,000</li> </ul>

**Work Activity – Kerb and Gutter**

Operating Expenditure		Capital Expenditure		
Operations	Maintenance and Repair	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> <li>Supervision</li> <li>Service delivery management</li> <li>Clearing drains and pits</li> <li>Sweeping</li> <li>Hazard and condition inspections</li> </ul>	<ul style="list-style-type: none"> <li>Reactive maintenance to kerbs and gutters</li> <li>Programmed servicing</li> <li>&lt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>Replacement of whole asset length of kerb and gutter at same standard</li> <li>&gt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>Replacement of whole asset length of kerb and gutter at a higher standard</li> <li>&gt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>New assets</li> <li>&gt;\$5,000</li> </ul>

**Work Activity – Footpaths**

Operating Expenditure		Capital Expenditure		
Operations	Maintenance and Repair	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> <li>Supervision</li> <li>Service delivery management</li> <li>Landscaping maintenance</li> <li>Footpath Cleaning</li> <li>Hazard inspections</li> </ul>	<ul style="list-style-type: none"> <li>Reactive maintenance to footpaths</li> <li>Programmed servicing</li> <li>&lt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>Resurfacing with the same standard</li> <li>Replacement of whole asset length of paved footpath at same standard</li> <li>&gt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>Resurfacing to a higher standard</li> <li>Replacement of whole asset length of paved footpath to a higher standard</li> <li>&gt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>New assets</li> <li>&gt;\$5,000</li> </ul>

**Work Activity – Airway Runway**

Operating Expenditure		Capital Expenditure		
Operations	Maintenance and Repair	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> <li>Supervision</li> <li>Service delivery management</li> <li>Hazard/ defect inspections</li> <li>Condition inspections</li> </ul>	<ul style="list-style-type: none"> <li>Reactive maintenance to airway runway</li> <li>Programmed servicing</li> <li>&lt;\$2,000</li> </ul>	<ul style="list-style-type: none"> <li>Pavement replacement/ renewal of asset with the same standard</li> <li>Resurfacing with the same standard</li> <li>&gt;\$2,000</li> </ul>	<ul style="list-style-type: none"> <li>Pavement replacement/ renewal of asset at a higher standard</li> <li>Resurfacing at a higher standard</li> <li>Road Widening</li> <li>&gt;\$2,000</li> </ul>	<ul style="list-style-type: none"> <li>New assets</li> <li>&gt;\$2,000</li> </ul>



### e) Stormwater Drainage

Stormwater drainage assets can be recognised as the following:

- Pipes – Useful life 80-100 yrs
- Pits/ access point – Useful life 30 yrs
- Drainage Structure – Useful life 50 yrs
- Lined and Unlined Open Drains – Useful life 80 yrs
- Dams/ Retention Basins – Useful life 80-120 yrs
- Pumps/ Bores – Useful life 20-40 yrs
- Facilities and Other Structures – Useful life 10 yrs

<b><u>Work Activity – All Stormwater Drainage</u></b>				
<b>Operating Expenditure</b>		<b>Capital Expenditure</b>		
Operations	Maintenance and Repair	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> <li>• Service delivery management</li> <li>• Supervision</li> <li>• Clearing drains and pits</li> <li>• Street sweeping</li> <li>• Condition assessment</li> <li>• Defect inspection</li> </ul>	<ul style="list-style-type: none"> <li>• Reactive maintenance</li> <li>• Programmed maintenance</li> <li>• Replacement of drainage assets</li> <li>• &lt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>• Replacement/ renewal of drainage assets with the same standard</li> <li>• &gt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>• Replacement/ renewal of drainage assets at a higher standard</li> <li>• &gt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>• New assets</li> <li>• &gt;\$5,000</li> </ul>

### f) Furniture & Fittings and Office Equipment

Furniture & fittings and office equipment assets can be recognised as the following:

- Office Equipment - Useful life 3-20 yrs
- Furniture - Useful life 3-20 yrs
- Fittings – Useful life 3-40 yrs

<b><u>Work Activity – Furniture &amp; Fittings and Office Equipment</u></b>				
<b>Operating Expenditure</b>		<b>Capital Expenditure</b>		
Operations	Maintenance and Repair	Capital Renewal	Capital Upgrade	Capital New

<ul style="list-style-type: none"> <li>• Cleaning</li> <li>• Storage</li> <li>• Transport</li> <li>• Valuations</li> </ul>	<ul style="list-style-type: none"> <li>• Reactive maintenance and repair</li> <li>• Programmed servicing</li> <li>• Partial replacement of furniture &amp; fittings and office equipment</li> <li>• Replacement of furniture &amp; fittings and office equipment to the same standard</li> <li>• &lt;\$5,000*</li> </ul>	<ul style="list-style-type: none"> <li>• Replacement of furniture &amp; fittings and office equipment to the same standard</li> <li>• &gt;\$5,000*</li> </ul>	<ul style="list-style-type: none"> <li>• Upgrade of existing furniture &amp; fittings and office equipment to a higher standard</li> <li>• Replacement of furniture &amp; fittings and office equipment to a higher standard</li> <li>• &gt;\$5,000*</li> </ul>	<ul style="list-style-type: none"> <li>• New assets</li> <li>• &gt;\$5,000*</li> </ul>
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\* for individual items (not pooled)

### g) Other Assets

Other assets are recognised at the following levels:

- Library Books - are recognised as having immaterial costs and will not be capitalised.
- Visual and Audio assets - are recognised as having immaterial costs and will not be capitalised.
- Artworks – are all capitalised
- Statues - are all capitalised
- Sculptures - are all capitalised
- Monuments - are all capitalised
- Other Assets

Assets that are recognised as “Other Assets” include those that cannot be clearly put into any other asset group due to their unique nature.

<b><u>Work Activity – Other Assets</u></b>				
<b>Operating Expenditure</b>		<b>Capital Expenditure</b>		
Operations	Maintenance and Repair	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> <li>• Cleaning</li> <li>• Storage</li> <li>• Transport</li> </ul>	<ul style="list-style-type: none"> <li>• Reactive maintenance and repair</li> <li>• Programmed servicing</li> <li>• &lt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>• Replacement of asset with the same standard</li> <li>• &gt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>• Replacement of asset at a higher standard</li> <li>• &gt;\$5,000</li> </ul>	<ul style="list-style-type: none"> <li>• New assets</li> <li>• &gt;\$5,000</li> </ul>

## **5. IMPLEMENTATION**

### **5.1. Roles and Responsibilities**

The following Council officers are responsible for the implementation and the adherence to this policy:

- General Manager
- Deputy General Manager
- Chief Financial Officer
- Manager Infrastructure & Strategy
- Financial Accountant
- Management Accountant

### **5.2. Communication**

This Policy will be communicated to the community and staff in accordance with Council's Policy, Procedure and Process Framework and Council's Business Paper process. Following adoption by Council the Policy will be made available on Council's website.

### **5.3. Associated Documents**

The following documentation is to be read in conjunction with this policy.

- Code of Conduct Policy
- Asset Management policy
- Procurement Policy
- Capital project expenditure policy

## **6. REVIEW**

Review of this policy will incorporate relevant legislation, documentation released from relevant state agencies and best practice guidelines.

The standard review period will be every two years from the effective date, however may occur sooner if there is a change in legislation, accounting standards or other relevant guidelines. The responsible Council officer will be notified of the review requirements three (3) months prior to the expiry of this policy.

The Chief Financial Officer is responsible for the review of this policy.

## **7. LEGISLATIVE AND LEGAL FRAMEWORK**

This policy is to be read in conjunction with the following:

- Local Government Act 1993

Australian Accounting Standards Board (AASB) Standards:

- AASB 116 Property, Plant and Equipment;
- AASB 1041 Revaluation of Non-Current Assets;
- AASB 136 Impairment of Assets;
- AASB 1051 Land Under Roads;
- AASB 138 Intangible Assets
- AASB 5 Non-current Assets Held for Sale and Discontinued Operations
- AASB 1049 Whole of Government and General Government Sector Financial Reporting

Council employees shall refrain from personal activities that would conflict with proper execution and management of Council's Asset Accounting Policy. Council's Code of Conduct provides guidance for recognising and disclosing any conflicts of interest.

## 8. DEFINITIONS

**Assets:** are physical resources controlled by the entity as a result of past events and from which future economic benefits

**Assets - Current:** are assets that are expected to be consumed, realised, sold or otherwise disposed of within one financial year

**Assets - Non-Current:** are assets that are not expected to be fully consumed, realised, sold or otherwise disposed of within on financial year

**Capitalisation Threshold:** when the value of a new, upgraded or renewed asset reaches a determined cost it is capitalised, below this cost and the value is expensed

**Capital Expenditure:** expenditure on assets that are above the capitalisation threshold. A relatively large (material) expenditure, which has benefits (service potential), expected to last for more than 12 months. Capital expenditure includes new assets, renewal/replacement and expansion/upgrade of existing assets.

- Capital renewal/replacement is expenditure on an existing asset, which restores the service potential and extends the life of the asset beyond that which it had originally. As it extends the life of the asset any income generated from it will likewise be extended. Future operating and maintenance expenditure may be reduced if completed at the optimum time, e.g. resurfacing or re-sheeting part of a road network, replacing a section of a drainage network with pipes of the same capacity, resurfacing an oval.
- Capital upgrade/expansion is expenditure, which enhances an existing asset to provide a higher level of service. Upgrade expenditure is discretionary and may not result in additional revenue unless direct user charges apply. It will increase operating and maintenance expenditure, including depreciation, in the future because of the increase in the council's asset base, e.g. widening the sealed area of an existing road, replacing drainage pipes with pipes of a greater capacity, enlarging a grandstand at a sporting facility, building extension etc.

**Componentisation:** the segmentation of complex assets into identifiable components that have varying useful lives

**Land Under Roads:** is land under roadways and road reserves as defined under the Road Management Act 2004, including the land under the road itself, footpaths, nature strips and median strips. It does not include land under unused roads which is declared under Section 400 of the Land

Act 1958 as not required for public traffic or under 'paper roads' which do not meet the Common Law definition of a public highway

**Maintenance expenditure:** is a component of operating expenditure, specifically on an asset, which is periodically required as part of the anticipated schedule of works needed to ensure that the asset achieves its estimated useful life, and is normally relatively low cost compared to the asset value. Maintenance expenditure includes reactive maintenance and repair, or planned maintenance

**Materiality:** Information is material if its omission, misstatement or nondisclosure has the potential, individually or collectively, to influence the economic decisions made by users on the basis of the financial statements

**Minor Assets:** are those items acquired for a cost less than the capital threshold for that applicable category

**Operating Expenditure:** is recurrent expenditure such as power, fuel, telephone, employee costs, materials, cleaning, minor equipment, overheads, maintenance and depreciation. These costs are the day to day expenses associated with providing the service during a year of operations.

**Recognition:** the decision to include an asset as capitalised expenditure

**Recurrent Expenditure:** relatively small expenditure which has benefits that will be expected to last less than 12 months; including operating and maintenance expenditure

**Useful life:** the time period in which an asset is expected to be available for use