

# ASSET ACCOUNTING POLICY

## GUIDELINE 2: EXPENDITURE AFTER ACQUISITION

### Version 1.0

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ECM 7996673	Approved By: <i>'Uncontrolled' copy once printed</i>	Version 1.0	Date: 30/06/19 Page 1 of 5
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## 1.0 PURPOSE

This guideline is intended to support the Asset Accounting Policy. It provides additional explanations on how to account for expenditure on non-current assets (assets) following their initial recognition in the fixed asset register.

## 2.0 CAPITAL EXPENDITURE VS OPERATIONAL EXPENDITURE

Expenditure on an asset incurred after it comes into service falls into one of two categories:

- **Capital Expenditure** – these costs are added to the carrying amount of the existing asset and are capitalised into the fixed asset register.
- **Operational Expenditure** – these costs are expensed when incurred.

## 3.0 CAPITAL EXPENDITURE (CAPEX)

Certain costs incurred over the life of an asset either renew, extend or upgrade the asset's underlying service potential. Such costs are required to be capitalised in the fixed asset register as an addition to the carrying value of existing assets.

These costs are attributable to at least one of the following:

- **Extension of an existing asset** – as a result of the expenditure being incurred the service potential of an asset is provided to a wider geographical area or to greater number of potential users; e.g. extending a stormwater pipeline or roadway.
- **Renewal of an existing asset** – reinstates a significant portion or all of the original service potential of an asset; e.g. major reseal of a road or relining a stormwater pipeline.
- **Upgrade of an existing asset** – enhances an existing asset to provide a higher level of service or increases the useful life beyond that originally expected; e.g. widening of a road to include additional lanes or adding steel reinforcement to an existing swimming pool shell to increase life expectancy.

Other examples of capital expenditure are:

- Replacing a major asset component such as an engine in a motor vehicle (renewal type capital works).
- Costs associated with implementing a new module to Council's information system (extension to an existing asset).
- In rare cases, major repainting of a building's external walls resulting in a significant improvement over the original coat of paint which extends the life of the underlying asset (upgrade to an existing asset or change in character).

## 4.0 OPERATIONAL EXPENDITURE (OPEX)

Operational expenditure encompasses all costs associated with general maintenance and operations of an asset. These costs should be expensed when incurred.

The useful life of an asset used for depreciation purposes is determined assuming appropriate levels of general maintenance at appropriate intervals. Cleaning carpets, pothole maintenance in roads and clearing drains are all examples of general maintenance.

A similar principle applies to minor repairs such as treating cracking in road seals or replacing an oil filter in a motor vehicle.

General maintenance and repair work, which is comparatively minor in nature, does not significantly renew service potential, expand service potential or extend life expectancy beyond that originally intended.

ECM 7996673	Approved By: <i>'Uncontrolled' copy once printed</i>	Version 1.0	Date: 30/06/19 Page 2 of 5
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Similarly the cost of operating an asset is not capitalised but expensed when it is incurred. The cost of staff to run a facility, fuel and power, corporate overheads and any asset inspection costs are additional examples of operational expenditure.

Refer to [Appendix A](#) for further guidance to help distinguish between OPEX and CAPEX.

## 5.0 GUIDELINE REVIEW

The guideline is to be formally reviewed on a triennial basis in conjunction with Asset Accounting Policy review.

ECM 7996673	Approved By: <i>'Uncontrolled' copy once printed</i>	Version 1.0	Date: 30/06/19 Page 3 of 5
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**APPENDIX A: CAPEX VS OPEX EXPENDITURE**

This appendix provides examples of typical capitalised and expensed items for each financial asset class recognised in the Council’s financial statements. Where it does not specifically provide for the classification of certain types of expenditure, its treatment as either capital or expense should be discussed with your business performance partner. The ultimate decision on whether to capitalise or expense will be based on interpretation of New Zealand accounting standards and relevant legislation.

Capitalised (CAPEX)	Expensed (OPEX)
<b>ALL ASSET CLASSES</b>	
<ul style="list-style-type: none"> <li>• Replacement/refurbishment of assets</li> </ul>	<ul style="list-style-type: none"> <li>• Administration costs associated with recognition of contributed assets</li> <li>• Cleaning</li> <li>• Costs associated with relocating assets (permanent or temporary) either controlled or not controlled by Council</li> <li>• Decorative painting</li> <li>• Demolition and decommissioning</li> <li>• Disposal costs</li> <li>• Drain cleaning</li> <li>• Inspections/condition assessments not requiring dismantling of asset</li> <li>• Master planning and related studies.</li> <li>• Relocation costs</li> <li>• Repairs and maintenance</li> <li>• Revegetation</li> <li>• Sand dredging</li> <li>• Sand replenishment</li> <li>• Scrub clearing</li> <li>• Soft landscaping</li> <li>• Surface patching</li> <li>• Sweeping</li> <li>• Turf not of a specialised nature</li> </ul>
<b>BUILDINGS</b>	
<ul style="list-style-type: none"> <li>• In rare cases, major repainting of external walls, which reseals and waterproofs the external structure</li> <li>• Electrical equipment hardwired into the building (e.g. sound system)</li> </ul>	<ul style="list-style-type: none"> <li>• Repainting internal walls</li> <li>• Shifting existing walls within the building</li> </ul>
<b>PATHWAYS</b>	
<ul style="list-style-type: none"> <li>• Pathways and boardwalks constructed from concrete, bitumen, wood or synthetic materials</li> </ul>	<ul style="list-style-type: none"> <li>• Grassed or gravel pathways</li> </ul>

Capitalised (CAPEX)	Expensed (OPEX)
<b>LAND</b>	
<ul style="list-style-type: none"> <li>• All land excluding properties meeting non-financial criteria</li> <li>• Associated legal and real estate costs</li> </ul>	<ul style="list-style-type: none"> <li>• Legal costs where purchase did not eventuate</li> <li>• Easements (right of access)</li> </ul>
<b>ROADS, BRIDGES AND MAJOR CULVERTS</b>	
<b>ROAD SURFACE, PAVEMENTS AND EARTHWORKS</b>	
<ul style="list-style-type: none"> <li>• Roads constructed with a pavement and seal</li> <li>• Earthworks (formation costs)</li> <li>• Reinstatement costs (where road excavated in order to repair an underground asset)</li> </ul>	<ul style="list-style-type: none"> <li>• Dirt or gravel roads</li> <li>• Re-marking of lines</li> </ul>
<b>ROADS INVENTORY</b>	
<ul style="list-style-type: none"> <li>• Constructed and installed items of roads inventory</li> </ul>	<ul style="list-style-type: none"> <li>• Minor signage</li> <li>• Grass median infills</li> </ul>
<b>BRIDGES</b>	
<ul style="list-style-type: none"> <li>• Bridge assets</li> </ul>	<ul style="list-style-type: none"> <li>• Re-marking of lines</li> </ul>
<b>FLOOD MITIGATION AND DRAINAGE</b>	
<ul style="list-style-type: none"> <li>• Constructed flood mitigation and drainage assets</li> </ul>	
<b>WATER AND SEWERAGE INFRASTRUCTURE</b>	
<ul style="list-style-type: none"> <li>• Constructed water and sewerage infrastructure assets</li> <li>• Reinstatement costs of road surface and pavement not controlled by Council following excavation required to access Council's underground assets</li> </ul>	
<b>INTANGIBLE ASSETS</b>	
<ul style="list-style-type: none"> <li>• Testing, development and implementation costs associated with purchased software.</li> <li>• Additional concurrent user licences for installed software</li> </ul>	<ul style="list-style-type: none"> <li>• Report development</li> <li>• Annual software and licence agreement charges</li> <li>• Ongoing staff training</li> <li>• General administration costs</li> <li>• Decommissioning costs</li> </ul>

ECM 7996673	Approved By: <i>'Uncontrolled' copy once printed</i>	Version 1.0	Date: 30/06/19 Page 5 of 5
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