

Attachment A: Capitalisation Policy

Policy Template

Team/Directorate	Finance / Assurance, Finance & Risk
Approved/Adopted by	ELT
Effective date	July 2026
Next review	July 2027

CONTENTS

1	Purpose.....	3
2	Strategic Context	3
2.1	Related Policies and Documents	3
3	Definitions	3
3.1	Capital Expenditure (Capex)	3
3.2	Work in Progress (WIP)	4
3.3	Components	4
3.4	Depreciation (amortisation)	5
3.5	Impairment.....	5
3.6	Carrying Amount	5
3.7	Intangible assets.....	5
3.8	Investigation costs.....	6
3.9	Asset Operational expenditure (Opex).....	6
3.10	Maintenance.....	6
3.11	Useful life.....	7
3.12	Group Assets.....	7
3.13	Control by QLDC	7
4	Principles	8

5	Objectives	8
6	Policy.....	8
6.1	Introduction.....	8
	Capitalisation Guidance	9
6.2	Elements of cost	9
6.3	Staff costs can be capitalised	10
6.4	Borrowing costs.....	10
6.5	Costs that must not be capitalised:.....	10
6.6	Minimum Cost (Capitalisation Threshold).....	11
6.7	Componentisation	11
	RULES:.....	11
6.8	Group Assets	11
6.9	Donated Assets.....	11
6.10	Vested Assets.....	12
6.11	Found Assets.....	12
6.12	Project Completion.....	12
6.13	Class of Assets.....	12
6.14	Capex vs Operating Expenditure – further description	13
6.15	Capitalisation Thresholds	13
6.16	Specific rules for Unique Assets or Specific Activities	15
6.17	Useful Life / Depreciation Rate Tables	18
7	Relevant Legislation.....	20
7.1	Relevant Accounting Standards	21
8	Roles and Responsibilities.....	21
9	Policy History	21
10	Monitoring and Review	21

1 PURPOSE

Capitalisation policy based on current account standards that is intended to provide a guide as the correct treatment of expenditure relating to assets.

2 STRATEGIC CONTEXT

2.1 RELATED POLICIES AND DOCUMENTS

- QLDC Accounting Policies
- International Infrastructure Management Manual (IIMM – NAMS)
- Header used for Capitalisation projects to be completed for all capital projects
- Infrastructure Strategy
- IT Policies

3 DEFINITIONS

3.1 CAPITAL EXPENDITURE (CAPEX)

(a) Capital Improvements & Purchases

Expenditure which is used to:

- create new assets or
- to increase the capacity or the life of existing assets beyond their original design or service potential.
- One-off works and related purchases valued at over \$1,000 GST Exclusive that substantially improve the service potential of an asset or extend its useful life. It will enhance an asset by improving functionality and providing additional benefit and value. Examples of this include a new air conditioner, a full bathroom or kitchen replacement and creation of a new wall within a residence to provide greater functionality.

(b) Capital Renewal or Replacement Expenditure & Purchases

- Works to replace existing assets, facilities or facilities with assets of equivalent capacity or performance capability.
- Therefore, it requires significant work that restores or replaces an existing asset to its original size, condition and capacity.
- It does not increase asset capacity.
- Often there is replacement of a component. For renewal to take place there must be an existing asset or component in the Asset Management System.
- Any asset purchased that is equal to or over \$1,000 GST Exclusive but inclusive of freight, insurance and installation charges. Minor examples include renewal/replacement or purchase of carpet, solar panels or an oven.

Note: The Local Government Act requires capital expenditure to be reported or forecasted under the following categories:

- (a) meet additional demand for an activity; and / or
- (b) improve the level of service; and / or
- (c) replace existing assets.

3.2 WORK IN PROGRESS (WIP)

- Expenditure directly attributable to an asset is recorded and accumulated in WIP until the point that the asset is complete and ready for capitalisation into the asset management system. The costs may remain in the WIP account while the asset is under construction.
- Work in progress items are not depreciated.
- Capitalisation date is the date that the asset is brought into a working condition or practical completion for its intended use. In the event that material WIP items have been completed but not loaded into the asset management system by year end, Finance will transfer costs to the relevant asset class as additions for the financial year in which they are ready for use. An estimate of depreciation will be made.
- Items of opex within a capital project should be tagged as opex by the Finance Business Partner Manager (through discussions with the project manager) and where possible expensed in the year that they incurred, the WIP account will be reviewed regularly (and at year end) to identify items of opex that should have been expensed. *Examples of expenditure that may initially sit within a capital project but require reclassification to OPEX at year end include garden renewals, tree replacements, demolition, site clearance, and like-for-like replacements where the expenditure only maintains the existing service potential of the asset rather than creating or enhancing an asset. The accounting substance of the completed works overrides the original project budgeting classification.*
How to determine what may be opex instead of capital?

The project and work order names will help to determine if an asset is likely to be created. Workorder names which state design, investigations, scoping or consents etc is likely to be carried forward as WIP at the year-end unless the project was cancelled or not progressing any further, in which case the costs should be reclassified to OPEX. Scoping and investigations however are also likely to need to be partly expensed even if the project is going ahead depending on the nature of the work.

Expenditure incurred on feasibility assessments and procurement activities may be included in the cost of a capital asset where those costs are directly attributable to the project and the project results in the creation or acquisition of the intended asset. Where the project does not proceed, such costs must be expensed in the period incurred.

If the resource codes are all consultants and no construction or physical works carried, it would likely either be carried forward as WIP or expensed if the project is actually completed or not continuing.

If consultancy costs are greater than 25% of completed projects, the costs should be interrogated further, as likely some will need to be expensed (such as when numerous preliminary designs were explored).

Any work in relation to demolition, removal, site clearance, tree cutting/planting, etc may also need to be expensed unless when directly acquiring land.

Similarly, annual IT software maintenance costs should not be capital

Earthworks would need to be expensed if it was not associated with creating an asset or if it was a proportionately large amount.

Accommodation, airfares and disbursements for project managers should not be capital

3.3 COMPONENTS

- Specific parts of an asset having independent physical or functional identity and having specific attributes such as different life expectancy, maintenance regimes, risk or criticality.
- A component is a part of an asset that you plan to replace.
- The accounting standard requires that assets be recorded at component level if separate components have different useful lives.

3.4 DEPRECIATION (AMORTISATION)

- Depreciation (or amortisation for intangible assets) is the systematic allocation of the depreciable amount of an asset over its planned useful life. The depreciable amount is the cost (or revalued amount) less any residual or realisable value (if any) on disposal.
- The purpose of depreciation is to allocate the cost of that asset over its useful life.
- Useful lives need to be periodically reassessed, especially during or leading up to a revaluation.
- Use life of the asset helps determine the depreciation rate.

3.5 IMPAIRMENT

Impairment is the recognition of the decrease in value¹ of an asset due to an event or action. It is the reduction in the 'service potential' of that asset. When an asset is impaired then the value of the asset is reduced, and this amount is recognised either:

- (a) as an expense or
- (b) (only if the impairment is permanent*) as a reduction in the revaluation reserve for that class of assets if there is a surplus revaluation amount available to be utilised for this purpose.

**Example of temporary is a slip on a road, a damaged bridge, or a swimming pool that leaks and then is repaired.*

Impairment expensed in year of damage then asset improved and fixed with repair amount being capitalised to asset and useful life then reassessed.

When the expenditure to restore the asset to its original value is incurred this is recognised as capital expenditure similar to a renewal.

3.6 CARRYING AMOUNT

Carrying amount is the amount at which an asset is recognised after deducting accumulated depreciation and accumulated impairment losses.

3.7 INTANGIBLE ASSETS

These are assets which have no physical attributes but have a recognisable value e.g. software, consents, easements over land, business cases, asset management plans, master plans, modelling and integrated catchment plans. The accounting treatment for intangible assets is the same as for tangible assets except for that intangible asset are amortised rather than depreciated. The amortisation life is typically short at 5 years.

Additional guidance:

- Policies are generally treated as operational expenditure (OPEX) because they are governance or compliance

¹ the amount by which the carrying amount of an asset exceeds its recoverable amount

documents and do not create a separately identifiable asset controlled by Council that generates measurable future economic benefit or service potential.

- Masterplans, modelling, asset management plans, integrated catchment plans and some strategic business cases may be capitalised where they create enduring technical or strategic information assets that provide future service potential over multiple years.
- Business cases directly attributable to the delivery of a physical capital asset may be capitalised to the final asset cost once the project proceeds to construction.
- Where a business case creates a long-term strategic or technical information asset independent of immediate construction activity, Council may capitalise the expenditure as an intangible asset and amortise it over its useful life.
- If projects do not proceed or are abandoned, associated investigation or business case costs must be expensed.
- Spatial Plan and Structure plans may be capitalised from LTP 27 onwards as it has been identified that they create enduring technical or strategic information assets that provide future service potential over multiple years.

3.8 INVESTIGATION COSTS

- Only expenditure that will directly result in the acquisition or construction of an asset can be capitalised. If it is uncertain that an asset will result from the expenditure, then that expenditure must be treated as operational expenditure.
- On an annual basis, items that have been treated as capital investigation costs must be reviewed to ensure that an asset will result from that expenditure. If a decision is made not to proceed with the acquisition or construction of an asset for which investigative costs have been incurred, then the total amount of that expenditure must be written off as operational expenditure.
- Investigative expenditure includes resource consent costs, and these costs should be apportioned across the various components of the primary asset.
- Investigative costs can be held in WIP for 2 years, but they then need to be expensed if there is not certainty about the project proceeding. If it can be deemed at an earlier date that the project will not be certain by the end of year 2 then this expenditure is to be expensed at that earlier date.

3.9 ASSET OPERATIONAL EXPENDITURE (OPEX)

Expenditure incurred in the active processes of utilising an asset or asset network which will consume resources such as manpower, energy, chemicals and materials.

3.10 MAINTENANCE

- All actions necessary for retaining an asset as near as practicable to its original condition but excluding rehabilitation or renewal.
- Maintenance allows an asset to reach its planned useful life therefore slows down deterioration or delays when rehabilitation or replacement is necessary
- Failure to maintain an asset results in the accelerated deterioration of the service potential of the asset and impacts to reduce the planned useful life of the asset.
- To assist in good asset management practice maintenance expenditure should be allocated into planned and unplanned expenditure categories:

(a) Planned or Routine Repairs & Maintenance (OPEX)

- Planned activities enhance the life of an asset, slowing down asset deterioration and delaying the time for asset renewal” (IIMM)
- Routine and repetitive maintenance tasks on grounds, buildings, plant, equipment, furniture & fittings which only maintains the productive capacity and quality of an asset. i.e. will bring an asset back to an acceptable state. Examples include servicing of an air-conditioning unit, annual maintenance of a lift and servicing of fire extinguishers.
- Planned maintenance can be described as one of three activities:
 - (i) Periodic (scheduled) - necessary to ensure the reliability or to sustain the design life of an asset.
 - (ii) Predictive (proactive) - condition monitoring activities used to predict failure
 - (iii) Preventive (programmed) - maintenance that can be initiated without routine or continuous checking (e.g. using information contained in maintenance manuals or manufacturers’ recommendations) and is not condition based.

(b) Unplanned or One-off Repairs & Maintenance

- “Corrective work required in the short term to restore an asset to working condition so that it can continue to deliver the required level of service or maintain its level of security and integrity” (IIMM)
- Previously called reactive, corrective maintenance.
- One-off maintenance to correct an existing defect on grounds, buildings, plant, equipment, furniture & fittings which only maintains the productive capacity and quality of an asset. i.e. will bring an asset back to an acceptable state but will not enhance the functionality of the asset. Examples include painting of an office, repairing broken tiles or replacement of light shades.

3.11 USEFUL LIFE

Useful life is the length of time that an asset (or component) will provide economic benefit to the entity and can be measured either:

- a) the period over which an asset or component is expected to be available for use by an entity; or
- b) the number of production or similar units expected to be obtained from the asset or component by the entity.

The range of all useful lives are contained in Council’s Accounting policies.

For useful life indications which are utilised by QLDC, please see Appendix 4.

3.12 GROUP ASSETS

Assets that by themselves do not meet the capitalisation criteria (example they too low in value) but as part of a cohesive whole do. E.g. library books, water meters or office furniture.

3.13 CONTROL BY QLDC

For an asset to be accounted for as a QLDC asset the asset needs to be controlled by QLDC. QLDC would need the ability to restrict access to the future economic benefits or service potential.

Community Group Contributions

Contributions, grants or funding provided to community organisations, charitable trusts, sports clubs, recycling entities or other third parties for the construction or improvement of assets that will not ultimately be owned or controlled by QLDC should generally not be capitalised by Council.

These costs are generally more appropriately budgeted and accounted for as grants, waste minimisation expenditure, recycling costs, or other operational expenditure categories because QLDC does not control the future economic benefits or service potential of the underlying asset

4 PRINCIPLES

Ultimately QLDC's financials need to be 'true and fair' from an accounting standards perspective. It is essential that opex is accounted for as opex and capex is accounted for as capex. Apart from a true and fair view, there are other implications:

- Balanced budget assessment from either a DIA (Department of Internal Affairs) or LGA (Local Government Authority) perspective looks at councils achieving a net surplus. If real opex is being accounted for as capex for QLDC then this would distort the balanced budget view.
- If capex is higher than it should be then this ultimately increases depreciation expense because the cost being depreciated is inflated. It also then distorts the number of renewals that need to be planned for in future LTPs and annual plans.
- If opex is not accounted for accurately, especially the cost of operating the infrastructure and maintaining it, then it is difficult to assess the true cost of operating and maintaining the assets and then correctly budget for that opex in the future and justify that budget.

This policy, guidance and the attached decision trees assist in deciding how to account for expenditure i.e. whether it is capital or operating.

5 OBJECTIVES

That Queenstown Lakes District Council (QLDC) will ensure that assets are recognised and recorded in a fair, consistent and transparent manner and in accordance with the Local Government Act, applicable accounting standards and good business practice.

6 POLICY

6.1 INTRODUCTION

This policy is based on the current accounting standard (PBE IPSAS 17²) and IIMM (International Infrastructure Management Manual³) and is intended to provide a guide as the correct treatment of expenditure relating to assets.

The accounting standard (PBE IPSAS 17) states that an item of expenditure can be treated as capital if, and only if:

² Public Benefit Equity International Public Sector Accounting Standard no 17

³ Produced by New Zealand National Asset Management Support Group (NAMS Limited) Institute of Public Works Engineering Australia (IPWEA)

- (a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- (b) The cost or fair value of the item can be measured reliably.

Therefore, there are two types of expenditure:

- Capital expenditure and this is where expenditure is going to provide benefit to the Council for more than one financial year.
- The other is operational expenditure where the expenditure is only generally of benefit for one financial year or less (or to ensure that existing assets reach their intended expiry date).

Capitalisation Guidance

6.2 ELEMENTS OF COST

The cost of an item of property, plant and equipment (PPE) comprises:

- (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- (b) 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.
- (c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The table below lists costs and examples that contribute to creating or renewing an asset.

Cost	Example
Creates an asset.	Construction of building.
Significantly increases the life of the asset.	Lining a stormwater pipe to increase its life.
Significantly increases the capacity of the asset.	Widening a road (or part thereof).
Enables future economic benefits.	Resource consent to allow stormwater to discharge water into the harbour.
Contributes directly to bringing the asset to working condition for its intended use.	Physical work. Survey, Design for approved capital expenditure, Site preparation, installation, and assembly costs

Contributes to the construction activity in general but can be allocated to a specific item.	Direct costs incurred, for example QLDC project management; professional fees, delivery, and handling costs; costs of testing asset functionality;
Contributes to subsequent activity after the asset has been constructed.	Rehabilitation of a bridge that adds to its capacity or extends its useful life.

6.3 STAFF COSTS CAN BE CAPITALISED

Staff costs (including project managers and team members) can be capitalised for time directly allocated to the projects during the business case, design and construction phases. There must be a robust system in place and supporting documentary evidence available. QLDC has a tiered system for charge rates which are reviewed annually to ensure the overheads associated with staff salaries and wages costs are allocated correctly. The Overhead Recovery Multiplier currently sits at an average of 2.3 (i.e. hourly rate x 2.3). The multiplier is reviewed annually by Finance Business Partners Manager to ensure a true reflection of overhead costs are apportioned.

6.4 BORROWING COSTS

While this is permissible by the accounting standards QLDC does not capitalise borrowing costs.

6.5 COSTS THAT MUST NOT BE CAPITALISED:

Per FRS-3 ACCOUNTING FOR PROPERTY, PLANT AND EQUIPMENT, the cost of an item of property, plant and equipment does not include expenditure incurred in deciding whether the item should be acquired or constructed; for example, feasibility costs or the costs incurred in evaluating a number of proposals for acquisition or construction. Such amounts are pre-acquisition costs and are never capitalised because they are not directly attributable to bringing the item to working condition for its intended use.

- (a) Feasibility studies, option assessments and investigations undertaken to determine whether a project should proceed, where no asset is ultimately constructed or acquired. Note: feasibility studies and preliminary investigations undertaken as part of a specific capital project may be capitalised as part of the cost of the related physical asset, provided the project proceeds to delivery and the expenditure is directly attributable to bringing the asset to the location and condition necessary for its intended use. Where a project does not proceed, these costs will be expensed in the period incurred. Feasibility studies are not recognised as standalone intangible assets.
- (b) Evaluating alternative proposals
- (c) Community consultation

Note: If (a) – (d) are part of a consent then they can be capitalised.

- (d) Physically relocating an asset
- (e) Costs relating to projects that are cancelled
- (f) Professional fees relating to disputes

- (g) Disposal or removal costs of an asset that is abandoned or being replaced. (exceptions may apply here, e.g. land purchased with the intention of removing an old building or structure)
- (h) Costs of opening a new facility
- (i) Costs of advertising and promotional activities
- (j) Administration and general overheads

Investigation costs for uncertain projects cannot be capitalised – although they can be parked in WIP for a maximum of 2 years.

6.6 MINIMUM COST (CAPITALISATION THRESHOLD)

It is inefficient to capitalise many small value assets to the asset register. As a rule of thumb infrastructure assets with a value of less than \$1,000GST Exclusive do not need to be capitalised. However, Asset managers may need assets recorded in the asset register for work order or other business purposes.

6.7 COMPONENTISATION

Assets should be broken down into further asset components when capitalising assets where appropriate.

RULES:

- Each component can have a different useful life. The level at which an asset is broken down into its components for asset accounting purposes is determined by the expected timing of the replacement (useful life) of each different component.
- The number of components decided on must be at a level that is practical and beneficial to account for. Minimum component being no less than \$1,000 GST Exclusive.

For example, a building could be split into components of Roof – 28 years, exterior 80 years.

To replace part of an asset e.g. an impellor for a pump and not have it treated as maintenance but instead as a renewal then the asset has to be recorded in the AMS in separate components. This can be done retrospectively if deemed to be appropriate by the asset manager. Prior to retrospective componentisation taking place, a proper understanding of the financial implications must be obtained.

Example:

If an existing UV system is currently recorded as a single asset in the Asset Management System (AMS) (e.g. TechOne), and the replacement of a bank of UV tubes is required to be capitalised, then the UV system may be amended in the AMS to provide the degree of asset componentisation to allow the capitalisation.

Note: Amending the valuation record of the existing asset must be undertaken in conjunction with the Finance Department to ensure that an appropriate audit trail is maintained.

6.8 GROUP ASSETS

Where items meet the definition of an asset but not the threshold (see Reference Appendix two) they can be capitalised if purchased as part of a group. For example, security doors for pensioner housing villages or insulation placement.

6.9 DONATED ASSETS

Where items are donated to Council at zero cost (e.g. public artwork) the assets are valued at fair value based on a market price. Where fair value cannot be easily measured (or the cost of obtaining the fair value accounts for a significant portion of the future economic benefit received), the assets are held at zero cost.

6.10 VESTED ASSETS

Assets that are transferred to QLDC at nominal or zero cost are valued at fair value using rates from the latest revaluation.

6.11 FOUND ASSETS

Assets that are found and have never been previously recorded must be valued at fair value at the time the asset is found. The fair value will be recognised as income in the year the asset is found. Fair value for infrastructure assets where there is no reliable market may be estimated using depreciated replacement cost. (IPSAS 17 para 47) There should not be any extra depreciation impact with found assets. Asset will be recorded in the asset system with their residual life.

6.12 PROJECT COMPLETION

When a capital project is complete, or the asset is in use, then all costs in WIP must be transferred to the account of the new asset. This must be done within three months of completion⁴. Finance should be notified by the department responsible for managing a capex project as soon as a project is complete.

- Retentions: Retentions are payments for a product or service which are withheld until a specified condition is complete. E.g. Council may withhold a percentage of payment until the replacement of water meters are successfully installed and operational. Any retentions must be accrued to include in the capitalised cost of the asset.
- To avoid delays with project capitalisation, final costs to complete or expected defects liability costs can be accrued as at the capitalisation date of practical completion.
- Contributions to capital costs: All development contributions, subsidies or donations must be recorded as revenue and not netted off against the cost of the asset. For example, any money received from NZTA for a Roading Capex project should be allocated to the capital subsidy account (revenue) and not deducted from the cost of the road.
- Building or Resource consents: All consents should be finalised before assets are completed and ready for use. These costs can be capitalised.

6.13 CLASS OF ASSETS

Queenstown Lakes District Council has the following class of assets within PPE:

- Operational Assets: Includes assets used for operations of Council Land, buildings, campgrounds, computer hardware, furniture and fittings, office equipment, plant and machinery, motor vehicles, library collections and foreshore structures.
- Council restricted assets: Restricted assets are owned by Council but cannot be disposed of because of legal or other restrictions. Such as heritage assets (mainly artwork) and reserve land.

⁴ Under rare circumstances material works on a capital project will be undertaken after the project is complete and the assets are in use. This is only likely to occur in large/complex projects and in these circumstances both the works to be undertaken following completion, and the timing for documentation required to capitalise (i.e. as-builts and asset value schedules), must be specified in contract documentation.

- **Council Infrastructure Assets:** Infrastructure assets are asset systems or networks that serve communities and are intended to be maintained indefinitely to a specified level of service by the continuing maintenance and replacement of components. Vested infrastructural assets are constructed by developers and vested in Council upon completion of the development. Infrastructure assets are used in the following activities: Roading, Solid Waste, Wastewater, Water Supply, Storm water, Parks and Library.
- **Investment Properties:** Council owns a number of investment properties from which commercial rent is derived.
- **Intangible Assets:** Includes computer software, master planning, modelling, and asset management Systems,
- **Assets held for sale:** Non-current assets that have been authorised for sale and expected to sell within one financial year, such as investment property or land. To be classified as an 'asset held for sale' they need to be actively marketed or under a sale & purchase agreement

6.14 CAPEX VS OPERATING EXPENDITURE – FURTHER DESCRIPTION

Operating Expenditure (Opex)

- Regular day to day work, which is necessary to keep assets operating, including instances where portions of the asset fail and need immediate repair to make them operational again.
- Regular and ongoing annual expenditure necessary to keep the assets at their required service potential.
- Day to day general upkeep works designed to keep the assets operating at the required service potential.
- Work to operate the asset as intended
- Work which provides for normal care of and attention to the asset including programmed repairs and minor replacements.
- Unplanned (reactive) maintenance i.e. isolated very low-cost failures requiring immediate repair to make the asset operational again.

Capital Expenditure (Capex)

- Expenditure to create or acquire new physical assets or to increase the capacity or life of existing assets beyond their most recently assessed design capacity or service potential.
- Expenditure which purchases or creates a new asset or in any way improves an asset beyond its original design capacity.
- Upgrading works which increase the capacity of the asset.
- Construction works designed to produce an improvement in the standard and operation of the asset beyond its present capacity.
- In the case of infrastructure, an asset is generally a physical component of a facility which has value, enables services to be provided and has an economic life of greater than 12 months.
- Renewal expenditure is capital work that may not increase the assets design capacity but replaces or renews it. These items can be capitalised.

6.15 CAPITALISATION THRESHOLDS

The following table provides guidance when determining whether expenditure is both capital and material in nature.

Asset Type	Operating expenditure (maintenance) (GST Exclusive)	Capital (GST Exclusive)

Fleet and Plant Assets	Expenditure <\$1,000 for individual assets or assets that cannot be easily grouped.	Expenditure >\$1,000 for individual assets, or assets that can be easily grouped.
Office Furniture and Equipment	Asset purchases <\$500.	Asset purchases >\$500
Information Technology	Expenditure <\$1,000 for Individual assets or assets that cannot be easily grouped.	Expenditure >=\$1,000 for individual assets, or assets that can be easily grouped.
Research, Design and Project Management Costs	All research, design and project management costs incurred on projects which have not proceeded.	Subject to the tests of IPSAS 21 Impairment of non-cash generating assets.
Land & Reserves	All maintenance of landscaping structures Renewal of mulch and garden beds Plants and Trees (unless part of an extensive improvement project) All maintenance to existing park furniture.	Pavers and concrete paths Irrigation All new park furniture. Replacement of existing park furniture Playground equipment, retaining wall, bridges, signs, fences.
Sporting Ovals and Playing Courts	Line Marking Lawn mowing Light tower bulb replacements.	Major Earthworks Court construction and resurfacing Light tower construction and replacement.
Playground Equipment	All maintenance to existing playground equipment.	All new playground equipment Replacement of playground equipment.
Library Collection	Magazines, Newspapers and periodicals. Annual subscriptions.	Library Books, Video's,

		CD's and other permanent additions to the library collection.
District Promotions & Tourism	Website development, advertising, annual subscriptions/licenses. Purchases <\$1,000	Additions to clock collection Purchases >\$1,000
Buildings	All maintenance of building components	Any structural addition to the buildings >\$5,000 Repairs/renewal of building components.
Water, Storm water and Waste Management Systems	Minor repairs, planned and unplanned maintenance.	Expenditure >\$1,000 for individual assets, or assets that can be easily grouped Pipe and structure replacement New pipes and structures New wetlands Purchase or replacement of Pump and Bore equipment.

6.16 SPECIFIC RULES FOR UNIQUE ASSETS OR SPECIFIC ACTIVITIES

Information Services

Computer software licences are capitalised based on the costs incurred to acquire and install the specific software. These costs are amortised using the straight-line method over their estimated useful lives (usually three to five years).

Costs associated with maintaining computer software programmes (such as annual support and maintenance costs) are recognised as an expense.

Costs directly associated with the development of identifiable and unique software products controlled by Council, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets (e.g. software development employee costs).

Costs directly associated with digitisation of records may be capitalised provided that the project adds significant service potential to the records (e.g. by stripping the data and creating a searchable digital information asset).

Computer software development costs recognised as assets are amortised using the straight-line method over their estimated useful lives.

Costs associated with the initial development of network models and master plans may be capitalised. Costs associated with the on-going maintenance of and improvements to the models shall be recognised as an expense.

Costs associated with the initial implementation of SCADA system may be capitalised. Costs associated with the on-going maintenance of and improvements to the system shall be recognised as an expense.

Mice, keyboards and ancillary devices such as cords and connections are considered operating expenditure

Group assets less than \$1,000 GST Exclusive can be capitalised such as monitor and terminal assets.

Waste and Drainage

Oxidation or Wetland Pond desludging is considered OPEX. Works to increase size or operational capacity of these types of ponds can be capitalised.

Soft engineering solutions such as use of ecological principles to provide infrastructure, such as wetlands and raingardens used to filter Stormwater can be capitalised when initially created. Replacement of plants, rodent control and de-silting are opex costs.

Work on private land – is not capitalised but remains part of the Stormwater network

New Catchment management plans can be capitalised as intangible assets, revisions would be opex.

Filter membranes within filters may be capitalised.

Contributions to community groups for waste minimisation activities should be expensed unless it contributes to assets that QLDC owns or maintains control of.

A business case for waste minimisation activities can be capitalised as an intangible asset (which amortises over 5 years).

3 Waters

3 Waters assets are broken down into specific components relative to their useful lives

UV lamps and ballasts for Water are consumable, not capitalised as these are used continuously and replaced regularly (often less than 1-2 years or every)

Filter media greater than 1m³ can be capitalised provided it is a complete replacement of the media. Any top ups to existing filter media are considered OPEX.

Network models and SCADA belong to the Infrastructure Asset Management team. Models, masterplans, catchment management plans and asset management plans can be capitalised as intangible assets which amortise over 5 years.

Buildings – are specific to water sites

Resource consents can be capitalised as part of an asset if the consent has life expectancy and is required for operational purposes. Resource consents can also be capitalised just as a consent.

Parks

Street tree and gardens renewals should be expensed. Planting can be capitalised if part of an extensive improvement project.

Planting as part of another asset when required by resource consent can be capitalised as part of the wider asset, not an asset in themselves. E.g. Planting around the sewer pump station for aesthetic or consent requirement is capitalised initially as part of the sewer pump station.

Community grants or contributions towards playgrounds, recycling facilities, club buildings, community gardens or other assets owned by third parties are generally OPEX and should be treated as grants or operational programme expenditure unless the asset is vested in or controlled by QLDC.

Sports fields – Turf, and any turf operating assets such as irrigation / drainage increases the value of the land and should be capitalised as a separate asset

For the initial creation of a new park or public open space the cost incurred to create the park is to be capitalised as a separate asset. Any subsequent expenditure to replace, repair the park or open space is to be expensed immediately.

Track renewals can be capitalised provided the section renewed is separately componentised.

Unsealed carparks can be capitalised.

Asset management plans can be capitalised to an intangible asset which amortises over 5 years.

Property

Property assets are typically grouped into Buildings, Other improvements, Plant & equipment, Fixtures & Fittings and Land asset categories.

Pensioner housing property is currently valued at cost less accumulated depreciation so any significant improvement such as painting the entire precinct is capitalised.

Items over \$1,000 GST Exclusive should be capitalised, this includes group assets such as security doors.

Commercial property is treated under PBE IPSAS 16 – Investment Property and is re-valued annually. Any capital works during the year will be absorbed into the revalued amount. Any capital expenditure in excess of the increased valuation will be expensed in the same financial year.

Roading

Assets where the standard replacement cost does not recognise the full value of the asset (review at time of revaluation).

Streetlighting – LED lightbulbs associated with streetlighting may be capitalised.

Costs for removing dangerous trees should be expensed.

In some cases, a business case itself creates an enduring strategic asset independent of whether construction immediately occurs. Examples include network-wide investment strategies, region-wide transport optimisation studies, or digital transformation roadmaps. Network models, masterplans, parking management plans and asset management plans can be capitalised to an intangible asset which amortises over 5 years.

A business case for waste minimisation activities can be capitalised as an intangible asset (which amortises over 5 years). Where a business case is directly attributable to a physical capital project that proceeds to construction, the costs can be capitalised into the final asset cost. This includes feasibility studies, detailed business cases, and design work directly linked to creating a physical asset.

Where the output has ongoing future use and supports decision-making over multiple years, Council may capitalise the expenditure as an intangible asset and amortise it over its useful life.

Speed management plans and bylaws should be categorised as OPEX (these are more governance/policy in nature).

If the project is abandoned, costs are generally expensed.

6.17 USEFUL LIFE / DEPRECIATION RATE TABLES

3 Waters Assets are capitalised down to a component level each with different useful lives. The following table shows the useful life used for 3 waters Network (underground) Assets. Note 3 Waters depreciation rates for Facility (above ground) Assets are determined at the time of construction and vary depending on the specific manufacturer specifications.

Pipe	Assumed TUL (Total
Polyvinyl Chloride	80
Steel	80
U Polyvinyl Chloride	80
Asbestos Cement	60
Polyethylene (High Density)	80
Cast Iron	80
Concrete	80
M Polyvinyl Chloride	80
Polyethylene (Medium Density)	80
Earthenware	80
Concrete Lined Steel	80
UPVC STRUCTURAL LINER	80
unknown	60
to be determined	60
not applicable	60
Drain Coil	50
Fibreglass	40
Polyvinyl Chloride (Orientated)	80
Polypropylene	80
Ductile Iron	80
Stainless Steel	80
Concrete Lined Ductile Iron	80
Alkathene	80
Galvanised Iron	80
Copper	60
Spiral Riveted Steel	80
Non-Pipe Assets	

Waterservices Meter	20
Waterservices Hydrant	70
Waterservices Backflow	20
Waterservices Valve	30
Wastewater Manhole	80
Wastewater Meter - Flow	20
Wastewater Meter- Other	15
Wastewater Meter- Comm	15
Wastewater Valve	30
Stormwater Inlet	50
Stormwater Manhole	80
swInlet Other	50
swInlet Bubble	50
swInlet Mudtank	50
swInlet Soakpit	50
ww/swManhole Standard	80
ww/swManhole Junction	80
ww/swManhole Lamphole	80
swStructure Other	50
swStructure Intake	50
swStructure Mudtank	50
swStructure Outlet	50
swTreatmentDevice Other	25
swTreatmentDevice Detention Basin	50
swTreatmentDevice Detention Chamber	50
swTreatmentDevice Detention Pond	50
swTreatmentDevice Mudtank	50
swTreatmentDevice Rain Garden	50
swTreatmentDevice Soakpit	25
swStorageBasin Other	25
swStorageBasin Detention Basin	50
swStorageBasin Detention Chamber	50
swStorageBasin Detention Pond	50
swStorageBasin Mudtank	50
swStorageBasin Rain Garden	50
swStorageBasin Soakpit	25
swStorageBasin Floodbank	999
Stormwater Valve	30

Roading assets are grouped into the following categories at capitalisation split into Wanaka or Queenstown:

- Description:
 - Land
 - Formation
 - Subbase
 - Basecourse
 - Surfacing
 - Barriers
 - Bridges / Minor Structures
 - Drainage
 - Footpaths
 - Signs / Traffic Facilities
 - Street Lighting

Depreciation / useful lives are determined through the revaluation process. This includes identifying the:

Replacement cost – the cost of replacing an asset with an appropriate equivalent asset

Depreciated replacement cost – the replacement cost after deducting an allowance for wear or consumption to reflect the remaining economic life of an existing asset

Annual depreciation – the measure of annual consumption of the economic benefits embodied in an asset whether arising from use, the passing of time, or obsolescence.

The useful life is the annual depreciation divided by the depreciated replacement cost.

Other Assets are grouped into the following categories at a cost centre level:

Asset Type	Useful Life in Years	Depreciation Rate %
Buildings	50	2.00
Other Improvements	30	3.33
Foreshore Structures	30	3.33
Furniture & Fittings	10	10.00
Library Collections	10	10.00
Motor Vehicles	10	10.00
Plant & Machinery	10	10.00
Computer Software	5	20.00
Computer Hardware	4	25.00
Street Sweeper	4	25.00
Development Property	0	-
Investment Property	0	-
Land	0	-

7 RELEVANT LEGISLATION

This policy applies to all property, plant and equipment and some intangible assets. The Local Government Act 2002 (reprint Dec 2014) requires QLDC to prepare financial information in accordance with generally accepted accounting practice (GAAP, p6, s111).

7.1 RELEVANT ACCOUNTING STANDARDS

The relevant accounting standards are the Public Benefit Entities (PBE), International Public Sector Accounting Standards (IPSAS):

- PBE IPSAS 17 – Property, Plant and Equipment
- PBE IPSAS 1 – Presentation of Financial Statements
- PBE IPSAS 3 – Accounting policies, changes in accounting estimates and errors
- PBE IPSAS 21 – Impairment of non-cash generating assets
- PBE IPSAS 31 – Intangible Assets
- PBE NZIFRS 5 – Non-Current Assets held for sale and Discontinued Operations

8 ROLES AND RESPONSIBILITIES

POSITION	RESPONSIBILITIES
Financial Business Partner Manager	Monitoring the policy to ensure up to date information is captured within
Financial Controller	Policy owner
ELT	Authoriser

9 POLICY HISTORY

A Capitalisation Policy has been applied in practice within the finance function since 2018. During this period, it has guided the classification and treatment of expenditure between operating and capital categories.

10 MONITORING AND REVIEW

This policy is to be adopted as an operational policy by Council's Executive Leadership Team. After initial adoption, the policy is to be reviewed annually. Amendments to the appendices may be made as and when new items are dealt with.