

POLICY



CENTRAL TABLELANDS WATER

ASSET CAPITALISATION POLICY

DOCUMENT CONTROL

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Purpose

The purpose of this Asset Capitalisation Policy is to establish a consistent and transparent framework for the recognition, measurement, and capitalisation of assets at Central Tablelands Water.

This policy ensures that:

- Capital expenditure is recorded accurately and consistently.
- Assets are recognised in accordance with applicable Australian Accounting Standards.
- Financial statements present a true and fair view of Central Tablelands Water's asset base.
- Asset-related decisions support effective asset management and long-term financial sustainability.

The policy provides guidance to management and staff on determining whether expenditure should be recorded onto council's balance sheet (capitalised) or expensed and supports compliance with internal governance requirements, audit expectations, and regulatory obligations.

Scope

This Asset Capitalisation Policy applies to all assets owned, controlled, or managed by Central Tablelands Water that meet the definition of an asset under applicable Australian Accounting Standards.

The policy applies to:

- Newly acquired assets
- Assets constructed or developed internally
- Renewals, replacements, and upgrades of existing assets
- Assets contributed to Central Tablelands Water by developers or other external parties.

The policy covers the following asset classes:

- Water supply infrastructure assets, including dams, reservoirs, water treatment plants, pump stations, pipelines, and associated network assets
- Land, buildings, and structures
- Plant, vehicles, and equipment
- Information and communication technology assets
- Intangible assets, including software.

This policy does not apply to:

- Inventories and consumable items
- Routine maintenance and repair activities
- Operating expenditure that does not result in the creation or enhancement of an asset
- Assets held for sale.

Legislative and Accounting Framework

This Asset Capitalisation Policy has been developed to ensure compliance with relevant legislative requirements, accounting standards, and authoritative guidance applicable to Central Tablelands Water.

The policy is prepared in accordance with:

- **Australian Accounting Standards**, including:
 - *AASB 116 Property, Plant and Equipment*
 - *AASB 138 Intangible Assets*
 - *AASB 13 Fair Value Measurement*
 - *AASB 123 Borrowing Costs*, where applicable.
- applicable NSW Government policies and guidelines relevant to public sector and local water utility financial reporting.

- relevant Australian Auditing Standards and better practice guidance issued by oversight and regulatory bodies.

Where there is a conflict between this policy and legislative or accounting requirements, the relevant legislation or accounting standard shall prevail.

Definitions

Term	Definition
Asset	A resource controlled by Central Tablelands Water as a result of past events from which future economic benefits or service potential are expected to flow.
Capital Expenditure (CapEx)	Expenditure incurred in acquiring, constructing, or enhancing an asset that results in an increase in future economic benefits or service potential beyond that originally assessed.
Capitalisation	The process of recognising expenditure as an asset on the statement of financial position rather than expensing it in the period incurred.
Component	A separately identifiable part of an asset that has a different useful life or pattern of consumption of benefits compared to the main asset.
Fair Value	The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.
Internally Constructed Asset	An asset that is constructed or developed by Central Tablelands Water using its own employees, contractors, or a combination of both.
Maintenance	Expenditure incurred to restore an asset to its originally assessed condition or service capacity without extending its useful life or enhancing its service potential.
Operating Expenditure (OpEx)	Expenditure incurred in the normal course of operations that does not result in the acquisition, construction, or enhancement of an asset.
Renewal	Expenditure that replaces an existing asset or asset component and restores service potential to its originally assessed level.
Upgrade	Expenditure that results in a measurable increase in an asset's capacity, efficiency, quality of output, or useful life beyond that originally assessed.
Useful Life	The period over which an asset is expected to be available for use by Central Tablelands Water.
Work in Progress (WIP)	Capital expenditure incurred on assets that are not yet ready for their intended use and have not been commissioned.

Asset Recognition Criteria

Expenditure shall be recognised as an asset by Central Tablelands Water when **all** the following criteria are met:

- 1. Control**
Central Tablelands Water controls the asset as a result of past events and has the ability to obtain the future economic benefits or service potential arising from the asset.
- 2. Future Economic Benefits or Service Potential**
It is probable that the asset will provide future economic benefits or service potential to Central Tablelands Water through the provision of potable water services.
- 3. Reliable Measurement**
The cost of the asset can be measured reliably, either through direct purchase costs or through reliable estimation for internally constructed assets.
- 4. Capital Nature of Expenditure**
The expenditure results in the acquisition, construction, renewal, or enhancement of an asset, rather than the maintenance of existing service potential.

Expenditure that does not meet all the above criteria shall be recognised as operating expenditure in the period in which it is incurred.

Asset Eligible for Capitalisation

Expenditure shall be capitalised where it meets the recognition criteria outlined in Section “Asset Recognition Criteria”. This includes expenditure that creates new assets, replaces or enhances existing assets, or involves assets contributed by third parties. The following table summarises the types of assets that are eligible for capitalisation at Central Tablelands Water and the corresponding criteria

Asset Type	Capitalisation Criteria
New Assets	Expenditure incurred in the acquisition or construction of new assets that provide potable water services or support the delivery of those services.
Asset Renewals and Replacements	Expenditure incurred to replace an existing asset or an identifiable asset component where the replacement restores or improves the asset’s service potential. The carrying amount of the replaced asset or component shall be derecognised.
Asset Upgrades and Enhancements	Expenditure that results in an increase in service capacity, improved efficiency or performance, enhanced quality of output, or an extension of the asset’s useful life beyond that originally assessed.
Internally Constructed Assets	Assets constructed or developed internally by Central Tablelands Water, provided the expenditure is directly attributable to bringing the asset to the condition necessary for its intended use.
Developer-Contributed Assets	Assets contributed by developers or other external parties at no or nominal cost, recognised at fair value at the date control is obtained, provided the asset meets the recognition criteria.

Capitalisation Thresholds

Expenditure on assets shall be capitalised only when the cost of acquisition or construction exceeds the capitalisation thresholds set out below and meets the recognition criteria in Section 5. Expenditure below the thresholds shall be expensed unless it forms part of a larger asset group or network that collectively exceeds the capitalisation threshold.

Asset Category	Capitalisation Threshold (GST Exclusive)
Land	All land is capitalised
Water Supply Infrastructure Assets (pipelines, pump stations, reservoirs, treatment works)	\$5,000
Buildings and Structures	\$10,000
Plant and Equipment	\$5,000
IT Hardware	\$5,000
Office Equipment	\$5,000
Furniture and Fittings	\$10,000
Intangible Assets (including Software)	\$10,000
Other Structures and Improvements	\$5,000

GROUPED AND NETWORK ASSETS

Where individual items do not exceed their respective thresholds but are acquired or constructed as part of a single project, functional network, or interdependent system that collectively exceeds the relevant threshold, the total cost shall be capitalised and allocated to appropriate asset classes. Aggregation must reflect a genuine single project or interdependent system.

REVIEW OF THRESHOLDS

Capitalisation thresholds shall be reviewed at least every **three years** or earlier if there is a significant change in:

- Construction and acquisition costs
- Asset valuations and financial reporting outcomes
- Changes in accounting standards or audit requirements.

Any adjustment to thresholds must be approved by the Executive Management Accountant and recorded through the policy review process.

Cost to be Capitalised

Central Tablelands Water shall capitalise expenditure that is directly attributable to acquiring, constructing, or bringing an asset to the condition necessary for its intended use, provided it meets the asset recognition criteria in Section "Assets Eligible for Capitalisation" and exceeds the thresholds set in Section "Capitalisation Thresholds".

Capitalisable costs may include, but are not limited to:

Cost Type	Description
Purchase or Construction Costs	The purchase price or construction cost of the asset, including materials, labour, and contractor fees.
Directly Attributable Employee Costs	Salaries and wages of staff directly engaged in the acquisition, construction, or installation of the asset.
Professional Fees	Engineering, survey, design, project management, and legal fees directly related to the asset.
Site Preparation	Costs necessary to prepare the site for construction or installation of the asset, including earthworks, fencing, and excavation.
Transportation and Installation	Delivery, handling, and installation costs required to make the asset operational.
Borrowing Costs	Interest and other financing costs incurred during the construction period of qualifying assets, in accordance with AASB 123.
Testing and Commissioning Costs	Costs necessary to bring the asset to a condition in which it can operate as intended.
Asset Retirement Obligation Costs	Initial present value estimated costs for any dismantling, decommissioning, removal, rehabilitation or restoration required at the end of the asset's life. A provision for remediation will also be established and updated each year.
Other Direct Costs	Any other expenditure directly attributable to bringing the asset into service, including customs duties, non-refundable taxes, borrowing costs and insurance during construction.

Note: Costs that are incidental or general overheads, including routine administration, staff training unrelated to asset creation, or general office expenses, must not be capitalised.

Cost to be Expensed

Expenditure that does not meet the asset recognition criteria in Section "Assets Eligible for Capitalisation" or falls below the capitalisation thresholds in Section "Capitalisation Thresholds" shall be recognised as operating expenditure in the period incurred.

Common examples of costs to be expensed include:

Cost Type	Description
Routine Maintenance and Repairs	Costs incurred to restore assets to their original condition or maintain ongoing service levels without enhancing capacity, efficiency, or useful life.
General Administration and Office Overheads	Salaries, utilities, and other overhead costs not directly attributable to asset creation.
Staff Training	Training and professional development unrelated to bringing a specific asset into use.
Feasibility Studies and Investigations	Preliminary studies, site investigations, or design concepts where no asset results from the expenditure.
Operating Consumables	Chemicals, fuel, small tools, and materials used in day-to-day operations.
Insurance and Other Ongoing Operational Costs	Regular insurance, licensing fees, and service contracts not directly related to asset creation.
Abnormal or Non-Recurring Losses	Costs associated with asset damage, theft, or write-offs unrelated to capital projects.

Note: If expenditure relates to a project that will result in an asset, costs incurred before the asset is ready for use that meet the capitalisation criteria should be recorded as Work in Progress (WIP) rather than expensed.

Asset Recognition Timing

Assets shall be recognised in the financial statements of Central Tablelands Water when all the following conditions are met:

1. The asset is under the control of Central Tablelands Water, and the organisation can obtain the future economic benefits or service potential from the asset.
2. The asset is complete and ready for its intended use, meaning it is capable of operating as designed and intended to deliver potable water services.
3. The expenditure meets the capitalisation criteria outlined in Section "Assets Eligible for Capitalisation" and exceeds the thresholds in Section "Capitalisation Thresholds".

Condition	Guidance
Control	Control is achieved when Central Tablelands Water has legal title, constructive control, or the right to use the asset.
Ready for Use	An asset is considered ready when all construction, installation, testing, and commissioning are complete. Ready for use exclude temporary or trial use. Assets in progress should be recorded as Work in Progress (WIP) until ready for use.
Threshold and Recognition Criteria Met	Capitalisation should only occur when the cost exceeds thresholds and meets recognition criteria. Partial or preliminary expenditure should remain as WIP.

Note: Assets shall not be recognised before they are ready for use, and costs incurred before this point should be recorded as WIP. Recognition should occur at the earlier of commissioning or first use for operational purposes.

Asset Componentisation and Useful Life

Central Tablelands Water applies **componentisation** to assets where major parts have different useful lives or consumption patterns. This ensures depreciation reflects actual service consumption and supports accurate planning for replacement or renewal.

KEY PRINCIPLES

Identification of Components

Significant parts of an asset with distinct useful lives or consumption patterns should be treated as separate components. Examples include pumps, motors, control systems, and structural elements of reservoirs or treatment plants.

Replacement of Components

When a component is replaced, the carrying amount of the old component is derecognised, and the new component is capitalised in line with the capitalisation criteria.

Depreciation Basis

Each component is depreciated separately over its estimated useful life using a method that reflects its service consumption.

Useful Life Assessment

Useful lives are determined using historical experience, manufacturer guidance, engineering assessments, and industry benchmarks. They must be reviewed periodically and updated as conditions change.

Asset Category	Typical Useful Life (Years)
Water Supply Pipelines	50–80
Pump Stations & Mechanical Equipment	15–40
Reservoirs & Tanks	50–80
Water Treatment Plant Infrastructure	25–50
Buildings and Structures	30–50
IT Hardware	3–5
Software	3–10

Work in Progress (WIP) Accounting

Expenditure on assets that is incurred before the asset is ready for use shall be recorded as Work in Progress (WIP). WIP ensures that costs are captured correctly and only capitalised once the asset meets the recognition criteria (Section 5) and thresholds (Section 7).

Key Principles

- WIP includes all directly attributable costs such as materials, labour, contractor fees, professional services, and site preparation.
- Borrowing costs incurred during construction of qualifying assets may also be included.
- WIP is not depreciated until the asset is complete and operational.
- When the asset is ready for use, the total WIP is transferred to the relevant asset class and depreciation begins.
- WIP balances are monitored monthly to ensure accurate financial reporting and project tracking.

Asset Valuation

Central Tablelands Water recognises assets at fair value or cost, in accordance with AASB 116 and AASB 13, depending on the nature and source of the asset. Asset valuation ensures that the carrying amounts in the financial statements reflect the current service potential and economic benefits of the assets.

Key Principles

Initial Recognition

- Assets acquired or constructed are initially recognised at cost, which includes all directly attributable costs necessary to bring the asset to its intended use.
- Developer-contributed or gifted assets are recognised at fair value at the date control is obtained.

Subsequent Measurement

- Water supply infrastructure and other non-current assets are generally measured at fair value, reflecting replacement cost less accumulated depreciation and impairment.
- Land is recognised at fair value and is not depreciated.
- Buildings, plant, and equipment are measured at fair value and depreciated over their useful lives.

Revaluation Frequency

- Fair value assessments are performed at least every five years, or earlier if there is evidence of significant changes in asset values.
- Interim indices may be applied to account for market movements or cost escalations between full valuations.

Impairment

- Assets and Work in Progress are reviewed annually for impairment, and adjustments are made where the carrying amount exceeds recoverable service potential.

Valuation Methods for CTW Assets

Asset Type	Typical Valuation Method
Land	Market-based fair value
Water Supply Infrastructure	Depreciated replacement cost
Buildings & Structures	Depreciated replacement cost or market value
Plant & Equipment	Depreciated replacement cost
Developer-Contributed Assets	Fair value at acquisition

Depreciation Policy

Central Tablelands Water recognises depreciation as the systematic allocation of an asset's cost or fair value over its useful life, reflecting the consumption of service potential. Depreciation ensures that financial statements provide a true and fair view of asset values and operating costs.

Key Principles

- **Commencement of Depreciation:** Depreciation begins when the asset is ready for use (, at which point WIP is transferred to the relevant asset class.
- **Component-Based Depreciation:** Significant components with differing useful lives are depreciated separately in line with Section 11.
- **Depreciation Method:** Assets are generally depreciated using the straight-line method, unless another method better reflects the pattern of consumption.
- **Review of Useful Lives:** Asset useful lives and depreciation methods are reviewed at least annually, or when there is evidence that the expected consumption of service potential has changed.
- **Residual Value:** Residual values are considered negligible for most water infrastructure assets but are assessed for each asset class as appropriate.

Revaluation and Impairment

Central Tablelands Water ensures that the carrying amount of assets reflects current service potential and economic benefits through regular revaluation and impairment assessment, maintaining reliable financial reporting and supporting asset management decisions.

Key Principles

Principle	Guidance
Revaluation of Assets	Assets measured at fair value are revalued at least every five years, or sooner if significant changes in value occur. Interim adjustments may use cost or price indices.
Impairment Assessment	Assets are reviewed each reporting period for impairment. A reduction in carrying amount is recognised if recoverable service potential is lower than carrying value. Indicators include damage, obsolescence, regulatory or environmental changes, or reduced demand.
Derecognition of Impaired Assets	Impaired or replaced components are derecognised, and any loss is recorded in the operating statement. Adjustments follow AASB 116 and AASB 13.

Asset Disposal and Derecognition

Central Tablelands Water ensures that assets no longer providing service potential are derecognised from the financial statements in a controlled and transparent manner. All disposals and derecognition activities are governed by the separate Asset Disposal Policy, which provides detailed guidance on approvals, documentation, and compliance requirements.

Key Principles

Principle	Guidance
Recognition of Disposal	Derecognition occurs when an asset is sold, decommissioned, destroyed, or replaced, with no remaining service potential. The process follows the Asset Disposal Policy.
Calculation of Gain or Loss	The difference between the net proceeds from disposal and the carrying amount is recognised as a gain or loss in the operating statement, in line with the Asset Disposal Policy.
Replacement of Components	When a component is replaced, the carrying amount of the old component is derecognised, and the new component is capitalised according to Sections 11 and 12.
Documentation and Approval	All disposals must be recorded in the asset register and approved according to the Asset Disposal Policy.
Regulatory and Environmental Compliance	Disposal activities must comply with relevant regulations, environmental standards, and public sector requirements, as detailed in the Asset Disposal Policy.

Review and Policy Governance

Central Tablelands Water ensures the Asset Capitalisation Policy remains current, consistent, and compliant with accounting standards and operational requirements.

Key Principles

Principle	Guidance
Review Frequency	Reviewed at least every three years or when accounting standards or operational practices change.
Responsibility	Executive Management Accountant, in consultation with Asset Management and Executive Teams.
Approval	Updates approved by the Board or delegated authority.
Communication & Training	Policy updates communicated to staff with training as needed.
Audit & Compliance	Policy application is subject to internal and external audit.

POLICY REVIEW

This policy will be reviewed every 4 years or more frequently if needed, with reference to any relevant legislation, best practice guides, or other related factors.

REFERENCES

- Local Government Act 1993 (NSW)
- Local Government (General) Regulation 2021 (NSW)
- Office of Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards (including AASB 116, AASB 13, and AASB 138)
- NSW Treasury guidelines for capitalisation of expenditure paper - TPP06-6
- Institute of Public Works Engineering Australasia (IPWEA) publication - Australian Infrastructure Financial Management Guidelines.