

# **Appendix Y**

## **Asset Maintenance, Renewal And Capital Expenditure Policy**

## OBJECTIVE

- To ensure expenditure is classified appropriately in accordance with generally accepted accounting practice.
- To provide an awareness to staff of different categories of expenditure on assets.
- To provide consistency with the asset management plans.
- To provide consistency with treatment of expenditure.

The policy provides guidance on the treatment of asset expenditure. The asset management plans (AMPs) are the documents that manage the assets and any guidance by this policy should be consistent with the AMPs.

## COVERAGE OF POLICY

A revaluation of the assets occurred at 1 July 1998. The capacity at that date is an appropriate starting point as the remaining useful life of the asset has been determined and the existing capacity is set. Asset expenditure from 1 July 1998 will be guided by this policy.

## DEFINITIONS

Asset expenditure can be deemed to fall into one of the following five categories:

**Table one:**

<b>Expenditure Type</b>	<b>Description</b>	<b>Treatment</b>
Operational	Activities which have no effect on asset condition but are necessary to keep the asset utilised appropriately (i.e. Power costs, overhead costs, etc.).	Operational (expense)
Maintenance	The ongoing day-to-day work required to keep assets operating at required service levels, i.e. Repairs and minor replacements.	Operational (expense)
Renewal	Significant work that restores or replaces an existing asset towards its original size, condition or capacity.	Capital (add to Fixed Asset Register)
New Work/Capital Expenditure	A new asset, works to create a new asset, or to upgrade or improve an existing asset beyond its original capacity or performance, in response to changes in usage, customer expectations, or anticipated future needs.	Capital (add to Fixed Asset Register)
Disposal	Any costs associated with the disposal of a decommissioned asset.	Operational (expense)

*(Source: International Infrastructure Management Manual April 2000)*

## APPLICATION RULES

Appropriate general ledger codes have been set up to facilitate the coding of operational/maintenance, renewal and capital expenditure.

In determining the classification of asset expenditure consideration should be made of:

- Service Potential  
 Service potential is the capacity that the system can produce from 1 July 1998. The key element in determining the expenditure classification of expenditure is the effect or change on the service potential of the asset or system.
  1. Where the service potential is restored to its original level, this constitutes renewal expenditure.
  2. Where the service potential increases above the current service potential, this constitutes capital expenditure.
- Thresholds
  1. The appropriate threshold for reviewing expenditure classification is at the component level e.g. Generally if expenditure does not constitute a component it should be considered maintenance. For information on the component levels refer to the individual asset component registers.
  2. Consider the materiality of the expenditure (in value and in substance). As guidance expenditure < \$700 should to be treated as maintenance expenditure. In most instances it is not practical to capitalise expenditure below this level.
- Review the expenditure classification table (table one)  
 Analyse the expenditure by the classification definitions listed in table one.
- Use the following specific examples and guidance for asset categories:

Description	Definition	Examples	Expense
<b>WATER</b>			
Reticulation	Pipes	Pipe repair, pipe replacement (less than a block/section)	Operational
		Pipe and valve replacement, renewal or new works(a block/section or more)	Capital
Reticulation	Hydrants, Valves, Meters, Connections	repair, replacement (less than a block/section)	Operational
		replacement, renewal or new works(a block/section or more)	Capital
Pump stations	Valves, Pumps, Pipes, Telemetry, Filters, Plant, Bores	Consider by component level whether repair, renewal or new works	Use application rules

Description	Definition	Examples	Expense
Treatment	Storage Tanks, Plant	Consider by component level whether repair, renewal or new works	Use application rules
<b>WASTEWATER</b>			
Reticulation	Pipes, connections, manholes	Pipe repair, pipe replacement (less than a block/section)  Pipe replacement, renewal or new works(a block/section or more)	Operational  Capital
Treatment Plant	Site works, equipment, tanks	Consider by component level whether repair, renewal or new works	Use application rules
Pump stations	Pumps, Valves, Control Chambers	Consider by component level whether repair, renewal or new works	Use application rules
<b>STORMWATER AND LAND DRAINAGE</b>			
Reticulation	Pipes, Cesspits, Inlets, Manholes, Outlets, Soakholes	Less than a section  Greater than a section	Operational  Capital
<b>BUILDINGS</b>			
Structures	Buildings	Repaint roof  Replace roofing iron, replace spouting  Replace tap in Superloo  Improve plumbing, replace all Superloo taps to improved taps	Consider application rule Operational (repair) Capital (renewal) Operational (minor replacement) capital (major replacement)