



TasNetworks Policy

Capitalisation Policy

2014-15

Overview of this Policy

TasNetworks will comply with the Australian Accounting Standards by ensuring capital expenditure is accounted for in a logical and cost-effective manner.

1. Introduction and Purpose

TasNetworks recognises that a failure to comply with the Australian Accounting Standards can have significant adverse impacts on its reputation and its shareholders.

The purpose of this policy is to ensure that capital expenditure is accounted for in a logical and cost-effective manner which is compliant with relevant Australian Accounting Standards.

2. Scope

This policy applies to all costs incurred in the replacement, alteration, construction and purchase of property, plant and equipment and intangible assets. The policy applies to both constructed and purchased assets.

3. Policy Revision

This Policy will be reviewed and endorsed annually or when there is a significant change to the business or external environment that impacts this Policy.

The General Manager Finance and Business Services in conjunction with the Leader Financial Analysis and Reporting can make administrative changes to the policy for matters such as minor organisation structure changes.

4. Repairs v Replacement / Refurbishment

The major difference between the two is that repairs involve day-to-day maintenance of an asset, aimed at restoring the asset to its original working condition. Repairs do not extend the useful life or increase the future economic benefit of an asset.

Refurbishment or replacements is expenditure that increases the estimated useful life of an asset, provides significant increase future economic benefits, increased capacity, improved efficiencies or economy of operations.

5. Policy Detail

5.1. Asset Recognition

The capitalisation threshold for assets is \$500, and all assets that meet this threshold together with targeted attractive assets are to be capitalised in accordance with Australian Accounting Standards.

An asset should be recognised in the statement of financial position when:

- It is probable that any future economic benefits associated with the item will flow to or from the entity; and
- The asset has a cost or value that can be measured with reliability.

5.2. Costs to be Capitalised

Costs of an item of property, plant and equipment (purchased or constructed) include:

- The purchase price;
- Import duties and non-refundable taxes (GST is excluded from the costs);
- Initial delivery and handling costs (including freight);
- Cost of site preparation;
- Installation and assembly costs;
- Professional fees (e.g. design, architectural and engineering);
- Cost of testing to bring the asset into service;
- Direct material costs;
- Direct labour attributable to bringing the asset to its working condition; and
- Overheads attributable to bringing the asset to its working condition as applied by TasNetworks Cost Allocation Methodology.

In addition to the above:

- Expenses incurred decommissioning an existing asset should not form part of the cost of a new asset, unless it forms an integral part of the site preparation costs required to install an asset at the same location; and
- Restoration costs should be included in the cost of the asset to the extent it is recognised as a provision under AASB 137 Provisions, Contingent Liabilities and Contingent Assets. Such costs should be significant, easily measured, specific to the asset and probable to occur at the end of the service life of the asset.

The following costs may not be capitalised as an asset:

- Costs of relocating or reorganising an asset or operation;
- Costs of opening a new facility, or conducting business in a new location (including the cost of training staff);
- Administration costs including establishing policies and procedures, hiring and redundancy costs, meal entertainment, celebration events and work related clothing;
- Costs of abnormal amounts of wasted material, labour, or other resources incurred in constructing an asset; and
- Costs of day-to-day servicing including labour and consumables, which may include the cost of small parts. This is often described as repairs and maintenance.

5.3. Commencement of Capitalisation

Capitalisation will usually commence once there is reasonable certainty of the project going ahead and economic benefits being realised. As a guide this may be the following:

Property Plant & Equipment

Capitalisation of projects will generally commence from when the functional requirement of the project has been approved.

Purchased assets (eg motor vehicle, PC) are capitalised when the invoice is paid.

Intangible Assets

Where there is expenditure incurred in creating an internally generated intangible asset, it needs to be determined whether the expenditure meets the definition of research and development expenditure as defined in AASB 138 Intangible Assets.

Capitalisation Policy

Research expenditure is not able to be capitalised. This includes the majority of expenditure prior to the initiation phase of a project. Expenditure incurred in creating a new asset is deemed to be development phase expenditure (compared with expenditure incurred in making the decision to create an asset, which is research expenditure). Any costs incurred prior to the point of the approval of the preferred function option are operational in nature.

5.4. Initial Spares

Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment (strategic spares) qualify as property, plant and equipment when it is expected their usage will extend for longer than one year.

5.5. Project Cancellation

In the event of a project being cancelled at any point prior to completion, all expenditure on that project will immediately be expensed. Rejection of a business case might suggest a project has been cancelled, however if the business case is re-submitted, then only that portion of the expenditure relating exclusively to the previous submission (if any) will be expensed. Expenditure attributable to the successful business case may be capitalised.

5.6. Work in Progress Reviews

Capital projects still in progress are regularly reviewed to ensure that they still comply with this capitalisation policy. Where expenditure no longer satisfies the criteria for being carried as an asset, it is to be expensed.

6. Key Stakeholder and Responsibilities

General Manager Finance and Business Services

The General Manager Finance and Business Services is responsible for approving this Policy.

Leader Finance, Analysis and Reporting

The Finance, Analysis and Reporting Leader is responsible for:

- Maintenance of this policy;
- Ensuring the establishment of relevant procedures, processes and electronic systems which enable TasNetworks to meet its obligations; and
- Managing compliance with this policy.

Financial Accounting and Tax Team

The Financial Accounting and Tax Team is responsible for:

- Developing and documenting relevant procedures and processes which assist TasNetworks to meet its obligations in a timely and accurate manner;
- Ensuring that management is adequately informed about its obligations so that they can appropriately address any significant issues in their day-to-day business decisions.
- The day-to-day application of this policy and administration of capitalisation matters across all areas of financial management;

Capitalisation Policy

- The maintenance of asset registers;
- Maintaining up-to-date skills by annual attendance at relevant training courses and updates; and
- Assisting with the development of this policy and enforcing day-to-day compliance.

Leaders, team members and contractors

Line managers, employees and contractors acting as TasNetworks agents are responsible for:

- Adherence to any directions and/or guidance relating to capitalisation matters as are deemed necessary for the effective and efficient operations of TasNetworks; and
- Adhering to this policy.

7. Whistle-blowing Statement

If an individual is concerned about consequences associated with reporting a serious breach of this Policy, that individual should refer to the Public Interest Disclosures (“Whistleblowers”) Policy and Procedures available on TasNetworks’ intranet.

8. Compliance Statement

Non-compliance with this policy will be dealt with in accordance with TasNetworks’ performance management process and may result in dismissal.

9. References

Australian Accounting Standards – www.aasb.gov.au

10. Contact for Enquiries

Contact: Leigh Burrill
Role: Financial Accounting and Tax Team Leader
Phone: 6271 6648
Email: leigh.burrill@tasnetworks.com.au

Appendix 1 – Examples of Capital and Operating Expenditure

Whether expenditure is capital or operating is determined by considering the facts in each case. The following examples are provided to assist with the application of this policy.

Network assets

Expenditure	Analysis	Accounting Treatment
Repair a transmission line as a consequence of storm damage.	Repair did not extend the life of the original asset	Operating
Complete replacement of a transmission line due to a bush fire.	New asset created	Capital
Replacing all conductors on a line to increase capacity.	Increased the assets capacity	Capital
Programed replacement of conductors that have reached the end of their useful life.	Extended the life of the asset	Capital
Repair of a transformer.	Repair did not extend the life of the original asset	Operating
Refurbishment of a transformer.	Increased the capacity and extended the life of the asset	Capital
Installing an additional transformer.	Creating a new asset	Capital
Upgrade an existing earthmat due to new safety requirements.	Additional functionality	Capital
Building a new substation.	Creating a new asset	Capital
Repair a wooden pole as an consequence of car accident with either a wooden pole or a concrete pole as being the modern day equivalent	Repair	Operating
Complete replacement of poles (e.g. due to car accidents, bush fires, or programmed)	Extend the life of the original asset	Capital
Replacing conductor for all HV and LV feeders over 2 spans with larger conductor to increase capacity	Increase in capacity	Capital
Programmed replacement HV and LV conductors that have reached the end of their serviceable life	Extend the life of the original asset	Capital
Repairing a transformer (e.g. Rewiring as part of maintenance program)	Repair	Operating
All additions and extensions to overhead HV and LV feeders over 2 spans including switchyards	Creates a new asset	Capital
Installing larger capacity transformer and	Increase in capacity	Capital

Capitalisation Policy

associated equipment		
Installing additional transformer and associated equipment, reclosers, sectionalisers and air break isolators	Creates a new asset	Capital
Installing additional HV and LV underground cables, including fittings	Creates a new asset	Capital
Installing HV and LV underground cable to replace overhead line	Creates a new asset	Capital
To upgrade and existing earthmat due to meet safety requirements	Additional functionality	Capital
Installing new substation including HV and LV switchgear, transformers and enclosure	Creates a new asset	Capital

Other assets

Expenditure	Analysis	Accounting Treatment
Installing a new IT System.	Searching for appropriate product.	Operating
	Costs incurred in the development and implementation phases of the new system, including project management.	Capital
Increases in functionality of a computer system – improving quality of output, speed or security	Additional functionality	Capital
Installing a new system, upgrades and enhancements to current systems	Searching for possible alternate products/ services	Operating
	Costs incurred in the development, implementation phases including project management	Capital
	Where it becomes evident that it is not probable future economic benefit will eventuate	Operating
Refurbishments/office fit-outs.	Creates an asset with separate useful life or increases future economic benefit of existing asset.	Capital
Purchase of minor assets.	Creates a new asset.	Capital