

## Company Policy

### FINANCE MANAGEMENT

Document No	:	6.9
Amendment No	:	5
Approved By	:	COO
Approval Date	:	23/09/2014
Review Date	:	23/09/2017

## 6.9 CAPITAL EXPENDITURE OVERHEAD CALCULATION

### 1.0 POLICY STATEMENT

The Finance & Compliance Division is responsible for identifying and appropriately allocating overhead expenditure to capital and operating expenditure. The overhead capitalisation process is consistent with Australian Accounting Standards and NSW Treasury policies.

Appropriate allocation of overhead expenditure facilitates identification of the true cost of activities performed, enables benchmarking against comparable service providers and allows capitalised projects with enduring economic benefit to be capitalised at their true cost.

### 2.0 PURPOSE

To establish a consistent methodology for the allocation of overhead costs to operating and capital activities.

### 3.0 REFERENCES

#### Internal:

[Branch Workplace Instruction \(Commercial & Decision Support\) WFN 0044](#) – Capitalised Overhead Model

#### External:

AASB 116 – Property, Plant & Equipment

NSW Treasury Guidelines for Capitalisation of Expenditure on Property, Plant & Equipment (TPP 06-6)

### 4.0 DEFINITIONS

#### Asset

A resource controlled by the company as a result of past events and from which future economic benefits are expected to flow to the company.

#### Capital expenditure

Expenditure incurred in relation to the development of an asset which will perform a service or function with enduring economic benefit beyond 12 months is to be capitalised. Items capitalised in the Fixed Asset Register (FAR) must be equal to or exceed the capitalisation threshold which is currently \$1,000 GST exclusive, with the exception of motor vehicle fit outs which can be less than the capitalisation threshold, but are added to the initial purchase cost of the vehicle (if within three months of original purchase).

#### Direct expenditure

Represents expenditure that can be readily identified with respect to a particular task/activity. The quantity and cost of materials and contractors, as well as the cost of direct labour engaged on the task, are included in the direct cost category.

**Document Control**

Employees who work with printed copies of documents must check the BMS regularly to monitor version control. Documents are considered “uncontrolled if printed”, as indicated in the footer.

**Executive Leadership Team**

Chief Operating Officer, General Manager Health, Safety & Environment, General Manager People & Services, Chief Engineer, General Manager Network Development, General Manager Network Operations, General Manager Finance & Compliance and General Manager Information, Communications & Technology.

**Fixed asset**

A physical non-monetary asset that has an effective life greater than 12 months and a cost (or acquisition value) equal to or greater than the capitalisation threshold.

**Maintenance expenditure**

Expenditure necessarily incurred in either maintaining the operational capacity of the asset or ensuring that the original life estimate is achieved.

Costs are considered maintenance expenditure when:

- an asset providing enduring economic benefit is restored to its operational condition; and
- the expenditure is incurred to allow the asset meets its operational performance, reliability and does not extend the useful life of the asset.

**Network divisions**

Includes Network Operations, Network Development and Engineering divisions.

**Overhead expenditure**

Expenditure necessarily incurred in supporting value adding tasks/activities that cannot be readily identified as the portion belonging to the value adding task/activity.

**Review date**

The review date displayed in the header of the document is the future date for review of a document. The default period is three years from the date of approval however a review may be mandated at any time where a need is identified due to changes in legislation, organisational changes, restructures, occurrence of an incident or changes in technology or work practice.

**5.0 KEY REQUIREMENTS**

An overhead pool will be determined based on an analysis of activities undertaken, and the nature of costs incurred, by each organisational unit. A capitalisation rate will be determined by reference to the direct labour expenditure of the network divisions, split between maintenance and capital. The capitalisation rate will be applied to the overhead pool to determine the amount of overhead expenditure to be capitalised. Individual capitalisation rates will be used for each organisational unit within the network divisions and a global rate used for organisational units not part of the network divisions.

This process will be undertaken on an annual basis for budgetary purposes, on a quarterly basis for forecasting purposes and on a monthly basis to determine the value of overheads to be capitalised for the monthly results.

Capitalised overheads will be capitalised in addition to direct network capital expenditure as part of the fixed assets month end process.

On a bi-annual basis, the Capitalised Overhead Model will be reviewed for completeness and to confirm alignment with current organisational structures. In addition, drivers underpinning the overhead capitalisation methodology will be reviewed for continued relevance.

## 6.0 ACTIONS TO ACHIEVE IMPLEMENTATION OF THIS POLICY

- Ongoing monitoring of compliance to this policy by the Finance & Compliance Division.
- Development of procedures and workplace instructions to support this policy.

## 7.0 AUTHORITIES AND RESPONSIBILITIES

**Chief Operating Officer** has the authority and responsibility for approving this policy.

**General Manager Finance & Compliance** has the authority and responsibility for:

- allocating resources; and
- monitoring compliance with this policy.

**Commercial Manager Network** has the authority and responsibility for overseeing the running of the Capitalised Overhead Model and monitoring compliance with this policy.

**Business Analyst** (Commercial & Decision Support) has the authority and responsibility for:

- determining the overhead pool and capitalisation overhead rate on an annual, quarterly and monthly basis;
- running the Capitalised Overhead Model in accordance with Branch Workplace Instruction WFN 0044 – Capitalised Overhead Model to determine the amount of capitalised overheads for budgetary, forecasting and actual month end purposes;
- reviewing and maintaining the Capitalised Overhead Model for completeness and alignment with current organisational structures; and
- reviewing the drivers underpinning the overhead capitalisation methodology for continued relevance.

**Fixed Asset Coordinator** has the authority and responsibility for incorporating capitalised overheads into network capital expenditure capitalised as part of the fixed assets month end process.

**Financial Accountants** and **Business Analysts** have the authority and responsibility for costing and processing transactions accurately.

**Field employees, project managers** and **clerical employees** have the authority and responsibility for costing and processing transactions accurately.

## 8.0 DOCUMENT CONTROL

**Content Coordinator** : General Manager Finance & Compliance

**Distribution Coordinator** : GRC Process Coordinator