

# Capitalisation

## Procedure

CONTROLLED DOCUMENT

REV	DATE	GENERAL DESCRIPTION	PREPARED	REVIEWED	ENDORSED
0	30/04/2021	Procedure Creation	S Bartlett	J Juett	M Hoare
1.0	18/12/2022	Published, approved controlled document	Document Control	-	-

NEXT REVIEW	18/12/2025
-------------	------------

APPROVED

Micheal Hoare  
Acting Chief Financial Officer  
Power and Water Corporation

This procedure is uncontrolled when printed

## CONTENTS

<b>1</b>	<b>Purpose</b> .....	<b>3</b>
<b>2</b>	<b>Scope</b> .....	<b>3</b>
<b>3</b>	<b>Overview</b> .....	<b>3</b>
	3.1 Procedure.....	3
	3.2 Technical Discussion .....	3
	3.3 IFRS/AASB/Other references .....	13
	3.4 Responsibilities (if applicable) .....	13
	3.5 Decision Trees .....	13
<b>4</b>	<b>Definitions</b> .....	<b>14</b>
<b>5</b>	<b>Change Management and Continuous Improvement</b> .....	<b>16</b>
	5.1 Consultation, Approval and Communication.....	16
	5.2 Review.....	17
	5.3 Internal References and Related Documents .....	17
	5.4 External References, Legislative and Regulatory Obligations.....	17
	5.5 Records Management.....	17
	5.6 Improvement Suggestions .....	17
	5.7 Document History .....	17
<b>6</b>	<b>Appendices</b> .....	<b>18</b>
	6.1 Extract from PwC’s advice regarding Software Development Projects.....	18
	6.2 Accounting treatment by nature of expense:.....	19

## 1 Purpose

The objective of this Procedure is to provide guidance about the capitalisation of expenditure and the recognition and measurement of financial fixed assets of Power and Water Corporation (PWC) and Indigenous Essential Services Pty Ltd (IES) defining the minimum, mandatory requirements to enable compliance with:

- Australian Accounting Standards (AASB) and Interpretations.
- significant accounting policies adopted in the preparation of Power and Water Corporation's and Indigenous Essential Services' Annual Financial Statements

Its purpose is also to help guide PWC and IES personnel with requirements for recording financial transactions and in the preparation of financial statements, including regulatory financial information for the Australian Energy Regulator (AER).

## 2 Scope

This Procedure applies for annual reporting periods beginning on or after 1 July 2020 for the recognition of capital expenditure related to property, plant and equipment and intangible assets and the capitalisation of overheads and borrowing costs in accordance with AASB 116 *Property, Plant and Equipment*, AASB 123 *Borrowing Costs* and AASB 138 *Intangible Assets*.

The procedure addresses differences between Power and Water Corporation (PWC) and Indigenous Essential Services Pty Ltd (IES), which is a not-for-profit entity where specific standards and exemptions apply.

Exclusions from the procedure relate to the subsequent measurement after recognition of fixed assets including fair value, useful life and depreciation, however they are referred to in the technical discussion below. For further guidance refer to the relevant PWC policy document.

## 3 Overview

### 3.1 Procedure

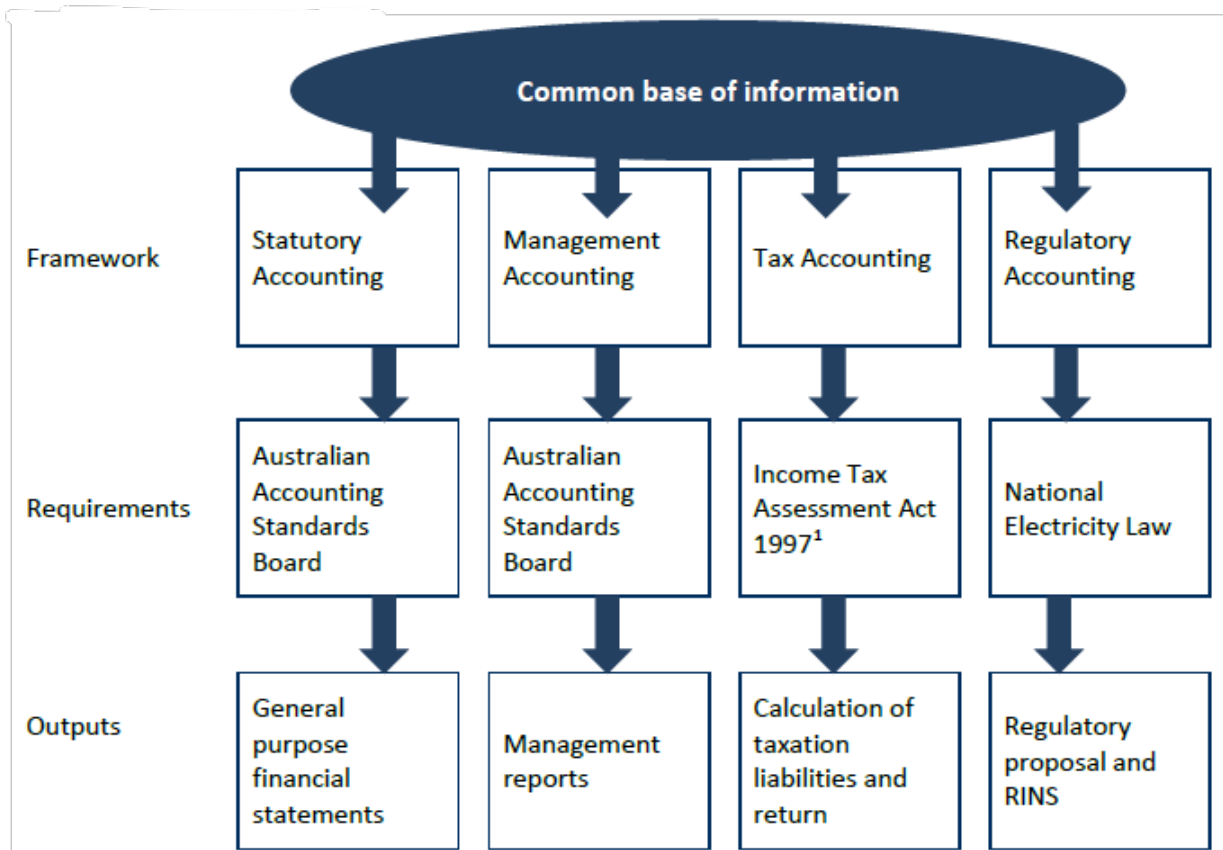
The Procedure is to maintain a Financial Fixed Asset Register (FFAR) which reliably records all fixed assets in a logical and cost-effective manner in accordance with applicable reporting and regulatory requirements prescribed by the Australian Accounting Standards Board, Income Tax Assessment Act 1997 and National Electricity Law as governed by the Australian Energy Regulator.

### 3.2 Technical Discussion

Power and Water Corporation's (PWC) specific procedures align with this procedure and are developed in accordance with applicable accounting standards and meet the technical criteria discussed below.

#### 3.2.1 Recognition of Fixed Assets

For the purposes of this procedure 'Fixed Asset' is an item that meets the asset definition from a financial perspective (i.e. 'resource controlled by the Corporation as a result of past events and from which future economic benefits are expected to flow to the Corporation'). Fixed Assets are recorded in various books of PWC and IES's Financial Fixed Asset Register (FFAR) to ensure compliance with internal and external reporting requirements of multiple regulatory frameworks which generally share common elements:



IES maintain separate Financial Fixed Asset books to PWC in its capacity as a not-for-profit distinct entity. To comply with tax reporting requirements as set out in Division 40 of the Income Tax Assessment Act 1997, PWC maintains a tax book separately to the Fair Value /Accounting book. As a not-for-profit entity, IES is not subject to tax and therefore no IES Tax book is required. Further information relating to the different asset books (including measurement and depreciation principles) for both PWC and IES are contained in the Fixed Asset Plan.

Fixed Assets covered by this procedure include:

**Property, Plant and Equipment (PPE)** as per AASB 116.6 are tangible items that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one period.

Asset classes determine how an item of PPE is treated and how it will be reported in the financial statements. Within PPE asset classes include: Land, buildings and improvements, infrastructure, operating equipment and leased assets. Refer to the Leases procedure for more information on the treatment of leased and right-of-use assets in accordance with AASB 16 *Leases*.

AASB 16 does not prescribe the unit of measure for recognition, that is, what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to specific circumstances. It may be appropriate to aggregate individually insignificant items, and to apply the criteria to the aggregate value. This is covered in section 3.2.3 PPE - Low Value Assets.

Refer to section 3.2.3 which deals specifically with the recognition and measurement of Property, Plant and Equipment.

**Intangible Assets** in accordance with AASB 138 are:

- identifiable non-monetary resources without physical substance;
- controlled by PWC or IES as a result of past events; and
- from which future economic benefits are expected to flow.

Common examples of intangible assets are; computer software, patents, copyrights, licenses, customer or supplier relationships, market shares and marketing rights. Section 3.2.5 covers this in more detail.

## 3.2.2 Capital vs Operating Expenditure

A key consideration in recognising a Fixed Asset is how to distinguish between *capital* and *operating* expenditure. Determining the type of expenditure can have a material effect on the profit and loss of the Corporation and future revenues, as revenue will be determined in part by the Australian Energy Regulator based on the Corporation's Fixed Asset base.

An asset should be recognised when it:

- has a cost that can be reliably measured.
- could be expected to be used over more than one financial year.
- will be in the control of the Corporation and will deliver *future economic benefits* to the Corporation.

Expenditure is capital when all the above criteria and one of the following is satisfied:

- a new asset is purchased or constructed.
- service capacity of an existing asset has been notably increased.
- the long-term useful life of an existing asset has been permanently extended more than 12 months beyond original expectations.
- a component of the asset, recognised as a component asset in the FFAR, has been replaced.
- an asset, or its components, have major periodic maintenance (cyclical with a frequency of more than 12 months and incurred under a maintenance plan).
- the ongoing maintenance expenditure of the asset has been reduced.

Alternatively, it will be maintenance (**operating**) expenditure, if it involves:

- making good any fault in a revenue producing asset, thus restoring it to its operational condition or service capacity.
- the notion of servicing the asset, thus ensuring that the asset meets its operational performance, reliability expectations or service capacity (excluding major periodic maintenance).
- rearranging or moving assets.
- aesthetic enhancement or beautification.

Recognition of Fixed Assets is highly dependent on the specific facts and individual circumstances. When decision making, the direct nature of the expenditure is key - there must be evidence or reasoning to connect the expenditure to a specific asset. Additional guidance is also provided in the Fixed Asset Plan.

## 3.2.3 Property, Plant and Equipment

In accordance with AASB 116 (para 7) the cost of an item of property, plant and equipment shall be recognised as an asset if and only if:

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

### Operating Expenditure

Under the recognition principle in AASB 116.7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment (AASB 116.12).

Further, AASB 116.19 states examples of costs that are not costs of an item of property, plant and equipment are:

- costs of opening a new facility;
- costs of introducing a new product or service (including costs of advertising and promotional activities);
- costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
- administration and other general overhead costs (see note below).

Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss when consumed (AASB 116.8). For treatment of spare parts that meet the definition of Property, Plant and Equipment and are capitalised (i.e. Rotables and Insurance Spares) refer to Inventory & Capital Spares procedures.

Expenditure incurred prior to the construction of an asset/s such as research, option studies, investigative expenditure, and the development of a business case for decision-making purposes cannot generally be capitalised unless there is a direct link to the final asset/s to be capitalised.

Corporate overhead costs are not considered to be an item of property, plant and equipment unless the costs form part of the cost base of an asset. The Corporation capitalises a portion of Corporate overhead costs that are relevant and directly attributable or necessarily incurred in the construction of fixed assets as per section 3.2.7 Capitalisation of Overhead Costs.

## **Purchased vs constructed assets**

Both purchased and self-constructed assets are governed by this Procedure and subject to the same capitalisation rules set in AASB 116 (para 22). However additional specific tests apply for constructed assets (expenditure as part of a capital project) and information technology and software development projects (refer 3.2.5 Intangible Assets).

As an asset can only be recognised in the FFAR when the asset is available for use, capital expenditure incurred before an asset is recognised on the FFAR is held in the Work in Progress (WIP) account. Capital WIP associated with an asset can be capitalised when the recognition criteria is met. Work in Progress is transferred to property, plant and equipment (FFAR) and depreciation commences when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management (AASB 116.55).

## **Capital expenditure relating to existing assets**

AASB 116 paragraphs 11, 13 & 14 recognises that certain expenditure relating to existing assets may also meet the definition of Property, Plant and Equipment and qualify for capitalisation.

Expenditure may be incurred on assets already recognised in the FFAR to:

- operate the asset;
- keep the asset at its optimum level of functionality through regular servicing;
- restore asset functionality which has been impaired through deterioration or damage;
- carry out major periodic maintenance (refer to *Major Periodic Maintenance*);
- replace part of an asset (refer to *Components*); or
- improve the asset beyond its original specifications.

Expenditures carried out as major periodic maintenance or improving an asset beyond its original specifications are capitalised, as they increase the value or 'economic benefits' embodied in the asset. Expenditure incurred in operating, maintaining or restoring an asset is not capital in nature and are recognised in profit and loss as incurred (AASB 116.12).

## Major Periodic Maintenance (MPM)

From time to time, PWC's major assets will require major periodic maintenance. This is an important part of the maintenance of large power networks or water services equipment. The cost associated with major inspections, overhauls and maintenance can be capitalised (AASB 116 para 13-14).

All the following tests must be satisfied for MPM expenditure to be capitalised as a new component of its parent asset:

- the inspection must be cyclical; and
- the interval between inspections (timing for overhauls to comply with manufacturers' recommendations) must be greater than 12 months.

When the new MPM component is recorded in the FFAR, it must be capitalised as a component of the parent asset, which is the asset the MPM is to be performed on. If an existing MPM component has been replaced, the asset in the FFAR must be disposed of and the remaining written-down value expensed to the profit and loss statement.

Additional guidance regarding MPM capitalisation are contained in specific procedures and work instructions.

## Components

Many of PWC's assets are complex assets and will comprise many parts, each with different attributes. These component parts will often have different useful lives. The breakdown of PPE assets into their components is essential in applying the appropriate accounting treatment for capital expenditure and repairs and maintenance.

The replacement of a component is the lowest level at which a cost may be considered to be capital expenditure (Unit of Plant). Costs on a lower level than the entire component are considered repairs and maintenance.

Refer to Decision Tree 3.5.1 for the lowest level of componentisation required in the FFAR (Unit of Plant).

Where several components are identified, then the remainder of the asset is depreciated as a single component. A reasonable approximation can be used for the useful life (AASB 116.46).

An item of property, plant and equipment must be separated into component assets in the FFAR, when those parts have a different useful life to other components, or if there is likelihood of replacement throughout the parent asset's useful life (AASB 116.44).

Component assets are subject to the same recognition principles as all other tangible assets and the measurement of the assets value is at cost. When the component of an asset is a physical component that is constructed separately, then the carrying amount of the component will be its cost. An explanation of the expenditure to be included in the 'cost' of a component is included in **Elements of Cost**.

Refer to Decision Tree 3.5.2 for guidance in determining the cost of a component where the cost of the individual component is not known (e.g. purchased as a whole).

When a component is replaced prior to the completion of its useful life, the carrying value of the original component is written-off immediately as it has effectively been disposed of. The amount written-off is recognised in the profit and loss.

Additional guidance regarding components, including recognition, cost, depreciation and disposal are contained in the Fixed Asset Plan and specific procedures and work instructions.

## Asset Enhancement

PWC sometimes incurs expenditure on existing assets which increase the future economic benefits to the Corporation by either increasing the current service capacity or reducing ongoing maintenance costs. Enhancement costs may be capitalised if the asset enhancement or modification gives rise to an effective and material:

- increase in efficiency or performance; and/or

- increase in the useful life of the asset; and/or
- reduction in the asset's ongoing maintenance or operating expenditure.

## Elements of cost

AASB 116.16-17 details the elements of the cost of an item of PPE, which apply to both purchased and constructed assets:

The cost of an item of property, plant and equipment 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 obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Examples of directly attributable costs are:

- a) costs of employee benefits (as defined in AASB 119 *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;
- b) costs of site preparation;
- c) initial delivery and handling costs;
- d) installation and assembly costs;
- e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
- f) professional fees associated with the construction or acquisition.

Examples of expenses that are not included in the cost of property, plant and equipment include, but are not limited to:

- costs of introducing a new product or service (including costs of advertising or promotional activities);
  - costs of conducting business in a new location or with a new class of customer;
  - costs of relocating or reorganising part or all of Power and Water's operations;
  - costs incurred while an asset is capable of being operated in the manner intended by management but has not yet been commissioned, or is operating at less than full capacity;
  - abnormal amounts of wasted material, labour or other resources; and
  - administration and all other general overhead costs, such as staff training, entertainment and accommodation costs not directly attributable to the purchase or construction of an asset.
- Further information can be found at 3.2.7 Capitalisation of Overhead Costs.

## Initial Measurement

In determining how an item of PPE is recorded in the Financial Fixed Asset Register (FFAR), the type of asset and amount of the capital expenditure needs to be considered.

### Asset Management System

Maximo is the Corporation's asset management system used by the business units to record all assets that have ongoing management and maintenance requirements to ensure these activities are carried



out when needed. Assets such as office furniture or appliances, with no maintenance or management requirements after purchase are not recorded in Maximo (Non-Maximo assets). Both Maximo and Non-Maximo assets are in the FFAR.

## Low Value Assets

To reduce the administrative burden involved in capitalisation and maintenance of high volume/low value assets in the FFAR, PWC has elected to utilise low value pools and not individually capitalise assets meeting specific criteria, or which are below certain thresholds.

Non-Maximo assets costing less than \$20,000 are to be capitalised to an asset pool where they meet the definition of an asset in AASB 116.7. All assets capitalised in the low value asset pool are subject to periodic audit by finance to ensure the expenditure meets these basic requirements.

High volume/low value Maximo assets with similar attributes (capacity, description, useful life, purchase period and location) which are often purchased in large quantities in a single financial year can be pooled and recorded under a single FFAR asset number.

### **3.2.4 Capital Contributions and Gifted Assets**

Accounting Standards require differing accounting treatment of monetary (capital contributions) and non-monetary (gifted assets) depending on the associated party; in particular, whether the party is a government entity.

This policy should be read in conjunction with the Grants Policy where assets are subject to accounting rules for grants. This is particularly the case as each of PWC and IES have differing treatments and requirements.

### **3.2.5 Intangible Assets**

An intangible asset is defined in AASB 138 as an identifiable non-monetary asset without physical substance.

For costs to be capitalised as an intangible asset, the following criteria must be met:

- Relate to a non-monetary asset
- Identifiable
- The entity has control of the asset and the power to obtain future economic benefits and restrict access of others to those benefits.

Common examples of intangible assets are; computer software, patents, copyrights, licenses, customer or supplier relationships, market shares and marketing rights. Specific examples of PWC's and IES's intangible assets are discussed further below.

In determining whether an asset that incorporates both intangible and tangible elements should be treated under AASB 116 *Property, Plant and Equipment* or as an intangible asset under AASB 138, PWC uses judgement to assess which element is more significant. For example, computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as property, plant and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

This policy excludes the following:

- a) intangible assets that are within the scope of a Standard other than AASB 138;
- b) financial assets, as defined in AASB 132 *Financial Instruments: Presentation*;
- c) the recognition and measurement of exploration and evaluation assets (see AASB 6 *Exploration for and Evaluation of Mineral Resources*); and
- d) expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources.

Intangible assets acquired separately are measured on initial recognition at cost. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

An intangible asset is derecognised on disposal (i.e., at the date the recipient obtains control) or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of an intangible asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the statement of profit or loss.

## **Purchased Software**

All purchased software items have limited useful lives and are amortised using the straight-line method over their estimated useful lives. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

## **Software and Information Technology (IT) Development projects**

The development or acquisition of IT and software assets is required to be capitalised and shown as 'intangible assets' for financial reporting purposes. The capitalisation decision for IT and software development expenditure is based upon the stage of development the expenditure was incurred in and the specific form of software delivery that is implemented.

Power and Water's development or acquisition of an IT asset will fall into three distinct stages:

- **Preliminary project stage** (or *Project Investment Planning* and *Project Investment Development phase*) costs incurred for all types of software development projects, to assess a software project's feasibility and to evaluate alternative options for its implementation. These costs are to be expensed as incurred until the point in time that a specific solution and vendor have been selected and the business case is approved.
- **Application development stage;** (or *Project Investment Delivery*) costs relating to the specific solution selected may be expensed or capitalised depending on the nature of the project activity being undertaken, and whether all the criteria for recognition under AASB 138 - Intangible Assets, are met. Whether the specific cost underlying each project activity can be capitalised will depend on whether the criteria under AASB 138 for that specific cost has been met, including that management can demonstrate all of the following:
  - the technical feasibility of completing the intangible asset so that it will be available for use or sale;
  - its intention to complete the intangible asset and use or sell it;
  - its ability to use or sell the intangible asset;
  - how the intangible asset will generate probable future economic benefits (i.e. the usefulness of the intangible asset);
  - the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
  - its ability to measure reliably the expenditure attributable to the intangible asset during its development.
- **Post Implementation Operation Stage** (or *Project review stage*) costs incurred once the development of the software solution has been completed. These costs are generally operating in nature and do not meet the capitalisation criteria defined by AASB 138; therefore they are most commonly expensed.

The accounting treatment of the costs incurred during each phase of the project must be assessed in line with the relevant accounting standard and the type of project selected.

Capitalisation of costs may begin when both of the following occur:

- preliminary project stage is completed; and
- management with the relevant authority, implicitly or explicitly authorises and commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended (i.e. approval of business case).

Consideration of software development projects can comprise multiple forms of software delivery:

Software as a Service (SaaS) that is hosted by a 3rd party provider - under this type of arrangement, the customer has engaged with a 3rd party to access a software application over the internet via the cloud. The software application being used will be licensed from the software provider either to the 3rd party or the company directly.

Software as a Service (SaaS) that is hosted by the software provider - the customer engages directly with the software vendor for the right to access and use the software. This type of arrangement typically does not provide the customer with any decision-making rights over the use of the software, or any restriction rights to prevent other users from accessing the software.

Software purchased and modified by a vendor - a more traditional form of software acquisition whereby the customer has engaged with a vendor to purchase a software application which will be hosted on the customers own infrastructure and have that vendor modify the software specifically for the customers' own use.

Internally developed software applications - a traditional development activity where the company will use its internal IT resources to write software code to create an application to achieve a business objective.

Refer to appendices for further information on software development projects. Specific procedures related to capitalisation will identify the specific costs of IT and software asset development that may be capitalised or expensed to the profit and loss statement.

#### *Internal labour and other costs*

The costs which can be capitalised to a software development project need to pass the criteria in AASB 138, that it is probable that expected future economic benefits that are attributable to the asset will flow to the entity, and that the costs can be reliably measured. Only labour and overhead costs that are directly attributable to the development of the software are eligible for capitalisation. For further discussion on overhead cost refer to 3.2.7 Capitalisation of Overhead Costs.

#### **Make-up Gas**

The consolidated entity has Gas Supply Agreements that have Take-Or-Pay provisions that may give rise to Make-Up Gas. Make-up Gas paid for under the terms of the contract but not physically taken is recorded as an intangible asset. The residual value of the Make-up Gas asset equals the asset's carrying amount.

For further information, please refer to the Gas Accounting Policy.

#### **Renewable Energy Certificates**

The Renewable Energy Certificate Scheme operates under Federal Government legislation which requires energy retailers to source a target proportion of their electricity purchases from renewable sources. The consolidated entity generates and purchases Green Certificates to comply with the relevant legislation. Obligations to surrender certificates based on targets are of an accrual nature and are disclosed in the statement of financial position as current liabilities. Rights held are of the nature of intangible assets and are disclosed in the statement of financial position as current assets. The assets and liabilities held under the scheme are acquitted throughout the year. Assets remaining after the acquittal process are expected to be realised within twelve months after the date of acquittal.

### **3.2.6 Borrowing Costs (Capitalised Interest)**

AASB 123 *Borrowing Costs* establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment. Indigenous Essential Services Pty Ltd (IES), being a not-for-profit subsidiary of PWC does not capitalise/has elected to expense borrowing costs in accordance with AASB 123 para Aus8.1.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time (greater than 24 months) to get ready for the qualifying asset's intended use are capitalised as part of the cost of the asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

To the extent that the funds are borrowed generally and used for the purpose of obtaining or constructing a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditure on that asset. The average carrying amount of the asset during the period, including borrowing costs previously capitalised, is used as the basis for determining expenditures to which the capitalisation rate is applied in that period.

All other borrowing costs are expensed in the period in which they are incurred.

### **3.2.7 Capitalisation of Overhead Costs**

Capitalisation of overhead costs follow the same framework as all other expenditure within PWC. Determining the type of expenditure can have a major effect on the profit and loss of Power and Water and future revenues, as revenue will be determined by Australian Energy Regulator based on the Power and Water's Fixed Asset base.

#### **Overhead costs**

PWC and IES's core business is to operate and maintain water, sewerage and power networks. In connection with the core business, PWC and IES incurs a range of overhead costs required to effectively build and maintain these networks. A portion of select overhead costs are incurred primarily to support capital activities and to bring the assets to their intended use. An appropriate amount of overhead costs in connection with common or shared functions that directly support the delivery of capital projects is therefore capitalised.

The Corporate Allocation Methodology (CAM) model is used to build an appropriate overhead pool of corporate costs that may be allocated to capital projects based on direct cost. Internal overhead costs to be analysed for relevance include:

- storage and logistics costs;
- vehicle fleet costs;
- corporate support costs;
- travel costs;
- occupancy costs; and
- IT costs.

Further information and examples relating to Capitalisation of Burden Costs are contained in the Fixed Asset Plan and specific procedures and work instructions.

### **3.2.8 Statutory and Regulatory Reporting**

Detailed below are the correct treatment of capital expenditure and capitalisation of property, plant and equipment under Statutory and Regulatory requirements.

#### **Capital Expenditure**

To comply with Regulatory requirements, capital expenditure needs to meet the same requirements as under statutory requirements.

An asset should be recognised when it:

- has a cost that can be reliably measured.
- could be expected to be used over more than one financial year.
- will be in the control of the Corporation and will deliver future economic benefits to the Corporation.

Expenditure is **capital** when the above criteria and one of the following is satisfied:

- A new asset is purchased or constructed;
- Service capacity of an existing asset has been notably increased;
- The long-term useful life of an existing asset has been permanently extended more than 12 months beyond original expectations;
- A component of the asset, recognised as a component asset in the FFAR, has been replaced;
- An asset, or its components, have major periodic maintenance (cyclical with a frequency of more than 12 months and incurred under a maintenance plan); or
- The ongoing maintenance expenditure of the asset has been reduced.

## **Capitalisation**

### Statutory Requirements

An asset should be recognised when it:

- Has a cost that can be reliably measured;
- Could be expected to be used over more than one financial year; and
- Will be in the control of the Corporation and will deliver future economic benefits to the Corporation.

### Regulatory Requirements

An asset should be recognised when the capital expenditure is incurred.

## **3.3 IFRS/AASB/Other references**

AASB 13 Fair Value Measurement

AASB 16 *Leases*

AASB 102 Inventories

AASB 116 Property, Plant and Equipment

AASB 120 Accounting for Government Grants and Disclosure of Government Assistance

AASB 123 Borrowing Costs

AASB 138 Intangible Assets

AASB 1004 Contributions

AASB Interpretation 18

## **3.4 Responsibilities (if applicable)**

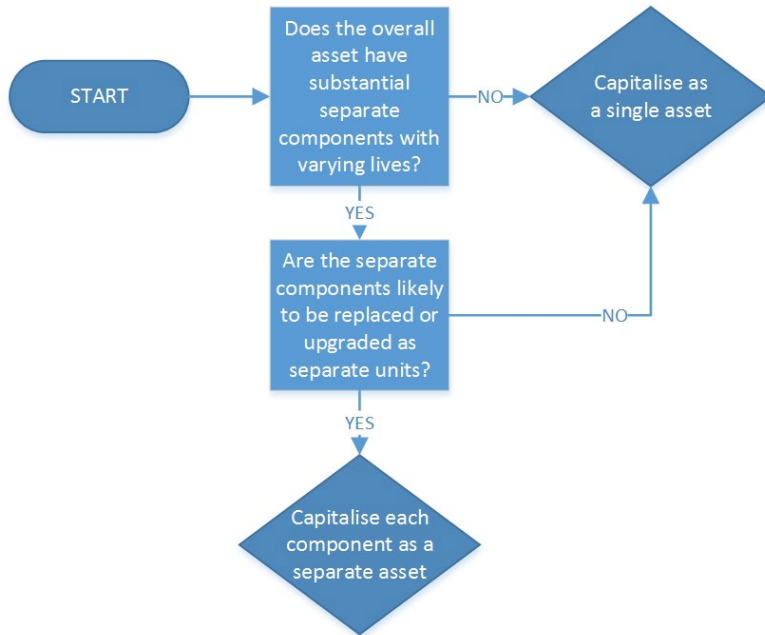
Manager Fixed Assets – responsible for ensuring this policy is implemented and consistently applied across the organisation.

Senior Manager Corporate Finance – responsible for ensuring that decision makers understand the key components of this policy.

## **3.5 Decision Trees**

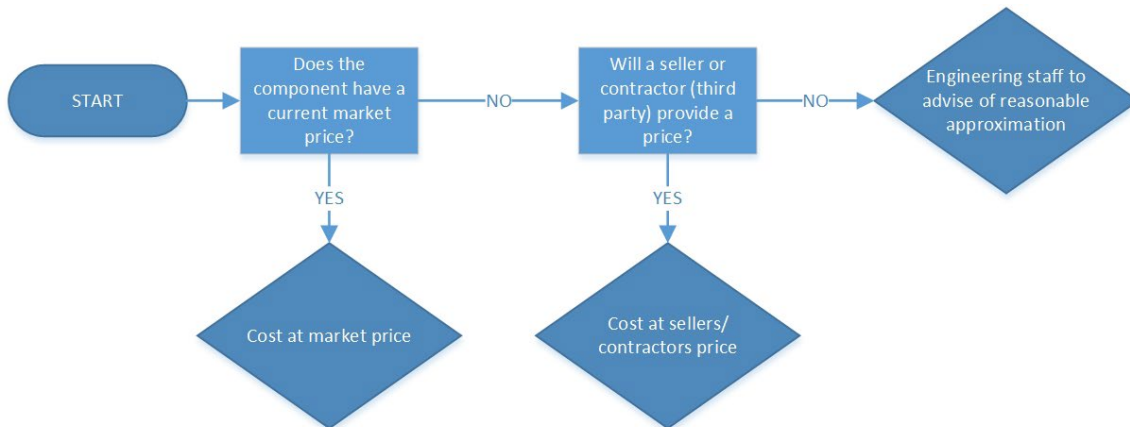
**3.5.1 Unit of Plant**

Unit of Plant – the lowest level of componentisation required in the FFAR:



**3.5.2 Component Costing**

Guidance to be applied when determining the cost of a component:



**Note:** The price of the component based on market or third-party price cannot be more than the value of the parent asset.

**4 Definitions**

Where terms or words are not included in the definitions section, refer to Power and Water’s intranet glossary.

Term	Definition
Application development stage (or project investment delivery)	Costs relating to the specific solution selected may be expensed or capitalised depending on the nature of the project activity being undertaken, and whether all the criteria for recognition under AASB 138 - Intangible Assets, are met.
Asset	A tangible or intangible resource:

Term	Definition
	(a) recognised with a cost that can be reliably measured; (b) is controlled by PWC or IES as a result of past events; and (c) from which future economic benefits are expected to flow to the entity for more than one financial year.
Asset class	A category or grouping of assets that have a similar nature or function. Asset class is the lowest level of disclosure (i.e. no further dissection) of assets in the financial statements.
Asset enhancement	Asset related expenditure that increases the future economic benefits to the Corporation. It must give rise to an effective and material increase in an asset's useful life, output or efficiency. Such expenditure is capitalised (i.e. treated as an asset).
Available for use	An asset that is in the location and condition necessary for use and is capable of operating in the manner intended by management.
Borrowing costs	Interest and other costs that an entity incurs in connection with the borrowing of funds.
Capital contributions	A partial or total contribution by an external party for an asset that is being constructed by the Corporation and will be owned by the Corporation.
Capital expenditure (Capex)	Expenditure that creates future economic benefits over a period of time that extends beyond the current financial year. Capital expenditure is incurred when the Corporation spends money to either buy assets, build assets or to add to the value of an existing asset with a useful life that extends beyond the current financial year. In accounting, capital expenditure is added to the asset account (i.e. the expenditure is capitalised or undergoes the process of capitalisation).
Capital grants	The Corporation may provide a grant to a developer who is constructing assets that will then be gifted to the Corporation. This usually occurs when the Corporation has a strategic need for a larger sized (capacity) asset than the developer intends to construct to meet his specific development needs.
Capitalisation	The act of recognising the asset in the Corporation's fixed asset registers and financial reports as property, plant and equipment.
Complex asset	Assets that consist of component parts where each component can be recognised as a separate asset. Complex assets themselves may be component assets of a larger complex asset.
Component	An asset that is part of a complex asset. Component assets are readily identifiable and will have materially different asset lives to the complex asset, and therefore require separate replacements during their useful life. Component assets are material and therefore justify the effort in separately tracking, both physically and in accounting terms.
Constructed asset	An asset built internally by the Corporation compared to being acquired through purchase.
Cost	The amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards, e.g. AASB 2 <i>Share-based Payment</i> .
Development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.
Economic benefit	A benefit that can be expressed numerically as an amount of money that will be saved or generated as the result of an action.
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. (See AASB 13 <i>Fair Value Measurement</i> .)
Financial fixed asset register (FFAR)	The corporate system to financially manage the Corporation's assets. Forms part of the Financial Management System (which is currently Oracle Financials).

Term	Definition
Fixed assets	An asset or product of value which enables services to be provided and has an estimated economic life of greater than one year. Fixed assets refer to all tangible and intangible assets.
Gifted assets	Assets that the Corporation acquires from external parties, generally as part of a subdivision development, ordinarily at no cost. Gifted assets can range from land to pipes, access chambers and pumping stations.
Historical cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
Infrastructure	The facilities and structures essential for the orderly operations of an economy. Utility and energy assets such as water, power generation, electricity and gas networks. Infrastructure assets are long-lived capital assets that normally are stationary in nature and can be preserved for a greater number of years than most capital assets. Infrastructure assets are often continuous in nature. Infrastructure asset form part of Property, Plant & Equipment.
Intangible asset	An identifiable non-monetary asset without physical substance.
Leased assets	An asset that the Corporation has entered into an agreement with a third party for use or occupation. Leases may be financial or operating leases, dependent upon the conditions of the lease agreement.
Monetary assets	Money held and assets to be received in fixed or determinable amounts of money.
Operating expenditure (Opex)	All expenditure that is not capital. It is therefore all expenditure that fails to meet the capitalisation tests and will therefore be recognised in the profit and loss statement.
Post implementation operation stage (or Project review stage)	Costs incurred once the development of the software solution has been completed.
Preliminary project stage (or Project Investment Planning and Project Investment Development phase)	Costs incurred for all types of software development projects, to assess a Software project's feasibility and to evaluate alternative options for its implementation.
Property, plant and equipment	Tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one period.
Qualifying asset	An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
Repair and maintenance	Action undertaken to maintain or restore a fixed asset to a pre-determined condition for the purpose of sustaining a given level of service delivery.
Research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
SaaS	Cloud computing arrangements are sometimes referred to Software as a Service (SaaS), infrastructure as a service or hosting arrangements.

## 5 Change Management and Continuous Improvement

### 5.1 Consultation, Approval and Communication

This procedure must be endorsed by the Responsible Manager and approved by the Accountable Manager.

Role / title	Requirement
Chief Financial Officer	Accountable - approve this document
Senior Manager Corporate Finance	Responsible - endorse this document
Manager Financial Accounting	Consult and support implementation
Manager Fixed Assets	



Role / title	Requirement
All Employees	Communicate – inform of any changes

## 5.2 Review

The requirements of this procedure are mandatory and shall be reviewed and updated periodically for its ongoing effectiveness. This procedure will be reviewed, at a minimum, every three years or in the event of any significant change in our vision, values, long term goals, risk appetite, policy statement, management standard, business model or organisational structure, or related systems or processes.

## 5.3 Internal References and Related Documents

Document title	Record number
Fixed Assets Management Standard	CONTROL0449
Fixed Asset Plan	CONTROL0242

## 5.4 External References, Legislative and Regulatory Obligations

- Government Owned Corporations Act
- Power and Water Corporation Act
- Corporations Act 2001
- Corporate Governance and Reporting Framework for Government Owned Corporations
- NTG's Policy Statement on Competitive Neutrality
- Australian Accounting Standards and Interpretations
- Income Tax Assessment Act 1997
- Utilities Commission (UC)
- Australian Energy Regulator (AER)

## 5.5 Records Management

This procedure and all related documents are captured, stored and managed in our Electronic Document and Records Management System and controlled in the Controlled Document Register.

## 5.6 Improvement Suggestions



Have an improvement suggestion? Feedback and improvement suggestions for this document can be lodged by completing the online form on your browser or using the QR code from your mobile device.

URL: <https://forms.office.com/r/gxsQ1v1grd>

## 5.7 Document History

Date of issue	Version	Prepared by	Description of changes
XX/04/2021	0.1	K Ross / S Bartlett	First Draft
05/04/2022	0.2	L Young	Reviewed and updated
21/09/2022	0.3	Document Control	Updated to new template. Updated section 5.1 & 5.7 as per CFO request
15/12/2022	0.4	Document Control	Reviewed and updated formatting and minor changes.
18/12/2022	0.5	M Hoare	Approved by Acting CFO
18/12/2022	1.0	Document Control	Updated formatting and minor changes
18/12/2022	1.0	Document Control	Published, approved controlled document

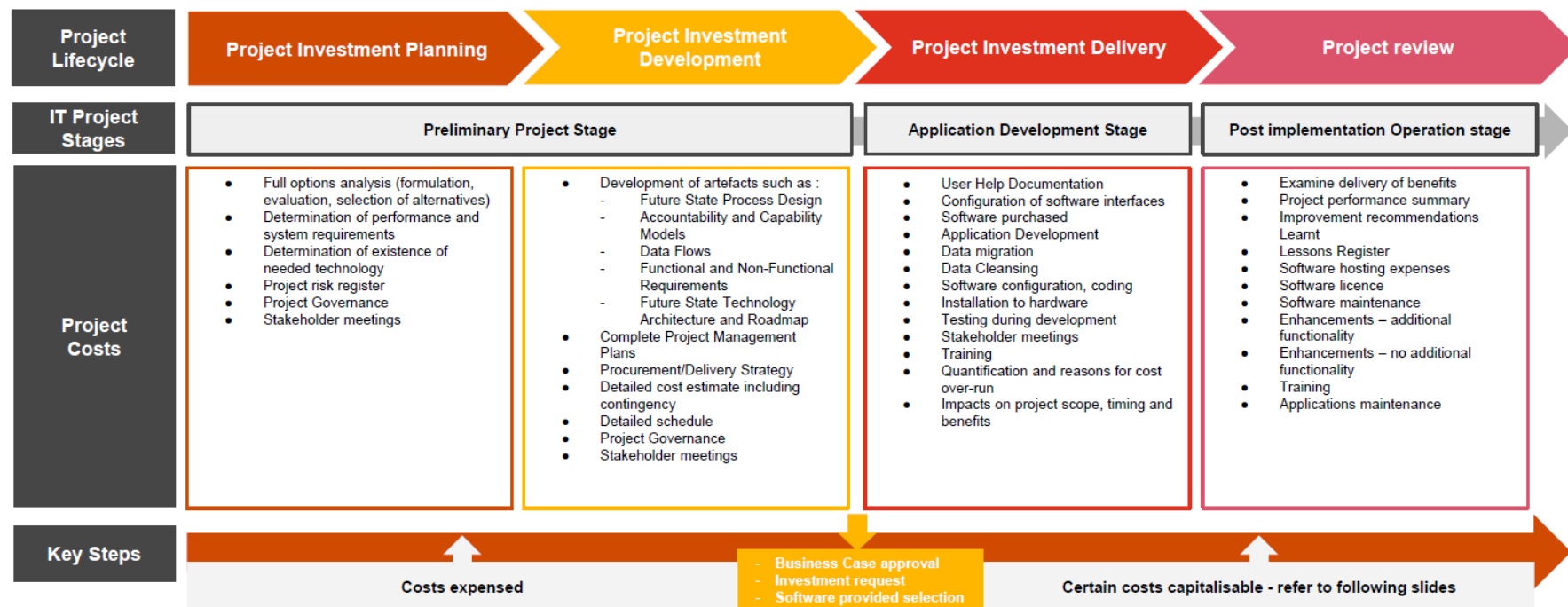
## 6 Appendices

### 6.1 Extract from PwC's advice regarding Software Development Projects

(Dated February 2021)

# Project Investment Planning and Delivery

Based on PwC's Project Investment Planning and Delivery Standard and the company's IT policy, we have categorised the nature of expenses generally seen in this type of project. This initial step is essential in order to determine the related accounting treatment as prescribed by AASB 138 - Intangible Assets.



PwC

February 2021  
5

This procedure is uncontrolled when printed

**6.2 Accounting treatment by nature of expense:**

The appropriate accounting treatment for each relevant expense by project stage is outlined below. PWC’s policy for intangible assets is that costs incurred in the preliminary project stage and before business case approval are expensed. Expenditure incurred in the preliminary project phase is generally pre business case approval, systems integrator selection, RFP and software selection. Cost incurred before these key approvals or decisions have been made are not be able to be capitalised under PWC’s policy or accounting standards.

Phases	Nature of expense	Software as a service (SaaS) over the cloud (1)		Software on PWC infrastructure	
		Project Type 1 SaaS (3 <sup>rd</sup> party host) (2) (3)	Project Type 2 SaaS (hosted) (2) (3)	Project Type 3 Software purchased and modified by PWC (2)	Project Type 4 Internally developed software applications (2)
Preliminary Project Stage	Project Investment Planning Phase				
	Full Options Analysis	Expense	Expense	Expense	Expense
	Determination of performance and system requirements	Expense	Expense	Expense	Expense
	Determination of existence of needed technology	Expense	Expense	Expense	Expense
	Project risk register	Expense	Expense	Expense	Expense
	Project governance	Expense	Expense	Expense	Expense
	Stakeholder meetings	Expense	Expense	Expense	Expense
	Project Investment Development Phase				
	Development of artefacts during planning phase	Expense	Expense	Expense	Expense

This procedure is uncontrolled when printed

	Complete project management plan	Expense	Expense	Expense	Expense
	Procurement / Delivery Strategy	Expense	Expense	Expense	Expense
	Detailed cost estimate including contingency	Expense	Expense	Expense	Expense
	Detailed schedule	Expense	Expense	Expense	Expense
	Project governance	Expense	Expense	Expense	Expense
	Stakeholder meetings	Expense	Expense	Expense	Expense

(1) In March / April 2021 the IFRS Interpretation Committee (IFRIC) issued two final agenda decisions and clarification of the accounting treatment of implementation costs related to Software as a Service (SaaS) applications. Ref. <https://www.ifrs.org/news-and-events/updates/ifric/2021/ifric-update-march-2021/#5>.

(2) Refer to source document for further definition of each project type.

(3) Categorisation based on project type generally observed in IT software development project. The general accounting will depend on the terms and conditions of the selected software license and hosting environment.

Accounting treatment by nature of expense (cont.):

		Software as a service (SaaS) over the cloud (1)		Software on PWC infrastructure	
Phases	Nature of expense	Project Type 1 SaaS (3 <sup>rd</sup> party host) (2) (3)	Project Type 2 SaaS (hosted) (2) (3)	Project Type 3 Software purchased and modified by PWC (2)	Project Type 4 Internally developed software applications (2)
Application Development Stage	User help documentation	Expense	Expense	Capitalise	Capitalise
	Configuration of software interfaces	Expense	Expense	Capitalise	Capitalise

This procedure is uncontrolled when printed

(Project Investment Delivery phase)	Software purchased	N/A	N/A	Capitalise	N/A
	Application Development	N/A	N/A	Capitalise	Capitalise
	Data migration and conversion	Expense	Expense	Expense	Expense
	Data cleansing	Expense	Expense	Expense	Expense
	Software configuration	Expense	Expense	Capitalise	Capitalise
	Installation to hardware	Expense	Expense	Capitalise	Capitalise
	Testing during development	Expense	Expense	Capitalise	Capitalise
	Stakeholder meetings	Expense	Expense	Expense or Capitalise (2)	Expense or Capitalise (2)
	Training	Expense	Expense	Expense	Expense
	Project governance	Expense	Expense	Expense or Capitalise (2)	Expense or Capitalise (2)
	Quantification and reasons for cost over-run	Expense	Expense	Expense	Expense
	Impacts on project scope, timing and benefits	Expense	Expense	Expense	Expense

(1) In March / April 2021 the IFRS Interpretation Committee (IFRIC) issued two final agenda decisions and clarification of the accounting treatment of implementation costs related to Software as a Service (SaaS) applications. Ref. <https://www.ifrs.org/news-and-events/updates/ifric/2021/ifric-update-march-2021/#5>.

(2) Project governance and stakeholders meeting costs might be capitalisable when it relates to costs incurred by management to oversee a project if the activities performed are directly attributable to the development. The key element is being able to support that the activities performed have future economic benefits to the software developed. For example project status updates for the board or executive would not meet this criteria.

Accounting treatment by nature of expense (cont.):

		Software as a service (SaaS) over the cloud (1)		Software on PWC infrastructure	
Phases	Nature of expense	Project Type 1 SaaS (3 <sup>rd</sup> party host) (2) (3)	Project Type 2 SaaS (hosted) (2) (3)	Project Type 3 Software purchased and modified by PWC (2)	Project Type 4 Internally developed software applications (2)
Post Implementation Operation Stage (Project review stage)	Examine delivery of benefits	Expense	Expense	Expense	Expense
	Project performance summary	Expense	Expense	Expense	Expense
	Improvement recommendations Learnt	Expense	Expense	Expense	Expense
	Lessons Register	Expense	Expense	Expense	Expense
	Software hosting expenses	Expense	Expense	Expense	Expense
	Software license	Expense	Expense	N/A	N/A
	Software / Application maintenance	Expense	Expense	Expense	Expense
	Enhancements – additional functionality	Expense	Expense	Capitalise	Capitalise
	Enhancements – no additional functionality	Expense	Expense	Expense	Expense
	Training	Expense	Expense	Expense	Expense

This procedure is uncontrolled when printed

(1) Software hosting expenses and software licences must be firstly assessed under AASB 16 Leases to determine if the arrangement meets the definition of a lease

Project Type 1 - Software as a Service (SaaS) with 3 <sup>rd</sup> party host cloud*	In these arrangements, the capability provided by the software supplier to the customer is accessed via a third party hosted cloud infrastructure. The customer accesses the software supplier application via a connection with a 3 <sup>rd</sup> party on an as needed basis and does not manage the underlying cloud infrastructure.
Project Type 2 -Software as a Service (SaaS) using supplier cloud*	In these arrangements, the capability provided by the software supplier (cloud service provider) to the customer is access to the supplier’s application software running on the supplier’s cloud infrastructure. The customer accesses the supplier’s software on an as need-basis over the internet or via a dedicated line and does not manage or control the underlying cloud infrastructure.
Project Type 3 –Purchased and/or modified software from vendor	For purchased software that is hosted on the customers infrastructure and/or that has been modified by the supplier, the customer obtains control of the software based on it having the power to obtain the future economic benefits flowing from the use of the software and the ability to restrict the access of other to those benefits. Accordingly, the guidance in AASB 138, <i>Intangible Assets</i> , will determine most of the accounting for software development activities.
Project Type 4 -Internally developed software applications	For internally developed software, the customer has designed and developed a unique software application for their exclusive use and benefit. The guidance in AASB 138, <i>Intangible Assets</i> , will determine most of the accounting for software development activities.

*\*Some aspects of SaaS costs may be able to capitalised in those circumstances where:*

*The configuration identified and implemented is required in order for the entity to obtain the benefits, as without the configuration, the benefits would not be obtained; and*

*The configurations are specific to the instance that the entity has access to, and are not generally available to other customers of the SaaS provider.*