7.1 Capital Assets Charge (CAC)

Mandatory requirements

7.1.1 Capital Assets Charge levy

The Accountable Officer must:

(a) apply a Capital Assets Charge (CAC) levy rate of eight per cent on the budgeted written down value of non-exempt controlled non-current physical assets of the department and its general government sector portfolio agencies, and

(b) include the CAC amount as a budgeted operating expense in the department's portfolio operating statement in Budget Paper No. 5, *Statement of Finances* (BP5).

7.1.2 Assets exempt from CAC

The Accountable Officer must exclude the assets listed below, from the written-down value of controlled non-current physical assets of the department and its general government sector portfolio agencies, in calculating the amount of the annual CAC to be applied:

- the declared road network controlled by the Department of Transport, encompassing:
  - pavement and earthworks;
  - sound barriers;
  - bridges;
  - traffic signal control systems; and
  - construction in progress;
- national parks;
- cultural collections and structures; and
- service concession assets (i.e. assets included in or forming part of a service concession arrangement);
- right-of-use assets held under a lease contract; and
- non-current physical assets, not classified as service concession assets or right-of-use assets, acquired under a public private partnership arrangement, where the borrowings and associated interest expense are included in the financial statements of the department or its general government sector portfolio agency.

7.1.3 Charging of CAC to actuals

The Accountable Officer must apply the annual CAC (as determined in Mandatory Requirement 7.1.1 above) as an expense, spread equally over 12 months.

7.1.4 CAC allocation across outputs

The Accountable Officer must allocate the CAC across the department's outputs as part of departmental budgeting processes.

Guidance

What is the CAC?

CAC is a charge (operating expense) levied on the written down value of controlled non-current physical assets of a department (i.e. the department and its general government sector portfolio agencies detailed in its portfolio balance sheet). The charge aims to facilitate the full costing of outputs by attributing to outputs the opportunity cost of capital used in service delivery. A department's annual appropriation for the provision of outputs includes funding for CAC expense.

The amount of CAC funding is calculated as an amount equal to eight per cent of the budgeted written down value of controlled non-current physical assets of the department and its general government sector portfolio agencies, after excluding any exempt assets as listed in the Mandatory requirements above.

Note: if the cost of capital for an asset (or group of assets) is already included in departmental portfolio financial statements, that asset is exempted from CAC calculations.

Administered non-current physical assets are excluded from the calculation of the base on which the CAC is charged, as these assets do not contribute to output delivery.

The CAC policy is subject to periodic review by DTF.

CAC cost allocation across outputs

CAC is paid by the portfolio department as a whole, with each department responsible for allocating CAC expenses across its outputs and to its internal divisions and portfolio (general government sector) agencies.

To ensure that costs, and therefore the prices paid, by the Government for individual outputs delivered are not distorted, the proportion of total departmental CAC that is to be included in the cost of each output should reflect as closely as is practical the proportion of departmental non-current physical assets that are used in the production of that output.

Potential variations to the CAC

DTF issues monthly invoices to departments for the CAC, on the basis of an even spread of the annual amount over the financial year to which the CAC applies.

There may be circumstances where the CAC monthly amount to be invoiced by DTF is different to what is required as per Mandatory requirement 7.1.3. Situations where this may occur could include machinery of government changes. Departments should discuss such situations with DTF to determine whether adjustments to the CAC amount and total appropriations are necessary.

Other exemptions from the CAC

Financial assets (which include cash, investments and deposits with the SAU inter-entity account), inventories, and intangible assets (including service concession assets classified as intangible assets), are not subject to CAC.

Impact of revaluations and variations in asset base

Departments should manage their asset base effectively, and carry out timely asset revaluations in line with accounting standards. Such revaluations may affect the amount of CAC payable by a department in future periods.

Construction-in-Progress

The CAC applies, unless otherwise exempt, to Construction-in-Progress (CIP), in the years following the commencement of the construction:

- year 1 of construction – no CAC applies; and
- year 2 onwards – recognise prior year's construction amounts for the purposes of applying CAC.