Honiton Community College
Academy Trust

ASSETS AND DEPRECIATION POLICY

HCC
'Success for All'

This Policy was adopted by the Governing Body of
Honiton Community College Academy Trust
on 18th May 2016
and will be reviewed every two years.

Capitalised Assets and Depreciation Policy and Procedures

1. Purpose

To ensure that:

1.1 Consistent principles are applied to the initial measurement of tangible fixed Assets.

1.2 Where an entity chooses to revalue tangible fixed assets the valuation is performed on a consistent basis and kept up-to-date and gains and losses on revaluation are recognised on a consistent basis.

1.3 Depreciation of tangible fixed assets is calculated in a consistent manner and recognised as the economic benefits are consumed over the assets' useful economic lives.

1.4 Sufficient information is disclosed in the financial statements to enable users to understand the impact of the entity's accounting policies regarding initial measurement, valuation and depreciation of tangible fixed assets on the financial position and performance of the entity.

2. Policy Statement

The college will ensure consistent principles are applied in respect of measurement, valuation and depreciation of tangible fixed assets and that sufficient information is disclosed in the financial statements to enable users to understand the impact of the accounting policies.

3. Scope

3.1 The college operates a policy whereby all fixed assets greater than or equal to £1000, will be assessed for capitalisation.

3.2 All items of capital expenditure must be approved as part of the college's annual budgeting process. The Director of Finance and Resources, who will confirm the budget approval, will advise the Finance Officer and ensure that the expenditure is correctly accounted for.

3.3 Capitalised assets will be considered for revaluation at regular intervals, but not longer than three years in duration.

3.4 Capital assets will be depreciated annually and should be recorded no later than three months after the asset has come into use or been commissioned.

3.5 Capitalised assets will be considered for impairment only if there is some indication that impairment has occurred.

3.6 Costs that are directly attributable to the construction of a tangible fixed asset and to bringing the asset into working condition for its intended use including Finance costs, will be capitalised. Such costs are those that would have been avoided only if the tangible fixed asset had not been constructed or acquired.

3.7 SFC and other grants, particularly capital grants, can be deferred upon receipt and released into the Income and Expenditure account in line with the depreciation charge on the assets to which they relate.

4. <u>Responsibilities</u>

4.1 The Director of Finance and Resources is responsible for managing this policy.

4.2 All members of Finance staff are responsible for the effective operation of the Policy and Procedures.

5. <u>Procedures</u>

5.1 General

5.1.1 This capitalised asset and depreciation policy must be applied, in any given financial year, to any capital asset purchased, greater than or equal to the capital asset value threshold of £1000.

5.1.2 The threshold of £1000 may be achieved through an individual purchase or a group of purchases. The grouping of assets generally falls within a narrow definition that is dependent on asset type and the level of risk attached to each asset. Grouping of assets, other than project work, should only be considered if part of an original purchase order. Capital expenditure on project work should be grouped. In the event of such expenditure, VAT should be included within the capitalised cost.

5.1.3 Grouping of assets should under normal operating circumstances exclude furniture items, as these are considered to be of low risk in value and possibility of theft. However, where under a major construction programme the expenditure related to new furniture is in excess of £20k, they should be grouped, capitalised accordingly, and depreciated over their useful economic life.

5.1.4 The capital asset policy follows the Accounting Standards, FRS 15 (Tangible Fixed Assets), FRS11 (Impairment of Fixed Assets) and FRS 3 (reporting Financial Performance).

5.1.5 Whenever specific funding is given for capitalised assets or project work considered for capitalisation, adherence should be given to SSAP 4 (Accounting for Government Grants).

5.1.6 Where subsequent revisions to Accounting Standards or the SORP (Statement of Recommended Practice: Accounting for Further and Higher Education), or new Accounting Standards apply to accounting for fixed assets, their treatment should be considered under this policy.

5.1.7 Budget holders will provide the Finance Assistant with asset tag numbers and asset locations for each asset, immediately they have been acquired. At a minimum, details should be obtained by review by the Finance Assistant on a monthly basis of the budget holder's order books.

5.1.8 In respect of portable assets, especially computer and audio visual equipment, it is the responsibility of the ICT Manager and ICT technician to maintain their own records as to the location of the assets and these records should be updated every time an asset is moved to another location to facilitate efficient asset verification.

5.2 Classification of assets:

• Land and Buildings

Land – capitalised at cost.
Buildings – capitalised at cost, when brought into use.
Project work – capitalised at cost, but only when there is a material enhancement in excess of £50k to the asset and as such prolongs the life of the asset.
Repair and maintenance costs should be charged directly to the Income and Expenditure account.

• Furniture and Fittings

Capitalised at cost. In the event of grouped purchases of such items, the total value is capitalised and written off over its useful economic life. However, due to the low level of risk associated with furniture items, a group purchase of furniture less than £20k will **not** be considered for capitalisation unless part of a major construction programme.

• Office Equipment

Capitalised at cost.
Lease –'Operating' lease' should be charged directly to the Income and Expenditure account.

• Computer Software

Consultancy costs and other 'one off' initial costs should only be capitalised, if part of a project greater than or equal to £10k. Computer software should only be capitalised if it enhances the operational life of the system and not as direct replacement of outdated software. The value will be in addition to the initial capital cost and therefore may be less than the £10k minimum capitalisation level. Software licences greater than or equal to £10k should be capitalised. All software developed internally should be charged directly to the Income and Expenditure account.

• Computer Equipment

Individual PCs will not be capitalised, unless greater than £1000 in value. Grouped PC purchases greater than or equal to £1000 will be capitalised. Cabling and similar fittings will only be treated as capital, if considered as part of a major infrastructure upgrade. Otherwise these should be considered as general repairs to the building infrastructure and therefore not capitalised.

• Website Development

Design and content development costs should be capitalised only to the extent that they lead to the creation of an enduring asset delivering benefits at least as great as the amount capitalised. Website planning costs and expenditure to maintain or operate a website once it has been developed should be charged to the income and expenditure account as incurred.

5.3 Depreciation

5.3.1 Depreciation should be based on the capitalised cost less estimated residual value spread evenly over the expected useful life of the asset/s. Basic straight-line depreciation applies.

5.3.2 Assets are depreciated from the date the asset is brought into use. The depreciation charge is calculated on an annual basis.

5.4 Useful Economic Life

5.4.1 The useful economic life of a tangible fixed asset should be reviewed at the end of each financial year and revised if expectations are significantly different from previous estimates. If a useful economic life is revised, the carrying amount of the tangible fixed asset at the date of revision should be depreciated over the revised remaining useful economic life.

5.4.2 As a guideline the following useful economic lives should be used:

- Buildings (including infrastructure and directly attributable
- construction costs) – up to 50 years - 2% Straight line
- Fixtures, Fittings & Equipment – up to 10 years – 20% Straight line
- Main computer system/equipment including PCs – up to 5 years – 20-33% Straight line
- Motor Vehicles – 25% reducing balance

5.5 Disposals

5.5.1 The college cannot dispose of any asset with a value of more than £1000 unless it has the written permission from the Resources Committee. The Director of Finance and Resources approves every proposed disposal of any college asset regardless of value.

5.6 Asset Revaluation

5.6.1 A full valuation should be carried out at least every five years and an interim valuation after three years, with an interim valuation in the intervening years where it is likely that there has been a material change in value.

5.6.2 Revaluation should be applied to individual classes of tangible fixed assets, but need not be applied to all classes of tangible fixed assets held by the entity. In those rare cases where it is impossible to obtain a reliable valuation of an asset, the asset may be excluded from the class of assets. However, the carrying amount of the fixed asset and the fact that it has not been revalued must be stated (refer to FRS 15 for guidance). Assets should be revalued using the current cost price index issued by the National Statistics Office. Buildings should be revalued by a qualified external valuer.

5.7 Physical Inspection of Assets

5.7.1 Tangible fixed assets should be physically verified on a regular basis. At least once per annum and will be the responsibility of the Director of Finance and Resources throughout the year. The annual sample size will be the higher than 5% of the number of assets held in the asset register or 20 in number.

5.7.2 When selecting the sample for verification, the sample should be taken from the asset register and traced back to the site holding the asset. Emphasis should be placed on high risk assets.

5.7.3 An audit trail, plus results, should be retained for use by the college's Internal and/or External Auditors.

6. Compliance

6.1 The college must follow this policy and in particular the reference to the Accounting Standards guidance, specifically FRS 15 (Tangible Fixed Assets), FRS11 (Impairment of Fixed Assets), FRS 3 (reporting Financial Performance), SSAP 21 (accounting for leases and hire purchase contracts) and SSAP 4 (Accounting for Government Grants). Failure to adhere to this guidance may result in a qualification against the college's annual accounts, and this will not be acceptable practice.

7. Review of Policy

7.1 The college will not normally consider changes to these details unless there are exceptional circumstances.

7.2 Exceptional circumstances will be dealt with through the External Accountants and approved by the Resources Committee on behalf of the Board of Governors.

7.3 This policy should be reviewed every two years and whenever changes affect it.