

Capitalisation Policy and Procedures

Royal Borough of Greenwich

Property, Plant and Equipment

Capital expenditure can be defined as; **expenditure on the acquisition, creation or enhancement of a non-current asset.**

Non-current assets can be surmised as items of property, plant and equipment in control of the Council which gives rise to probable economic benefit for a future period of more than 12 months. The asset does not have to be owned by the Council, but rights to a future economic benefit must have been acquired by a past event.

Acquisition and Creation

The Council will capitalise all 'attributable' costs incurred in the creation or acquisition of new assets with a value above the de-minimis value of £10,000.

Attributable costs will include labour arising from the construction of the asset, including directly incurred employee costs such as Project Management; and incremental costs incurred in bringing the asset into the condition for its intended use.

Example 1 – Acquisition of a new panel van including registration cost, delivery charge and tracker installation.

Non-Current Asset Enhancement

Enhancement cost will be capitalised if it substantially lengthens the useful life of the asset or replacement is assumed as part of the assessment of the asset life, which restores the benefit of the asset that has been consumed.

Example 2 – Roof renewal which was assumed as part of a 40 year useful life assessment

Further capitalisation of asset enhancements will be considered if works substantially increase the market value of the asset or substantially increases the ability of the asset to contribute to the Councils objectives.

Enhancement expenditure incurred by the Council on leased assets will be treated as revenue expenditure funded from capital.

Financing

The Council is permitted to capitalise financing costs incurred in relation to its capital programme, including interest on bank overdrafts, short and long term debt, where these have arisen over a substantial construction / delivery period.

De Minimis Levels

The Code of Practice on Local Authority Accounting applies to all expenditure items of property, plant and equipment; however where appropriate the Council is able to set de minimis levels in accordance with the principals of materiality. Capitalisation de minimis levels are set as following, however capitalisation may still be considered at a lower limit, for example where funding is derived from a grant.

- Individual costs for the acquisition and creation of a non-current asset must be in excess of £10,000.
- Aggregated costs for the acquisition and creation of a non-current asset must be in excess of £10,000.

Capital Grants

The Council may wish to capitalise items of expenditure, in accordance with funding conditions, which are below the de-minimis level where expenditure is financed from grants.

Feasibility Costs

Feasibility expenses must be charged to the revenue account, as costs cannot be attributed to a probable future inflow of economic benefit to the Council.

Investment Properties

Investment properties are land, buildings or both which are held solely for revenue returns and capital appreciation.

Items of expenditure on the enhancement of existing Investment assets will be capitalised in accordance with the policy for Property Plant and Equipment, and adjusted through the annual Fair Value assessment process.

Statutory Defined as Capital

Revenue Expenditure Funded from Capital Under Statute (REFCUS) describes transactions that would not be capitalised under proper accounting practice, but that are defined as capital expenditure under the Local Government Act 2003 and its associated regulations.

Example 3 – Health and Safety / Fire Safety works to communal areas.

Disposal Receipts

Receipts of £10,000 and above, which have been generated from the disposal of Property, Plant and Equipment will be treated as capital receipts.

In accordance regulations, up to 4% of a disposal receipt generated from General Fund asset can be used to fund a disposal. In accordance with IAS 36 and IPSAS 21 examples of such costs are 'legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale'

Guidance and Publications

The Capitalisation Policies and Procedures set out in this document have been developed with regards to the following guidance and publications;

- Code of Practice on Local Authority Accounting in the United Kingdom - CIPFA
- The Code Guidance Notes for Practitioners - CIPFA
- Practitioner's Guide to Capital Finance in Local Government – CIPFA
- International Accounting Standard (IAS) 16 and International Public Sector Accounting Standard (IPSAS) 17 Property, Plant and Equipment
- IAS 40 and IPSAS 16 Investment Property
- IAS 38 and IPSAS 31 Intangible Assets
- The Local Government Act 2003 and the 2003 Capital Financing Regulations (as amended)
- Financial Reporting Standard (FRS) 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland