

Capitalisation

1. Background

This document is intended to describe the standard policies required for recording new and existing fixed assets, changes in fixed assets and the methodology of record keeping. The policy is intended to ensure that:

- Expenditure will not be capitalised when benefit is not evident; and
- Where an asset is replaced, the original asset is scrapped.

2. Objectives

Abbeyfield The Dales Ltd. (ATD) is committed to providing services that enhance the quality of life for older people and developing services that will meet the needs of future generations. This commitment is based on the Mission and Values of ATD. The policy is prepared in accordance with applicable law and UK accounting standards, which include the Companies Act, FRS102 and the Housing SORP, for Registered Housing Providers.

Ensure that the business can accurately ascertain what is an asset, the correct treatment to be applied to it, and how it will be reflected in the accounts.

Ensure the accounting for Fixed Assets is in line with the financial reporting standards and statement of standard accounting practice (see below):

- Statement of Recommended Practice 2010.
- FRS 5 – Reporting the Substance of Transactions
- FRS 15 – Tangible Fixed Assets
- FRS 102 – Revaluation of Land and Buildings
- IAS 16 – Property, Plant and Equipment

3. Scope

The Policy applies to all budget holders, or the staff involved in making decision about how and when to use ATD's resources, as it is important that everyone involved is aware of the capital policy.

4. Policy

This document encompasses all forms of ATD fixed asset expenditure, along with the depreciation (component accounting), revaluation (impairment), and disposal of said assets.

4.1. Asset Classification

ATD's fixed assets fall under the following categories:

- Land
- Acquisitions (including Goodwill)

- Mergers
- Construction
- Donated assets
- Investments (Treasury instruments)
- Improvements/alteration to existing stock - new equipment, extensions, full refurbishments, new roofs etc
- Equipment; and
- Fixtures and fittings.

4.2. Asset Valuation

Fixed assets shall be recorded at valuation, cost or, if the cost is not readily determined, at estimated historic cost. Cost shall include applicable ancillary costs. All costs shall be documented, including methods and sources used to establish any estimated costs.

4.2.1. Purchased Assets

The recording of purchased assets shall be made based on actual costs, including all ancillary costs, based on vendor invoice or other supporting documentation.

4.2.2. Constructed Assets

All directly attributable costs (including direct labour) associated with the construction project incurred on meeting the criteria for development cost recognition.

4.2.3. Donated Assets

Fixed assets acquired by gift, donation, or payment of a nominal sum not reflective of the asset's market value shall be assigned cost equal to the valuation at the time of receipt.

4.2.4. Enhanced Expenditure

Enhancement Expenditure will be added to the value of relevant fixed assets and only written off to the extent that there is evidence that an impairment review might be needed and that review results in a devaluation of the asset. If the valuation determines that the value of the asset had not increased by the level of the enhancement expenditure, then it should formally be processed as an impairment loss and passed through the Income and Expenditure (I&E) account.

4.3. Capitalisation Thresholds

Fixed assets shall be capitalised as follows:

- All land acquisitions.
- All buildings/facilities acquisitions and new construction.
- Construction in Progress (CIP) for capital projects with a budget more than £1,000.
- Equipment costing more than £1,000 with a useful life beyond one year.
- Facility renovation and improvement projects costing more than £1,000; subject to satisfactory application of component accounting.
- Capitalised interest incurred on new construction, rehabilitation or improvement projects costing more than £1,000.

- Computers.
- Software costing more than £1,000 with a useful life beyond one year.
- Intangible assets of internally/externally generated computer software (e.g. ATD Website) and all other intangible assets costing more than £1,000; and
- Bulk Computer or equipment purchases, with individual costs greater than £250, amounting to greater than £1,000.

Improvements and other Assets - The entire cash spend and labour costs of ATD's own employees arising on the construction of an asset shall be capitalised.

ATD will only fully capitalise enhancement expenditure providing the cost can be measured reliably and it meets at least one of the following three criteria:

- Lengthens substantially the useful life of the asset.
- Increases substantially the market value of the asset.
- Increases substantially the extent to which the asset can or will be used for the purposes of or in conjunction with the functions of ATD.

The three criteria listed above are consistent with IAS 16's criteria which states that subsequent expenditure can be capitalised when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

- Capitalisation of Finance Costs (for new projects) - ATD is permitted to capitalise finance costs in relation to capital projects, in accordance with the requirements of FRS15/IAS 16. These could comprise interest on bank overdrafts and short and long-term debt, plus amortisation of ancillary costs incurred with the arrangement of debt, arising due to fixed assets taking a substantial period to bring into service.
- ATD can capitalise enhancement expenditure on a leasehold asset providing it controls the rights to the benefits of the capital expenditure. The recoupment of such spend that are/could be processed subject to Section 10 consent.
- In certain scenarios ATD may want to capitalise expenditure below £1,000 providing the expenditure meets the criteria for enhancement (e.g. the expenditure is funded through capital grants).
- All expenditure to maintain the standard performance of a fixed asset – services (e.g. lift inspections, fire assessments), routine repairs, void repairs, and maintenance - should be expensed / charged to the appropriate revenue account.
- Speculative projects or aborted plans - should not be capitalised. Any type of operating costs in relation to setting up a new service cannot be capitalised such as staff training or the cost of alternative arrangements whilst an asset is being constructed.

4.4. Definitions

4.4.1. An Asset

An Asset is an item of property owned by ATD that is regarded as having a value and from which future economic benefits are expected to flow.

4.4.2. Goodwill

Goodwill arises when the purchase price of an asset exceeds its net book value.

4.4.3. Control of an Asset

The ability to obtain the future economic benefits relating to an asset and to restrict the access of others to those benefits.

4.4.4. Pre-Contract Costs

The activity of bidding for contracts does not necessarily give rise to rights or access to future economic benefits that are controlled by an entity.

4.4.5. Directly Attributable Costs

FRS 15: Tangible Fixed Assets states that 'only costs directly attributable to bringing the asset into working condition for its intended use should be included in its measurement' (capitalised).

This includes:

- Land
- Acquisition costs
- The cost of preparation and clearance
- Installation costs
- Finance costs, for example interest or arrangement fees
- Professional fees
- Labour cost of own employee arising directly from the construction, or acquisition of the specific fixed asset
- Incremental costs to the entity that would have been avoided only if the tangible fixed asset had not been constructed or acquired
- Initial delivery and handling costs; and
- Costs of an essential commissioning period (brining an asset up to its normal operating potential).

4.5. Capitalisation of Development Costs

The ability to capitalise a development project will depend on (it is not necessary for all the milestones below to have occurred chronologically; these factors are not contingent on ATD owning the land):

- Land – option to buy (100% certainty on control and 90% certainty on price mechanism – certainty on price);
- Pre-planning consultation – completed (favourable response greater than 90% chance of getting planning permission);
- Planning permission – application submitted;
- Financial models – Early modelling indicates viability; and
- Board approval – interim ('in-principle') board approval.

Once the above can be satisfied all directly attributable costs can be capitalised, in accordance with:

- FRS 5 – Reporting the Substance of Transactions;
- UITF 34 - Pre-Contract Costs;
- Virtual Certainty (see UITF 34); and
- FRS 15 – Tangible Fixed Assets.

4.6. Property Services Classification

Property Services expenditure, broadly speaking, that fall under the following headings **will** be capitalised:

- New equipment purchases such as cookers, washing machines, etc.
- Property improvements such as extensions, full refurbishment of bathrooms, kitchens or lifts, landscaping, professional fees, etc.
- Fire Regulatory expenditure; typically resulting from fire assessments, for example a new fire door, or written off, for example consultancy services.
- Asset Replacement or enhancement (new roofs, windows, doors, boilers, lifts), but any old asset will need to be scrapped or written off.
- Warden / Nurse Call and Fire Alarm system installation.
- Electrical (partial / major rewiring).
- Water Management expenditure (e.g. new water tanks, major system overhauls, etc); and
- Heating (major overhauls, re-piping, new radiators, etc).

Property Services expenditure, broadly speaking, that fall under the following headings **will not** be capitalised:

- Services (maintenance contracts, water management, asbestos surveys, etc); and
- Responsive repairs (expenditure to maintain the functional condition of an asset).

4.7. Depreciation

4.7.1. Depreciation of Fixed Assets

Depreciation is the reduction in the value of an asset over time, due primarily to wear and tear.

Generally, at the end of an asset's life, the sum of the amounts charged for depreciation in each accounting period will equal original cost less the residual value.

4.7.2. Estimated Useful Life

Estimated useful life means the estimated number of months or years that an asset will be able to be used for the purpose for which it was acquired.

Eligible fixed assets should be depreciated over their estimated useful lives.

4.7.3. Depreciation Method

Depreciation will begin in the month the asset is placed in service.

Under the straight-line depreciation method, the basis of the asset is written off evenly over the useful life of the asset.

The amount of annual depreciation is determined by dividing an asset's cost by its estimated life.

The total amount depreciated can never exceed the asset's historic cost less Social Housing Grant (SHG) on property.

At the end of the asset's estimated life, it is assumed the net realisable value will be nil and asset will remain in our balance sheet until disposal.

4.7.4. Component Accounting

ATD will account for components separately if:

- The capital cost of the new component is above £1,000; and
- The useful economic life of the component is significantly different from the useful economic life of the remainder of the asset.

The separation of component assets is likely to be necessary to ensure component accounting rules for capitalisation are adhered to.

Special Projects exceeding £250,000 do not need to satisfy component accounting rules.

4.7.5. Period Depreciation Runs

Fixed Asset Type	Annual Rates of Depreciation	Useful / Economic Life (years)
Structure	1%	100
Roofs	2%	50
Windows and doors	3.33%	30
Kitchens	3.33%	30
Bathrooms	3.33%	30
Electrical	5%	20
Lifts	6.66%	15
Boilers	6.66%	15

Other Assets	Annual Rates of Depreciation	Useful / Economic Life (years)
Computer hardware	33.3%	3
Computer software	33.3%	3
Office equipment & furniture	20%	5
Motor vehicles	20%	5
Dwelling eqpt. & furniture	20%	5

4.8. Residual Values and Disposal of Fixed Assets

The residual value of a fixed asset refers to the value it is expected to have when it is no longer useful for its intended purpose (the amount for which an asset could be sold at the end of its useful life).

The residual value can be based on:

- Internal projections
- General guidance from professional bodies, or
- Professional valuation.

When a fixed asset, upon reaching the end of its useful life, is sold or otherwise disposed of, a profit or loss on disposal may arise. The recognised profit or loss is the difference between the total sale proceeds, less the cost of disposing the asset, and the net carrying amount (residual value) of the asset.

Profit and loss on disposal should be recognised in the central profit and loss account and not in house or home accounts.

4.9. Revaluation of Fixed Assets

Revaluation of fixed assets is the process of increasing or decreasing the carrying value in case of major changes in fair market value of the fixed asset.

ATD's fixed assets are carried at historic cost less accumulated depreciation and accumulated impairment losses.

Revaluation losses should be recognised in the profit and loss account.

4.10. Impairment Loss

Impairment Loss refers to the amount by which the carrying amount of an asset exceeds its likely recoverable amount.

At the end of each reporting period, ATD is required to assess whether there is any indication of an asset being impaired, for example prolonged voids.

If there is any indication of impairment, the fixed assets recoverable amount must be assessed, sometimes by professional valuation.

The impairment loss is recognised as an expense (unless it relates to a re-valued asset where the impairment loss is treated as a revaluation decrease) - IAS 36.60.

5. Finance, Value for Money & Social Value

This policy both governs the treatment of expenditure within ATD, but also dictates the economic or useful life of assets bought. The life of an asset indicates how long it is expected to be in a useable state and therefore may need to be replaced; it does not indicate that it must be replaced, and the condition of that asset will need to be assessed at the end of its useful or economic life to ascertain whether it remains in a good and useable condition.

In assessing the economic or useful life, particularly for other assets, an assessed estimation of quality is made of the products purchased and the impact on the aesthetics and marketability of an environment to enable a service to remain attractive.

6. Supported Appendices

N/A

7. Linked Policies

N/A

8. Legislation/Regulation

Companies Act 2006

Housing and Regeneration Act 2008

Accounting Direction for Registered Providers of Social Housing 2012

9. Review

Every 3 years, subject to any regulatory or legislative updates.

10. Procedure/Guidance

N/A