

Fixed Assets Policy

Control over Assets

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Financial Control and Compliance

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1. Introduction

- 1.1 The British Council (or 'the Council' hereinafter) is a non-departmental public body (NDPB) with charitable status. The Council must comply with the [Accounting and Reporting for Charities: Statement of Recommended Practices \(SORP\)](#) issued by the Charity Commission, and the [Financial Review Manual \(FReM\)](#) as issued by the HM Treasury.
- 1.2 The Council receives funding to support the delivery of its activities. It must accurately account for the use of these funds or risk their withdrawal.
- 1.3 The purpose of this policy is:
- 1.3.1 To provide guidance when dealing with capital expenditure and the purchase and disposal of fixed assets (as defined below); and
- 1.3.2 To provide guidance on other aspects of fixed asset accounting such as depreciation and revaluation.

2. Audience

- 2.1 This policy is applicable to all British Council offices globally.
- 2.2 All British Council employees.

3. Definitions

- 3.1 Accumulated depreciation** The total accumulated amount charged to the income and expenditure account to reflect the use of the asset by the business, over its useful economic life.
The value of the Fixed Asset on the Balance Sheet will be reduced over the useful life of the asset.
- 3.2 Capitalisation** The addition to the balance sheet of an amount in respect of an asset which has come into the possession of the Council, whether through purchase or donation of a Gift in Kind.
- 3.3 Carrying amount** The purchase cost (or valuation) of a fixed asset less the accumulated depreciation on that fixed asset.
- 3.4 Current replacement cost** The amount it would cost to replace the asset (in the same condition or new) at current prices.
- 3.5 Certified market value** The market value of an asset certified by an independent expert in valuing the relevant asset e.g. members of Royal Institution of Chartered Surveyors (RICS).
- 3.6 Depreciation** The charge made to the income and expenditure account each month to reflect the use of the asset by the business during the period.
- 3.7 Fixed Assets** A Fixed Asset is an asset that has a useful life greater than one year. This includes land, buildings, office furniture and equipment (e.g. air-conditioning, heating systems), vehicles, major IT systems, hardware and software and the Council's permanent art collection. These are included in the Council's Balance Sheet.

In addition to the aforementioned categories goods and services which

are purchased, and can be used by the British Council repeatedly over a period of time to carry out its day to day activities, are also fixed assets. These have to have, in part, physical substance although the cost of services required to bring the asset into use may be also attributed to the fixed asset. These should also be included in the Council's Balance Sheet.

Consumables which are used on a daily basis are not Fixed Assets

- 3.8 Grant** Funds given to the British Council by a third party, subject to complying with any terms and conditions attached to the grant, to purchase unspecified fixed assets.
- 3.9 Grant-in-Aid** Funds received from the Foreign and Commonwealth Office ('FCO') for the purchase of a specific fixed asset.
- 3.10 Market value** The estimated amount for which an asset could be sold by the British Council to a third party on an arm's-length basis on a given date. Typically this will only apply to land, buildings and the permanent art collection.
- 3.11 Net book value** See carrying amount.
- 3.12 Recoverable amount** The cash proceeds received when an asset is disposed.

4. Categories of fixed assets

This list describes the categories of fixed assets most commonly used by the Council. It is not exhaustive and other categories may be added but only with the approval of the Financial Accountant.

- 4.1 Freehold and long-leasehold buildings** The cost of acquiring freehold and long leasehold land and buildings. It includes all external costs incurred as part of the acquisition such as legal and professional fees as well as other costs such as building costs which are necessary in order to bring the asset into use.
- 4.2 Furniture and equipment** Items such as library shelving, fixed or free-standing, office phones, soft furnishings and general furniture such as chairs, desks which will last a number of years but not as long as the building in which they reside.
- 4.3 Motor vehicles and plant** Items such as air conditioning, lifts, heating system, diesel generators, cars etc
- 4.4 Arts collection** Items of a decorative nature which are separate from the building in which they are housed e.g. paintings, sculptures, statues etc
- 4.5 Information technology** Items such as PCs, IT servers, routers, video conferencing equipment, software costs, software implementation and the costs of bring this equipment into use e.g., the cost of external consultants used to install and set up the equipment. It does not include training costs of British Council employees or contractors or the costs associated with British Council employees who install or set up the equipment
- 4.6 Intangibles** Items which have no physical existence, such as software licences and other assets, which will have an economic useful life during coming years.

5. Criteria for capitalisation of assets

- 5.1 The processes and procedures that must be followed when purchasing fixed assets are set out in the process guidance (Property Management).
- 5.2 Expenditure eligible for capitalisation:
- 5.2.1 Authorised and approved expenditure for an item which meets the definition of a fixed asset, and exceeds £3,000, should be identified and flagged as a fixed asset. The asset should be recognised on the Council's Balance Sheet.
- 5.2.2 The cost of the Fixed Asset should include the cost of the asset and any other costs directly attributable in bringing the asset into a condition where Council staff can use it. Such costs include, but should not be limited to:
- 5.2.2.1 Costs of external consultants and internal staff whose work is directly attributable to the implementation of the asset.
- 5.2.2.2 Software and hardware acquired specifically for use on a capital project.
- 5.2.2.3 Assets purchased in bulk even if the cost of each asset is less than £3,000 but the total is more than £3,000.
- 5.2.2.4 Costs of enhancements (not repairs and renewals), which significantly extend the life of the asset and would not be carried out on a regular basis (e.g. building improvements).
- 5.2.3 Internally developed assets may only be capitalised where there is a readily ascertainable and certified market value.
- 5.3 Expenditure not eligible for capitalisation:

The following costs cannot be treated as capital expenditure and therefore cannot be included within fixed assets:

- 5.3.1.1 Existing staff costs including payroll costs, employer's N.I. and pension contributions, travelling and expenses.
- 5.3.1.2 Individual assets costing less than £3,000 (i.e. computers, printers and cables), unless purchased in bulk (see above) as part of a capital project.
- 5.3.1.3 Cost of staff training as part of normal business activities.
- 5.3.1.4 Administration and general overheads for running day-to-day business activities.
- 5.3.1.5 Planning costs relating to initial activities such as option appraisals, feasibility studies, identifying appropriate hardware and applications and selecting suppliers and consultants.
- 5.3.1.6 Cost of abortive work.
- 5.3.1.7 Post implementation support and maintenance costs related to software installation.

6. Delegated authority

- 6.1 Delegated authority required for approving the purchase and disposal of fixed assets, as authorised by the Chief Executive Officer, are included in [Appendix 1](#).
- 6.2 Purchases / Disposals which exceed the prescribed limits and do not exceed £2 million must be approved by the Chief Executive Officer.
- 6.3 Purchases / Disposals greater than £2 million must be referred to the Board of Trustees and Foreign and Commonwealth Office (FCO) for approval.

7. Accounting treatment (valuation in balance sheet)

- 7.1 Only costs eligible for capitalisation (see [Section 5](#)) should be entered into the accounts.
- 7.2 Costs must be allocated against individual fixed assets
- 7.3 The cost of the asset includes the purchase price (including import duties and non-refundable taxes) and any other direct attributable costs of bringing the asset to working condition. Discounts received should be deducted from the total cost. Please refer to Section 8 for valuing assets purchased with government grants.
- 7.4 Expenditure on enhancing a fixed asset already recognised in the Balance Sheet should be added to the carrying amount where the expenditure meets the definition above ([Section 5 – expenditure eligible for capitalisation](#)) for enhancements.
- 7.5 Internally developed assets are recorded at the certified market value. Project managers responsible for projects generating internally developed assets must provide all related documentation regarding the certified market value.
- 7.6 [Form FIN30](#) should be completed and sent to Financial Accounting, with appropriate documentation, following the purchase of the asset.

8. Revaluation of fixed assets

- 8.1 Fixed Assets belonging to the Council should be revalued as follows:
 - 8.1.1 Council has opted to adopt current cost accounting under "[Accounting and Reporting by Charities: Statement of Recommended Practice](#)". This provides that asset carrying values should be adjusted for the effects of inflation on an annual basis. This will ensure the carrying value is representative of the current replacement cost of the asset. This process is the responsibility of Financial Accounting and should be carried out during each financial year-end.
 - 8.1.2 It is Council policy that certain categories of fixed assets, namely freehold and long leasehold land and buildings, are revalued by independent valuers authorised by RICS every five years. Global Estates will be responsible for administering this process with assistance from Financial Accounting.
 - 8.1.3 It is Council policy that the permanent works of art collection is revalued every year by the Arts Department based on market values. The revalued figure for the arts collection will be reflected in the annual accounts.
- 8.2 Gains on revaluation of fixed assets must be credited to the relevant reserve as follows:
 - 8.2.1 Revaluations under Current Cost Accounting (CCA) should be transferred to a designated 'Revaluation Reserve' for each asset category.
 - 8.2.2 Land, Buildings and building improvements revaluations should be transferred to a designated Revaluation Reserve.
 - 8.2.3 Financial Accounting will be responsible for ensuring appropriate accounting adjustments are applied.
- 8.3 Losses on revaluation must be debited to the relevant reserve (revaluation, fixed assets revaluation reserve) to the extent that gains have previously been recognised and recorded.

9. Depreciation

- 9.1 Depreciation is charged against Fixed Assets over the expected useful life of the asset to reflect the usage of the asset over time.

- 9.2 The Council uses the straight-line method of depreciation where the asset cost is written down in equal annual amounts over its expected useful life.
- 9.3 The period over which the asset is depreciated varies according to the category of the asset. Financial Accounting is responsible for allocating a useful economic life to each fixed asset where expenditure has been capitalised.
- 9.4 All tangible fixed assets, other than freehold land, the permanent collection of works of art and assets in progress must be depreciated as follows:

Type	Estimated useful life
Freehold and long-leasehold buildings	30-50 years
Building improvements	5-25 years
Furniture and equipment	4 years
Plant and Machinery	7 years
Motor vehicles	4-7 years
Major IT projects	4-5 years
Intangibles	10 years

- 9.5 Major IT projects, including system developments, will have a useful life which ends at the expected date of replacement.
- 9.5.1 For example, if SAP goes live in April 2008 and the expected replacement date is April 2012, the capitalised costs of the SAP implementation should be depreciated over four years to April 2012.
- 9.6 Depreciation will be charged from the quarter following the quarter in which a newly purchased asset comes into use.
- 9.6.1 For example, if a car is bought in December but not used until March, depreciation will be charged from the beginning of the quarter following the quarter in which the car was first brought into use. E.g. If the car was first brought into use in the quarter ending in March, depreciation will be charged from the following quarter i.e. the quarter beginning in April.
- 9.7 Depreciation ceases to be charged in the quarter in which the asset is disposed.
- 9.8 For guidance on the accounting treatment of depreciation for large projects please contact the Financial Accountant.

10. Disposal of Fixed Assets

- 10.1 When a Fixed Asset is sold or otherwise disposed, a profit or loss may arise. This is the difference between the total sale proceeds, less the cost of disposing of the asset, and the net carrying amount of the asset.
- 10.2 The profit or loss arising on disposal should be recognised as follows:
- 10.2.1 Profits on disposal of fixed assets, other than those financed by grant or grant-in-aid, must be included in the income and expenditure account under "profit or loss on sale of fixed assets".
- 10.2.2 Losses on disposal of Fixed Assets must be treated as additional depreciation and included in the relevant account within the income and expenditure account.
- 10.2.3 Where the asset was financed by grant-in-aid, the gain or loss on disposal is taken to the income and expenditure account and included under profit or loss on sale of fixed assets.
- 10.3 Any asset that is lost or destroyed, and subsequently replaced through insurance proceeds, should be removed from the balance sheet. The profit or loss arising (the difference between carrying

amount and insurance proceeds) must be recognised in the income and expenditure account under profit or loss on sale of fixed assets. The replacement asset is capitalised at cost in the normal way.

- 10.4 [Form FIN32](#) should be completed with appropriate documentation and should be sent to Financial Accounting.

11. Transfer of fixed assets

- 11.1 From time to time, fixed assets will be transferred from one of the Council office to another. Where assets are transferred at no cost, the assets should be transferred at net book value.
- 11.2 [Form FIN31](#) should be completed and sent to Financial Accounting with supporting documentation.

12. Low value Assets

- 12.1 Assets with a purchase price of up to £3,000 are not capitalised unless they are part of a bulk purchase (see [Section 5](#)).
- 12.2 The purchase cost should be charged to the income and expenditure account under relevant heading.
- 12.3 Where local reporting regulations require a lower value for capitalisation please contact Financial Accounting for further guidance.

13. Advance payments and Assets-in Progress

- 13.1 Advance payments for fixed assets must be recognised as advance payments at the time of payment. It should be reclassified to the appropriate fixed asset item once the goods or services for which the advance payment was made have been supplied.
- 13.2 Fixed assets which are not complete by the balance sheet date, but for which internal or external costs have already been incurred, must be recognised as assets-in-progress. Once the asset has been completed, i.e. it has been brought to a working condition, the costs can be reclassified to the appropriate fixed asset category. [Form FIN30](#) should be completed and sent to Financial Accounting.
- 13.3 A central record of all assets-in-progress will be kept by Financial Accounting. Financial Accounting will be responsible for reporting on assets-in-progress on a monthly basis.

14. Custodial Review

- 14.1 Office inventory must be formally checked at least once a year by a member of staff. This task must be included in the member of staff's job description. It is a responsibility of management to ensure that inventory is being kept up to date and that the inventory check is carried out as anticipated.
- 14.2 Stocks and stores inventories must be formally checked at least once a year as per office inventories. The "reasonableness" test will not apply to stocks and stores as these items are not generally held for long. However, the condition of these assets is important because any deterioration in condition may lead to them being unfit for sale and may lead to a loss.

15. Monitoring

- 15.1 The application of this policy will be monitored through a number of measures including:

- Appropriate testing to ensure compliance conducted by the Financial Control team, which will be reported in the Monthly Business Review meetings.
- Appropriate testing to ensure compliance conducted by Internal Audit, which will be reported to the Audit Committee.

16. Contact for further information and Advice

16.1 If you have any queries in relation to this policy please contact the Financial Accountant.

16.2 The guidance and policies set out above are based upon the relevant accounting standards of UK GAAP, namely FRS 15 – Tangible Fixed Assets and Charities SORP 2005. If there is any uncertainty, reference should be made to the original accounting framework.

17. Process Guidance/ Forms

17.1 Detailed process guidance and the forms required in relation to Fixed Assets should be accessed through the following links:

**Purchase form
(FIN30)
Transfer form (FIN31)
Disposal form
(FIN32)
Fixed assets register
SAP process guide
Fixed Asset process
guides**

18. Related policies and additional information

18.1 Additional guidance should be referred to when required. This can be

Delegated authority limits [Appendix 1 - Delegated Authority listing](#)
Gifts in Kind
FRS 15 – Tangible Fixed Assets <http://www.frc.org.uk/images/uploaded/documents/FRS%2015.pdf>
Charities SORP <http://www.charity-commission.gov.uk/Library/publications/pdfs/sorptext.pdf>

Appendix 1
Delegated Authority as at 26 August 2008

Approval area	Names	Limit
Purchase or creation of fixed assets (non-building only)	Director Strategy & External Relations	£500,000
	Director Operations	
	Director Innovations	
	Director Resources	
	Director Human Resources	
	Head of overseas operations	£100,000
	Director Contracts & Projects	
	Director English & Exams	
	Regional Director SOA	
	Regional Director CHK	
	Regional Director LAC	
	Regional Director RANE	
	Regional Director NENA	
	Regional Director EWA	
	Regional Director EAA	
Regional Director MED	£25,000	
Regional Director CSA		
Regional Director ISL		
Regional Director WENA	£500,000	
Regional Director SEE		
Head of UK Directorate		
Head of Corporate Affairs	£100,000	
Director Communications		
Director Strategy & External Relations		
Disposal of fixed assets (non-building only)	Director Operations	£500,000
	Director Innovations	
	Director Resources	
	Head of overseas operations	£100,000
	Director Contracts & Projects	
	Director English & Exams	
	Regional Director SOA	
	Regional Director CHK	
	Regional Director LAC	
	Regional Director RANE	
	Regional Director NENA	
	Regional Director EWA	
	Regional Director EAA	
	Regional Director MED	£10,000
	Regional Director CSA	
Regional Director ISL		
Regional Director WENA	£1,000,000 subject to FCO approval where necessary and as agreed by the Estates Board. Excludes disposal of freeholds in England, Scotland and Wales	
Regional Director SEE		
Head of UK Directorate		
Head of Corporate Affairs	£100,000	
Director Communications		
Director Resources		
Proposals funded from any source for expenditure on new construction, land, extensions and alterations to existing buildings; disposal of freeholds or long leases	Head of overseas operations	£100,000
	Director Contracts & Projects	
	Director English & Exams	
	Regional Director SOA	
	Regional Director CHK	
	Regional Director LAC	
	Regional Director RANE	
	Regional Director NENA	
	Regional Director EWA	
	Regional Director EAA	
	Regional Director MED	£10,000
	Regional Director CSA	
	Regional Director ISL	
	Regional Director WENA	£1,000,000 subject to FCO approval where necessary and as agreed by the Estates Board. Excludes disposal of freeholds in England, Scotland and Wales
	Regional Director SEE	
Head of UK Directorate		
Head of Corporate Affairs	£100,000	
Director Communications		
Director Resources		