# Capital Policy – Estates and Equipment Capital Expenditure and Funding

**Purpose of Policy**

To document the University’s accounting policy on capital expenditure and funding.

**Overview**

This document is a reference guide on the University’s capital accounting policy and in particular the different types of expenditure that may or may not be capitalised.

It is critical that a consistent approach is applied when making decisions about the application of University resources, as this will improve the accuracy and reliability of our planning, budgeting, forecasting and reporting.

**Scope:**

If you are a budget holder, or involved in making decisions about how and when to spend University money, it is important that you are aware of the capital policy.

<table>
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<tr>
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</table>
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1. Introduction

1.1 The purpose of this document
This document is a quick reference guide on the University’s capital accounting policy and in particular the different types of expenditure that may, or may not, be capitalised under it. Although the topic can seem complex and daunting at first, this guide is intended to provide a clear explanation of the requirements so that decision can be made on a consistent basis.

1.2 Who is this guide for
If you are a budget holder, or involved in making decisions about how and when to spend University money, it is important that you are aware of the capital policy.

1.3 Why it is important
It is critical that a consistent approach is applied when making decisions about the application of University resources, as this will improve the accuracy and reliability of our planning, budgeting, forecasting and reporting.
1.4 The difference between capital and revenue expenditure

Capital expenditure represents funds invested in acquiring, upgrading and constructing fixed assets. A fixed asset is a resource the University controls and from which we can expect to derive future economic benefit. Expenditure for any other purpose is revenue.

*It is important to note that whether or not expenditure is capital or revenue, and whether or not it is capitalised - money is still spent - any decisions in this area will only affect how we report this spend.*

The table below shows the main categories of expenditure and a high-level summary of the circumstances in which they should be treated as capital or revenue:

<table>
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<tr>
<th>Capital</th>
<th>Revenue</th>
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<tr>
<td><strong>Consumables</strong></td>
<td>The purchase of consumables is always a revenue expense</td>
</tr>
<tr>
<td><strong>Estates spend</strong></td>
<td>Purchasing land or buildings, constructing a building, developing land, carrying out major refurbishment and renovations</td>
</tr>
<tr>
<td><strong>Equipment</strong></td>
<td>A single item or system costing £50,000 or more</td>
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<tr>
<td><strong>Services</strong></td>
<td>The external development or construction of equipment or software assets</td>
</tr>
<tr>
<td><strong>Software and licenses</strong></td>
<td>Upgrades or new purchases costing £50,000 or more, with a useful economic life of four years or more.</td>
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The sections that follow provide more detail and specific examples of capital and revenue expenditure, but as this is an extensive topic they are by no means exhaustive. The Finance department is at hand to discuss and provide further guidance to any questions or queries you may have on this topic. Enquiries can be forwarded to: first.finance@ed.ac.uk
1.5. **Fixed asset types**

Our fixed assets include, but are not limited to: property, plant, furniture and fittings, equipment and software. These assets must typically have a useful life of, and provide an economic benefit for, more than four years. We categorise and report our assets as:

- Equipment (including furniture and software);
- Property (land, buildings and plant); and
- Heritage assets.

This document focuses on property and equipment assets, as heritage assets are a specialised asset type. Any queries relating to the acquisition of a potential heritage asset should be forwarded to first.finance@ed.ac.uk.

1.6. **Equipment (including furniture and software)**

The full accounting policy for equipment can be found in section two of this document. Coding and capitalisation procedures are covered by the Capital Equipment Guidance procedure document located on the FIRST website.

It is University policy to only capitalise equipment and software purchases if the cost of an item (or group of related items) is £50,000 or higher.

The cost of upgrading an existing equipment asset should be treated as a separate fixed assets addition and be capitalised if the cost of doing so is £50,000 or more.
1.7 Property (land, buildings and plant)

The full accounting policy for property can be found in section two this document. Coding and capitalisation procedures are covered by the Capital Property Guidance procedure document located on the FIRST website.

When accounting for expenditure on Property the following is classified as capital:

- Expenditure on the construction or acquisition of new buildings. This includes expenditure on building plant and fixtures and fittings.
- Loose furniture and equipment acquired as part as a major project. These will be capitalised and depreciated as equipment assets.
- Expenditure aimed at improving the amenity of an existing building is also classified as capital. It will be capitalised separately from the original structure and depreciated at an appropriate rate reflecting the shorter life or economic return on that component.
- Major equipment such a medical or veterinary scanners included within major projects will also be capitalised as equipment.

Revenue costs incurred in such project budgets include:

- Demolition cost of an existing owned building.
- Asbestos removal.
- Decanting and subsequent reoccupation costs.

Project budgets will often include fees incurred in the planning stages of an estates project. These costs are capitalised once a project has moved to an approved design and build stage. If a project is not pursued at the end of the planning process these costs are expensed.
2. Accounting policy

2.1 Capital equipment accounting policy
It is University policy to only capitalise equipment and software purchases if the cost of an item or group of related items is £50,000 or higher.

The initial complement of furniture acquired as part of the initial fit out of newly constructed or refurbished building is also capitalised.

Capitalised equipment is stated at cost and depreciated over a four-year period. A full year’s depreciation is charged in the year of acquisition or from when the related building is commissioned.

Donated equipment is capitalised at depreciated replacement cost at the date of receipt and is depreciated over a four-year period.

2.2 Property (Estates) accounting policy
The University’s land and buildings are stated at deemed cost less accumulated depreciation and impairment losses. They were valued at 1 August 2014, the date of transition to the new SORP\(^1\), and their fair values at this date were adopted as ‘deemed historic cost’.

Building additions since 1 August 2014 include: extensions, new constructions, and the cost of renovating, upgrading or converting existing properties. Expenditure on existing buildings is capitalised where it prolongs an asset’s useful life, or enhances its economic benefit to the University.

Freehold land is not depreciated as it is considered to have an indefinite useful life.

Freehold buildings are depreciated on a straight line basis over their expected useful lives as follows:

- Major plant and infrastructure: 10 to 15 years
- System built properties: 15 to 25 years
- General buildings: 50 to 80 years
- Historic or legacy properties: 100 years
- Major repairs and refurbishments*: 10 to 15 years
- Leasehold land and buildings: Over life of the lease up to a maximum of 50 years

No depreciation is charged on assets in the course of construction.

*Major repairs and refurbishments are capitalised and depreciated over 10 to 15 years, where they substantially add to the total area of the building, prolong its useful life or enhance the economic benefits of the building.

No depreciation is charged on property assets in the course of construction.

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\(^1\) Statement of recommended practice: Accounting for further and higher education
3. Capital funding

3.1 Funding of capital equipment and software purchases
The majority of equipment purchased by the University is fully funded by Research grants, but significant funds also flow from Scottish Funding Council and from other sponsors and donors. It is important that research equipment purchases and research capital equipment funding are identified separately in the accounting records.

There is also a growing element of equipment funded from University unrestricted and capital resources (the University’s own funds). These purchases are made at the discretion of the relevant College or Department, and it is their decision on whether to apply revenue budgets or capital resources in doing so.

In some cases, a combination of University and external funding is required.

3.2 Estates project funding
All Estates project expenditure is committed and approved against an approved project funding plan. Estates projects can be funded from a number of different sources:

- Capital resources approved by the Estates Committee from University Central resources
- Contributions from Colleges and Support groups from their own revenue and capital resource allocations
- External funding from sponsors and donors

Most major Estates projects are funded by a combination of internal resources and external grants. All project funding is collected on the EBIS systems and eFinancials ledger by project job code.

It is critical that research funded buildings are separately identifiable as their cost and related depreciation charge are reported in the accounts. It is also important to be able to report the research capital funding acquired by the University.

The recognition of the funding is linked to project spend. Unspent funding with a performance related condition will be deferred or held as restricted reserves until applied to the project.

26 April 2017
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