

**Imperial College Union  
Finance & Risk Subcommittee / 9 June 2021**

**Capitalisation and Depreciation Policy**

Author(s): Rob Scully (Director of Finance & Resources)

Purpose: To approve a new capitalisation and depreciation policy to be implemented for the 2020/21 year end.

Decision(s): To approve the policy.

**1. Summary**

The current policy related to fixed assets and capitalisation and depreciation is contained within the Financial Procedures (May 2015) and has not been reviewed for at least six years. The current policy has a extremely low financial threshold of £500 which means the fixed asset register contains a very large number of low value items.

Similarly, an impairment review has not been undertaken for several years and there are almost 500 lines of fully depreciated assets on the register that may not have any future economic value and should potentially be removed from the register.

Additionally, the current policy is not specific enough with regards to the period over which assets should be depreciated (Fixtures & Fittings, Equipment and Motor Vehicles: 3 – 10 years).

**2. New Policy**

The Financial Procedures will be reviewed over the summer, and the broader policy around asset purchase and management will be included within this, however changes to the specific accounting policy on limits and depreciation periods will need to be approved in advance of this and incorporated within the 2020/21 year end timetable.

The proposed policy changes are:

- i. Only items with a cost (individually or in total for a group of related assets) of over £3,000 and a useful life of over 1 year will be capitalised and depreciated
- ii. All items will be depreciated on a straight line basis
- iii. Residual value at the end of the useful economic life will normally be £zero, unless there is reliable evidence to support that the asset will still have value at that stage
- iv. There will be an annual impairment review of all fixed assets as part of the year end timetable
- v. Assets will be depreciated over the useful economic life in line with the table below. Any exceptions to this will be evidenced and presented to the Finance & Risk Subcommittee for approval

| <b>Asset Classification</b>   | <b>Period</b> |
|-------------------------------|---------------|
| Freehold Buildings            | 50 years      |
| Building improvements (major) | 10 years      |
| Building improvements (minor) | 5 years       |
| Fixtures & Fittings           | 5 years       |
| IT Equipment                  | 3 years       |

### **3. Impact**

The exact impact of this policy change will not be known until the impairment review has been undertaken, however there will not be an impact on the Union's free/general reserves position as all fixed assets are funded by either a designated fund or deferred capital grant. Changes resulting from the implementation of this policy and impairment review may accelerate the charge of depreciation against these funds and will have no cash impact.