APPENDIX 4

Capitalisation policy

To be recognised as capital an asset must:

- yield benefits to the PCC for more than a year; and
- have a cost which can be measured reliably.

However, meeting these conditions does not mean that the PCC will automatically treat the item as capital. The most common reason for choosing not to do this is materiality. There is little point in adding tables, chairs and minor equipment to our asset register as it leads to a great deal of administration but with no significant impact on the accounts.

Hence, in practice a £10k de minimis is applied in most cases. Items with a lower value may be classified as capital if they were funded by a capital grant, or if they are part of a larger capital project.

Accounting standards make the following points clear.

- Training costs are normally revenue.
- Maintenance costs are always revenue expenditure, even if it is the first year's maintenance on new equipment (where this is separately valued).
- We need to make the distinction between restoring the value of existing assets (which is maintenance) and enhancing the asset in some way (which is capital). Replacing old wooden windows with modern double glazing counts as capital because you have improved the building and increased its value and life.
- Decorating, replacement etc. counts as routine maintenance so is revenue expenditure.

In conclusion….

- Any individual item costing over £10k and lasting more than a year will be classified as capital.
- Any expenditure funded by a capital grant and lasting more than a year will be classified as capital.
- Any other item lasting more than one year may also appear on the asset register.
- But there is no obligation to classify smaller value items as capital. Consequently, there will be examples where identical transactions can appear in revenue or capital at our discretion.
- We are unlikely to capitalize small items where there is no local asset register to keep track of them.
- The transactions which can be capitalized are costs which are directly attributable to bringing the asset into working condition for its intended use.