Fixed Asset Policy

University of Glasgow

TAX, TREASURY AND REPORTING

May 2023

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1. Introduction

Purpose

When preparing financial statements, the University is legally required to account for its fixed assets in accordance with financial reporting standards under UK GAAP. This policy is compliant with the relevant financial reporting standards and its overall purpose is to:

- Confirm and clarify the current policies in place that should be followed by each of the colleges on behalf of the University; and
- Ensure that capital expenditure across the University is clearly identified and accounted for accurately in a timely manner.

This document describes the Fixed Asset Policy that must be adhered to and includes details of what should be classified as capital expenditure.

This policy also provides examples of what should not be capitalised, that is expenditure that is classed as revenue and should be charged to the income and expenditure account.

Application of this policy

All budget holders, purchasing officers, and College Finance Teams (meaning the four academic Colleges and that of University Services) should familiarise themselves with this policy to ensure that capital expenditure is clearly identified and accounted for in a timely manner.

Financial reporting standards

The University accounts for its capital assets in accordance with the requirements of Financial Reporting Standard 102 '*The Financial Reporting Standard applicable in the UK and Republic of Ireland and the Statement of Recommended Practice – Accounting for Further and Higher Education'*.

What are fixed assets?

A fixed asset is a resource which the University controls and from which we can expect to derive future economic benefit. Examples include freehold land and buildings, equipment (scientific, IT, and office), plant and machinery. Fixed assets derive from capital expenditure, as opposed to revenue expenditure – refer to *2. Capital Versus Revenue* for further detail.

Fixed Asset Register

The University has a Fixed Asset Register which is maintained by the Financial Reporting Team. The Financial Reporting Team is required to update the Fixed Asset Register based on the information provided to them by the College Finance Teams.

2. Capital Versus Revenue

What is capital?

Capital expenditure is money spent on acquiring, upgrading or building assets, which can be either tangible or intangible (i.e. physical or not physical). It is generally used to purchase or develop property, furniture or fixtures, computer hardware and software, laboratory and other equipment. Capital expenditure also includes construction and improvements which increase the value and useful economic life of a building.

Fixed assets are a type of tangible asset, and they must meet the following criteria:

- The assets must be physical in nature – e.g. land, building, machine;
- Usually the University will own the asset, but this is not necessarily the case, as long as the University controls the way in which it can be used and benefits from that use (e.g. a finance lease);
- The University must be entitled to receive the future economic benefits – which may take many forms, e.g. occupation of a building, use of machinery or a vehicle; and
- There must have been a past event which has given the University rights to the future economic benefits – this will usually be the purchase.

Capital expenditure can also be on intangible assets, which can be for things which we have purchased such as computer software, licenses, trademarks, patents, or copyrights or internally generated, for example software and website development costs. The only intangible assets which are in scope of this policy are computer/equipment software costs which are purchased with a physical asset and are necessary for the hardware item to be used as intended.

What is revenue?

Revenue expenses go directly to the Income and Expenditure Account (I&E) in the financial year in which they are incurred. These are costs which do not meet the criteria for capital expenditure. Some basic examples are:

- General repairs and maintenance – e.g. burst pipe, replacing lights with equivalent lights, repainting an office
- Administration and overhead costs

Categories of fixed assets

Fixed assets are split into the following categories. The University applies minimum capitalisation thresholds to the different categories. Fixed assets are depreciated on a straight-line basis over their useful lives i.e. a charge is made to the I&E Account each year until the cost of the asset is fully written down, at the end of its useful life.

Category	Capitalisation threshold	Useful life	
Freehold land and buildings	£100k per item or group of related items	Structural Roofing Electrical and mechanical Fit out	50 years 20-25 years 15-20 years 5-10 years
Assets Under Construction	£100k per item or group of related items	Not depreciated	
Plant and machinery	£50k per item or group of related items	15-30 years	
Equipment	£50k per item or group of related items	Up to 10 years	

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

Items such as books are not considered fixed assets. These are expensed as incurred. Repairs and maintenance to fixed assets are not capitalised and are also expensed as incurred. Examples of what constitutes repairs and maintenance are included below and in Appendix 2.

Repairs versus enhancements

In general, repairs are considered revenue expenditure, and are not capitalised. However, in some cases repairs or renewals may be considered enhancements and are capital expenditure.

- Substantially lengthen the useful life of the asset;
- Substantially increase the market value of the asset;
- Substantially increase the extent to which the asset can or will be used for the purposes of or in conjunction with the functions of the University.

Replacement or restoration of the original functionality of an asset, even if over the capitalisation threshold, does not qualify as capital expenditure, except where the replacement or restoration will substantially lengthen the useful life of the asset – e.g. where lifts are replaced in a building, and this will extend the useful life of the lifts by a further 10 years, then this would be capital expenditure.

This can be quite complex in relation to Estates projects, and more detail is provided in *Appendix 2 Existing Buildings – Capital Versus Revenue*.

3. Equipment, Plant and Machinery

Initial measurement

Items of equipment, plant and machinery should be recognised at cost. Cost should include all of the following:

- Purchase price, including legal and brokerage fees, import duties and non-refundable VAT, after deducting trade discounts and rebates.
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These can include the costs of site preparation, initial delivery and handling, installation and assembly, and testing of functionality.
- Software costs where the software is required for the equipment to be used as intended.
- Direct consultancy costs and direct internal staff costs up to the point of implementation

The following are not included in the cost of an asset:

- Warranty costs (because these are not necessary to bring the asset into working condition);
- Training costs (also not necessary to bring the asset into working condition);
- Software license fees;
- Annual maintenance costs after the project is completed, for example, if the asset is subject to an ongoing maintenance contract with the manufacturer;
- Administrative, procurement or other general overheads.

Acquisition of equipment or plant and machinery

Expenditure relating to equipment or plant and machinery above £50,000 for a single item or for components to create a single item in use must be identified for capitalisation by Colleges at the time of purchase. Any purchases of equipment and plant and machinery below £50,000 should be expensed as incurred i.e. they are written off immediately.

Acquisitions of equipment and plant and machinery which should be capitalised, should be posted to the Agresso *GL code 6600 Equipment Assets > £50k clearing account.* If this is not done at the time of purchase via the Purchase Order (using product code EQUIP-ASSET), the acquisition spend must be journaled to this account by the College Finance Teams as part of the Month End Process (Refer to *Appendix 1 – Equipment, Plant and Machinery).*

Identifying useful life / depreciation

Equipment which is capitalised must be depreciated (recognised as an expense) over the useful life of the piece of equipment. Depreciation starts at the date on which it is available for its intended use.

Category	Capitalisation threshold	Depreciation policy / useful life
Equipment	£50k per item or group of related items	Up to 10 years

The standard depreciation rates are:

- Research grants and contracts (cost classes 100s) and commercial cost classes (500s) are usually depreciated over a project life.
- All other equipment is depreciated over 48 months unless reasonable to adjust this.

Changes to standard:

- At the time an asset is acquired, if it is considered appropriate to adopt a different useful life, rationale should be provided for this before seeking approval from College Head of Finance, the Head of Tax, Treasury and Reporting and, depending on value, the Deputy Finance Director.

- Any changes to the useful life of the asset thereafter should follow the same process.

The useful life of the asset and the start date for depreciation are entered into Agresso by the Financial Reporting Team, and depreciation is calculated automatically on this basis as part of the Month End Process.

Physical security of equipment, plant and machinery

Security of equipment, plant and machinery: Senior Management Group members are responsible for establishing adequate arrangements for the custody and control of equipment, plant and machinery within their areas of responsibility, including regular physical verification checks. Heads of College, School or Department should establish procedures to ensure that all items of equipment are adequately protected against loss and misuse. Assets owned by the University should be effectively marked to identify them as University property. Physical verification checks will also be conducted by external auditors and the Financial Reporting Team.

For insurance purposes, an inventory of University assets, including details such as description, location, date of purchase, price paid or estimated value, etc. should be maintained by each College / University Services management. This should include all equipment, plant, machinery, as well as furniture, regardless of asset value. There is no minimum threshold for insuring assets.

Maintenance and improvements to equipment

When spending money on an existing asset it should be considered whether the asset is simply being maintained or improved.

- Expenditure on maintenance cannot and should not be capitalised, even if it exceeds the capitalisation thresholds.
- Expenditure on improvements should be capitalised if it meets the capitalisation thresholds.

Examples of what should be capitalised and what would be expensed are included in *Appendix 1: Equipment, Plant and Machinery.*

Loans and temporary removals

Where equipment is loaned out, the School or Department must have procedures in place to ensure that an appropriate agreement and insurance are in place, and that the equipment is returned in good condition. Where equipment is loaned to a third party, the equipment will not be covered by the University's insurance policies while in the custody and control of that third party.

Where equipment is temporarily removed from University premises, for example, to conduct fieldwork, the Insurance Team should be contacted in order to arrange insurance either for the duration of the removal or goods in transit cover.

Where equipment is shared with peer institutions or other partners, the guidance above should be followed. An appropriate agreement and insurance must be in place for the item of equipment.

Impairment review

The University must conduct an impairment review of equipment, plant and machinery when there is an indication of impairment. An impairment occurs when the value of the asset is below the net book value of the relevant asset.

Examples of this include:

- Equipment damaged or not working
- Obsolete equipment or equipment which is no longer used

An impairment must be recognised to the extent that the item of equipment is not already fully depreciated. This should be done regardless of whether a replacement asset is being purchased – any replacement piece of equipment must be recognised as a new asset. The Financial Reporting

Team should be contacted in order for them to recognise the impairment in the Fixed Asset Register and ensure it is also properly included in Agresso.

It may also be appropriate to dispose of impaired equipment, using the process outlined below.

Disposal of equipment, plant and machinery

Equipment owned by the University, irrespective of funding source, remains the property of the University until sold or otherwise disposed of in accordance with this policy.

Disposals (sale, retirement or other) of University assets may only take place with the authority of the Head of School or Department. Heads of School or Department are responsible for implementing procedures within their School or Department to ensure equipment is not disposed of without their written authority and also for ensuring the sensible disposal of surplus equipment. Disposal of the asset must then be notified to the relevant College Finance Team.

Disposals of equipment must also be in accordance with:

- IT Equipment Disposal Policy: https://www.gla.ac.uk/myglasgow/it/policy/computerequipmentdisposalpolicy/.
- Safety and Environmental Protection Service waste disposal policies: https://www.gla.ac.uk/myglasgow/seps/wastemanagement/

Where an asset is sold, VAT will usually be charged on the sale. On Agresso, the sales order has automatic VAT codes depending on the product code selected. Additional information about VAT can be found on the VAT website, or further queries can be sent to finance-accountingandtax@glasgow.ac.uk

The College Finance Team must notify the Financial Reporting Team of the disposal, by contacting finance-accountingandtax@glasgow.ac.uk with the following details in relation to the asset to be sold/disposed:

1. Description of the asset
2. Agresso cost centre and project
3. Original cost of the asset
4. Sales price of the asset and any documentary evidence relating to the sale/disposal
5. Reason for sale/disposal
6. Details of who the asset was sold to
7. Date of disposal of the asset

The Financial Reporting team will then remove the asset from the Fixed Asset Register and process the resulting gain or loss on disposal in Agresso.

Examples of disposal scenarios are included in Appendix 1 – Equipment, Plant and Machinery – Acquisitions and Disposals.

4. Freehold Land and Buildings

Acquisition of freehold land and/or buildings

The Financial Memorandum between the Scottish Funding Council and the University requires the University to develop and maintain an Estate Strategy encompassing the acquisition of freehold land and buildings. University Court is also required to keep its holding of Exchequer-funded land and buildings under review with the objective of rationalising and disposing of those holdings which, in the light of its Estate Strategy, the University considers to be no longer needed.

Authority must be sought from University Court for all purchases, sales or leases (other than the provision of short leases for student accommodation under the subletting scheme) of land or buildings. The University Court, through the Scheme of Delegation, has delegated authority for approval of the acquisition and disposal of land/buildings below a delegated threshold. Refer to the Scheme of Delegation to ensure approval is appropriately obtained. Any acquisition of land and/or buildings requires the Court Office, Estates and Finance to work collectively to ensure the acquisition is made on the best possible terms for the University. It must be negotiated by the Estates team with appropriate legal advice sought.

The Tax, Treasury and Financial Reporting Team within the Finance Office must review;

- the timing and settlement terms of purchase consideration to ensure it is reflected accurately in both the general ledger and fixed asset register;
- the purchase and lease of property for tax planning purposes, including VAT options.

Where any borrowing is to be undertaken to finance an acquisition, the requirements in *7.01 Borrowing* in the Regulations must be considered.

Any land or buildings acquired by the University must be capitalised on the general ledger and the fixed asset register at the purchase price. Where the University is constructing a building, this should be dealt with under *5. Assets Under Construction*, until completion of the building, when this section starts to apply.

If land or buildings are gifted to the University, they must be included in the general ledger and fixed asset register at market value. Estates are responsible for notifying the Tax, Treasury and Financial Reporting team for both Insurance and Financial Reporting purposes.

Initial measurement

Initial cost of the asset is the purchase price (including non-refundable VAT) and any costs directly attributable to bringing it into working condition for its intended use. These include:

- Acquisition cost of land or building
- Site preparation and clearance costs
- Depending on the circumstances, demolition of an existing building
- Professional fees – ie. architects' fees, quantity surveyors, project management
- Feasibility studies, but only if the project goes ahead (any pertaining to scoping out a different solution to the one which goes ahead are revenue expenses)
- Internal staff costs where these are directly attributable to the build
- Delivery and installation costs
- Furniture and fittings
- Rectification of design faults

It does not include:

- Feasibility studies which relate to projects or potential solutions which did not go ahead
- Administrative and other general overheads
- Hiring of alternative accommodation for users while a new property is constructed
- Training and familiarisation of staff in operation of the new building
- Site security during construction (this protects the investment but does not enhance it)
- Demolition costs may sometimes be excluded.

Project costs for Estates should include all VAT on the basis that the University cannot recover most VAT. The Tax, Treasury and Reporting team will then review and adjust the VAT element on a case by case basis.

Identifying the useful life

Depreciation is charged based on the expected useful life of the asset. Land is not depreciated, but buildings are depreciated on the following basis.

Category	Depreciation policy / useful life (years)	
Buildings	Structural	50
	Roofing	20-25
	Electrical and mechanical	15-20
	Fit out	5-10

In most cases, new buildings which the University starts to depreciate are ones which the University has built. The costs of the project are therefore categorised on the *Capitalisation Form* (see Appendix 3) by Estates Finance, based on information provided by the project's cost consultant. This form is provided to Financial Reporting, who enter the useful life for each cost category onto the Fixed Asset Register.

Repairs / Maintenance and/or upgrade of existing buildings

Approval for a repairs / maintenance or upgrade project of an existing building must be sought in accordance with the University's Scheme of Delegation, depending on the value of the project or contract.

When spending money on an existing asset it should be considered whether the asset is simply being repaired / maintained (restoring an asset to its previous operating condition or keeping an asset in its current operating condition) or improved.

- Expenditure on repairs / maintenance cannot and should not be capitalised, even if it exceeds the capitalisation thresholds, except where the repairs/replacements are so extensive that they will significantly extend the life of the asset.
- Expenditure on improvements should be capitalised if they meet the capitalisation thresholds.

Where significant repairs or replacements are made, particularly where the original asset is so old that it is fully depreciated, it is likely that these would be capital, because the replacement will extend the useful life of the building:

- A project to replace all windows (e.g. they are single glazed or otherwise old or in poor condition) or equipment such as ventilation systems in a building;
- A project to replace the fit out of a lab;
- A project to upgrade (as opposed to repair) the internal or external fabric of the building.

Estates manage the estate refurbishment and development expenditure as a series of projects. It is the total value of each project which will determine the approval process that is followed to approve expenditure. A project may include only capital expenditure, only maintenance expenditure or it could be a combination of both. Further information about this split is included in *4. Assets Under Construction*.

Impairment review

The University must conduct an impairment review of the freehold land and buildings in the Estate when there is an indication of impairment. An impairment occurs when the value of a building or part thereof is below the net book value of the building.

The Head of Estates Finance is responsible for ensuring this review is conducted where necessary. To ensure this requirement is met, the Estates Finance Team conduct impairment reviews as follows:

1) Rolling valuations of the estate on a five year basis. These valuations are completed by suitably qualified colleagues within Estates or by external building valuation specialists. These will be completed with a view to establishing a) that market value is not below net book

value of the building and b) that the buildings are adequately valued (on a reinstatement basis) for insurance purposes.

2) When "trigger events" occur. Events which would require an impairment review of the building in question include the following:
    - Evidence of physical damage or obsolescence (examples include fire or flood in the building, storm damage, higher than normal level of regular repairs to a building, or identification of cladding not meeting new or current building standards);
    - A significant adverse change in the extent or manner of use of an asset (e.g. plans to dispose of the building, demolish it or reassess its useful life);
    - A significant decline in the market value of land and buildings in the relevant area.

Where there is an indication of impairment, the Estates Finance Team, together with the wider Estates team and any external experts engaged, must assess the potential value of the impairment. This should be sent to the Financial Reporting Team for them to assess whether the criteria set out in the financial accounting standard is adequately met for impairment to be recorded. If so, they will ensure this is reflected in Agresso and the fixed asset register. If the impairments are insignificant, these may not be adjusted in Agresso and the fixed asset register.

Disposal of land and buildings

Authorisation from University Court is required in advance of any arrangement being entered in to dispose of any land or building asset, whether by cash or for other consideration or exchange. University Court has delegated authority for approval of disposals below certain thresholds, details of which are contained within the Scheme of Delegation. Any disposal of land and/or buildings requires the Court Office, Estates and Finance to work collectively to ensure the disposal is made on the best possible terms for the University. The Estates Office is responsible for negotiating the terms of the disposal and seeking legal advice.

Prior to approval of any disposal, proposals for the sale of property must be reviewed by the Tax, Treasury and Financial Reporting Team within the Finance Office:

- For tax planning purposes and, in particular, for VAT options;
- To check the implications of the sale on the University's banking covenants, including which banks require notification of the disposal.

Proposals for disposal should include:

- an estimate of the value of the property,
- an analysis of any users within the University who may potentially be disadvantaged by the sale (together with alternative arrangements for their accommodation),
- the rationale for disposal of the property
- how the acquisition of the property was originally funded and how much it originally cost, and
- any requirements to forward part or all of the proceeds to the Scottish Funding Council.

Formal documentation relating to the disposal of property must be signed by the Secretary of Court and a member of University Court. Documentation must be retained by the Estates Office.

After the disposal takes place, the Financial Reporting Team is required to update the University's fixed asset register and ensure the disposal is correctly reflected in the University's general ledger.

Demolition of buildings

In line with the Estates Strategy, the University may opt to demolish certain buildings – either because the land and building was purchased with a view to demolishing the building, or because an older building is no longer fit for use.

When a building is first identified as one for demolition, the Estates Finance Team should notify the Financial Reporting Team. It may be that depreciation should be accelerated ahead of this demolition.

The treatment of the demolition costs for accounting purposes depends on the circumstances of the demolition. In some cases, it may be appropriate to capitalise them as part of the build of a new building. In other cases, it may be appropriate for them to be expensed, particularly where there is no plan in place to start building a new building imminently. Advice should be sought from the Financial Reporting Team on a case by case basis.

5. Assets Under Construction

Spend on capital projects should initially be booked to the relevant Assets Under Construction account on the balance sheet (with the exception of salary costs which are initially booked to the I&E). The category of Assets Under Construction (AUC) in Agresso can therefore include 1) new buildings and 2) improvements to existing buildings where the project cost is likely to exceed £100,000.

New buildings

Where the University is constructing a new building, the project code will be set up as a 100% capital project and the costs capitalised accordingly. The costs which should be included in these project costs are listed in *4. Freehold Land and Buildings* under *Initial Measurement*.

The building remains as AUC until a completion certificate is issued by the Project Manager and the handover process from the contractor to the University takes place. The Estates Finance Team are responsible for notifying the Financial Reporting and the Insurance Team of the date at which this occurs. The Insurance Team should be notified at least two months in advance of the handover in order to arrange surveys of the building, with the specific handover date confirmed when confirmed with the contractor.

Depreciation is not charged on a building while it remains an AUC. Depreciation is charged from the date at which the building is ready for use. This will usually be the date at which the completion certificate is issued. The costs of the project are categorised by the project's cost advisor who provide a summary to Financial Reporting, and depreciation rates for the different categories are agreed.

When building a new building, the University may demolish a building to make way for it. The treatment of the demolition costs depends on the circumstances. Further information is included in *4. Freehold Land and Buildings* under *Demolition of Buildings.*

Improvements to existing buildings

When improvements with a cost of more than £100,000 are made to an existing building, these should also be set up as a project within AUC. Repairs / maintenance to existing buildings, even with a cost of more than £100,000 should not be set up as AUC, but should be classed as revenue projects. Where a project includes an element of both repair but also upgrades and replacements, a judgment should be made as to the relative cost of each and categorised accordingly. The project will be set up with a %capital/%revenue split.

Further detail provided in *Appendix 2: Existing Buildings – Capital versus Revenue*.

Management of capital and revenue

Each project is set up with a capital/revenue percentage. Estates have a responsibility for determining the distinction between capital and revenue and for reviewing this on a regular basis.

There are monthly sweeps for the following:

- Salary costs from I&E to Assets Under Construction
- Depending on the capital percentage of a project, the relevant revenue percentage of the project is swept to the I&E from Assets Under Construction

For some projects, details of what the spend will be incurred on is not known at the set up of the project (e.g Campus redevelopment/ College annual budgets). These projects should be tagged to holding projects/cost centres for the time being and reallocated as required when details of the spend is known. A further review by Estates and Buildings of the capital percentage is required when details of the spend is known.

6. Heritage Assets

The University holds and conserves certain collections, artefacts and other assets of historical, artistic or scientific importance. These are assets which are not held for the University's core purposes of teaching and research. Most of these are housed in the University's museums and libraries and others are held in academic departments.

As the majority of the University's heritage assets were acquired historically, the University does not have reliable information on the cost or valuation of the collections, both within The Hunterian and Archives and Special Collections, and the assets held across the departments. It is not considered practicable to now obtain valuations for these artefacts, due to lack of comparable market values, the large and diverse nature of the collections, and the prohibitive cost of obtaining such valuations. As a result, the majority of the collection of heritage assets is not recognised in the University's financial statements.

New acquisitions

Acquisitions of heritage assets, which have an acquisition cost of £50,000 or more, must be capitalised on Agresso and included on the fixed asset register at cost if they are purchased. The relevant department must contact Financial Reporting to do this. They should also notify the Insurance Team to add the asset to the Fine Art Policy.

If a heritage asset is donated, this also needs to be capitalised at market value, if the market value exceeds £50,000. The Financial Reporting Team and Insurance Team should be notified of donated items.

When accepting donations of heritage assets or otherwise acquiring such items, departments should also consider other costs which will be associated with maintaining or preserving the assets, such as insurance, additional security, maintenance (such as temperature, humidity,etc). Further advice should be sought from the Collections Management Team at the Hunterian and the Insurance Team within the Finance Office.

Expenditure incurred to preserve or prevent further deterioration of individual collection items is not capitalised, but is recognised as an expense at the time that it is incurred.

Depreciation

Heritage assets are deemed to have indeterminate lives and it is therefore not considered appropriate to depreciate these items.

7. Leases

Operating Leases

Any lease agreements entered into on behalf of the University, must be approved by the University Court, or delegated authority, as outlined in the Scheme of Delegation. Any new or amended lease arrangement requires the Court Office, Estates and Finance to work collectively to ensure the best terms achieved for the University.

- Responsibility for negotiating leases rests with the Estates Office who will ensure the appropriate approvals have been received in accordance with the Scheme of Delegation and that the acquisition is in accordance with the Estates Strategy.
- The Tax, Treasury and Financial Reporting Team within the Finance Office must review:
  - The timing and settlement terms of the lease to ensure it is reflected accurately in the general ledger;
  - The lease of property for tax planning purposes, including VAT options; and
  - How to correctly account for the lease.
  - The final arrangements will be reported to University Court for ratification (if required by the Scheme of Delegation); formal documentation must be signed by the Secretary of Court and a member of University Court and must be sealed.
  - Signed copies of all leases must be deposited with the University's external legal providers to be retained for safe keeping, with a pdf version retained by the Estates and Buildings Office.

Ahead of the year end audit each year, the Estates Finance Team are responsible for providing the Financial Reporting Team with a list of operating leases for land and buildings (with details of the length of the lease, any break clause dates and the payments due under the lease) and copies of any new leases or amendments to existing leases. Any other teams entering into operating leases for equipment or anything else, must also provide this information to the Financial Reporting Team.

The University's accounting policy is to recognise rental costs incurred under operating leases as expenditure on a straight-line basis over the period of the lease.

Any lease premiums or incentives are spread over the minimum lease term – up to the earliest break clause in the lease. Under accounting standards, the University is also required to disclose in the financial statements its commitment for the total of future minimum lease payments under non-cancellable operating leases for land and buildings.

Finance leases

The University does not ordinarily enter into any finance leases. The decision to enter into any finance leases must be made in accordance with the Scheme of Delegation and copies of any new finance leases entered into must be provided to the Financial Reporting Team.

8. Insurance Claims and Recoveries

The University maintains insurance policies to mitigate the financial risks to the University of damage to its property – buildings and plant and equipment – as a result of insurable perils (typically, fire, escape of water, severe weather, theft or burglary, accidental damage). In the event that an insured incident occurs, the Insurance Team must be notified as soon as possible in order to commence the claim process, usually initiated by a loss adjuster visit to the site of the incident.

Where insurance claims are made, the University must apply the provisions of FRS 102 21.9 and the SORP (5.53 - 5.55) to any recoveries received. In order to do so, the University's policy is as follows:

1) At the time the incident occurs, an impairment review should be conducted and it should be decided whether an impairment needs to be recognised in relation to the fixed asset.

2) The fixed asset will be either repaired or replaced, and these costs may be either expensed or capitalised. Examples include:
   - Minor repairs to building fabric, such as replacement of ceiling tiles, sockets and repainting – these are revenue projects. The costs should be expensed in the year in which they are incurred. These are usually below the capitalisation threshold and also do not meet the qualitative definition of an asset.
   - Major repairs to building fabric, usually required as a result of fire. These will often include an element of upgrade (for example, replacing older air handling units or services with new services) and will also exceed the capitalisation threshold of £100,000. These should be treated as capital projects. They should follow the Assets Under Construction policy.
   - Repairs to plant and equipment. Where existing equipment is decontaminated and returned to its pre-incident condition, the costs of these repairs are expenses and not capital expenditure (even if greater than the capitalisation threshold). They should be expensed in the year incurred.
   - Replacement of plant and equipment. Where existing equipment cannot be fixed, the insurer would usually reimburse the University for the cost of the equipment. The new equipment is capitalised if it meets the capitalisation threshold.

3) The University incurs the costs initially and these costs are then reimbursed by the insurer, either in whole or in part. The Insurance Team will issue guidance to impacted parties about how to do this.

4) The University will recognise the reimbursement as an asset (receivable) only when it is virtually certain that it will receive the settlement (FRS 102, Para 21.9) and the amount can be reliably measured. This is taken to be when offer of settlement is received from the insurer (SORP 5.54). The insurance settlement is recognised at the fair value receivable, which is the settlement amount agreed with the insurer.

5) The amount received can either be recognised as an item of other income or by offsetting it against the related expense in the SoFA. The University therefore:

   a. Where a cost has been expensed, it will be netted off against that expense
   b. Where a cost has been capitalised, the sum received from the insurer will be recognised as Other Income in the SoFA.

6) For management accounting purposes, income and expenses from insurance claims should normally be kept within the relevant department. For example, Estates costs and the reimbursement of them should be raised on an Estates project and the reimbursement will also be recognised as Estates income. If an insurance claim is complex and will involve a lot of different costs, the Insurance Team may set up a sub-project code within University Services for the purposes of administering the claim.

APPENDIX 1 – Equipment, Plant and Machinery - Acquisitions and Disposals

Acquisition scenarios

Example 1: Single piece of equipment costs over £50,000 to purchase.

This should be capitalised.

Example 2 - Items under £50,000 but which are part of a larger capitalised item

These should be capitalised along with the main capitalised item.

Example 3- Purchase of numerous assets that total in excess of £50,000 but which individually cost less than £50,000.

A computer lab where all computers are being replaced at a total cost of £60,000, even though individual computers cost less than £50,000 each. If the assets are designed to work together, the total cost should be capitalised as the capital spend relates to a group of related items. If the items are all designed to work separately and will not be used together, then the items should be expensed.

Example 4 - Equipment purchased under research contracts and grants (100), research donations (120) or fundraising (711).

Items over £50,000 purchased with a research grant, research donation, fundraising should be capitalised using College FRS102 projects.

Example 5 - Assets funded by multiple projects

If an item is purchased using funds from multiple different projects, the item should be capitalised if the cost of the item is greater than £50,000. The item should be allocated to the relevant projects using letters to show that they are related. It is important to capitalise all of the original project bookings through Agresso. For example, an asset costing £80,000 is purchased using general funds of £35k and three research projects of £15k each. The workbook may say that the three research projects all default to the same FRS102 project, but we must retain the individual lines of £15k each and capitalise separately so that the original sub-project code is added in Agresso in field 8 (Sub-project Reference). This is important for HESA reporting.

Example 6 - Equipment or plant and machinery received on loan

Equipment on loan to the University does not belong to the University and therefore no steps are required in terms of recording this item on the fixed asset register or financial reporting systems (other than recording any rental charges). However, if the item is under the custody and control of the University, it is likely that we are responsible for insuring the item while it is on loan. Contact the Insurance Team to arrange this.

Example 7 - Donated equipment or plant and machinery

Equipment which is donated should be notified to the Financial Reporting Team as it will need to be added to the Fixed Asset Register and depreciated if the estimated market value exceeds £50k.

Example 8 - Equipment or plant and machinery purchased pursuant to an insurance claim

Equipment may be purchased to replace equipment damaged beyond repair in a fire/flood or other insured event. In this scenario, the equipment damaged beyond repair must be notified to the Financial Reporting Team so that the remaining net book value of the asset can be written off and the asset removed from the Fixed Asset Register and general ledger (see Impairment review below). The new asset must be capitalised at cost and then depreciated over the course of its useful life.

Example 9 - Equipment or plant and machinery brought by an academic/researcher upon joining the University

Items of equipment which are transferred to the University as part of a research grant which moves to the University from a third party institution, may become University property depending on the terms of the grant and the transfer. The Contracts team can review the terms to identify if ownership of equipment transfers to the University. If it does, the equipment must be recognised in Agresso, on the Fixed Asset Register and it must be insured. The relevant department should contact both the Financial Reporting Team and the Insurance Team to do this.

Acquisitions – Month End Process

1. As part of their month end processes, it is the responsibility of the College Finance Teams to:
    - review the I&E GL codes for any items which should be capitalised
    - journal any capital expenditure to GL code 6600 Equipment Assets > £50k clearing account.

   This must be done by the end of the first working day of the new month.

2. The Financial Accounts team will then review the items that have been journaled to GL code 6600 and liaise with the College Finance Teams to reach a final decision on whether or not the expenditure on the equipment asset should be capitalised.

3. If the final decision is that the expenditure on the equipment asset **should** be capitalised, then the Financial Accounts team will either:
    - capitalise the equipment asset and add it to the fixed asset register if all invoices have been received and the equipment asset is operational; or
    - add the expenditure on the equipment asset to a holding account in the balance sheet if the expenditure relates to part payment of an equipment asset that will have a final cost > £50k or the asset is not yet operational.

4. If the final decision is that the expenditure on the equipment asset **should not** be capitalised, the College Finance Team will be required to journal the expenditure out of GL code 6600 to the original account code.

Disposal examples

Example 1 – Sales. Where a School or Department has excess equipment but which is still in working condition, they should first consider whether any other School or Department within the University could use the equipment. Where the item is not needed by any other departments, it may be sold externally. Market value should be agreed for any sale. A sales invoice must be generated for the sale and VAT will be charged at the standard rate on all sales (except where the sale meets the criteria for zero-rating – e.g. where the item is being exported). The College Finance Team should assist with this process. Information about VAT can be found on the VAT Team website and questions can be sent to finance-accountingandtax@glasgow.ac.uk

Example 2 - Part exchanges

Where a supplier offers a part exchange of an old item of equipment, for a new item, consideration should first be given as to whether this represents a fair value for the disposal of the existing item. When a part exchange proceeds, you must notify the Financial Reporting Team with the details of both the disposal and acquisition.

Example 3: Damage beyond repair in fire/flood/accident (insured event)

If equipment is damaged beyond repair as a result of an insured event, a claim to the property insurers should be made via the Insurance Team. The damaged asset must be retained until inspected by the Loss Adjuster or forensic specialist appointed by the insurer. Once confirmed by the Loss Adjuster and Forensic Specialists that the asset is beyond repair, the asset can be disposed of physically (taking into account the University's normal disposal processes). The Financial Reporting Team must be advised of the asset that needs to be removed from the fixed asset register and of any replacement asset to be added as a new asset.

Example 4: Scrapped, obsolete and damaged items

Where an asset has become obsolete or damaged and is no longer fit for use, once Head of College, School or Department approval is received, the disposal must be notified to the Financial Reporting Team.

Example 5: Equipment taken by a researchers/academics to another University

Assets purchased by the University are the property of the University, irrespective of funding source, unless contracts with external sponsors specify otherwise. Accordingly, where an academic/researcher leaves the University for another institution, only where contracts with external sponsors specify that the equipment should follow the researcher or research grant, should the equipment be removed from the University. The Contracts Team can provide clarification on individual contracts. Where this occurs, the College Finance Team and the Financial Reporting Team must be notified.

If an academic leaves but wishes to take equipment with them and this is not specified in the contract, it is possible to transfer the equipment as a sale, following the procedure above. Where these are not followed, removal of the asset may be considered a theft and appropriate steps taken.

APPENDIX 2 – Existing Buildings – Capital Versus Revenue expenditure

Many of the University's capital projects are for refurbishment purposes. These will likely include capital and revenue costs. Only the net improvement should be capitalised – i.e. the cost of the proposed project, less the cost of a like for like replacement only. A % split between capital/revenue should then be applied to the project. While the project is ongoing, the capital element of the project will be treated as "Assets Under Construction" in the University's finance system. They are not put on the fixed asset register until they are complete – refer to Appendix 3 – Estates Capital Projects

Each project should be considered on its own merits.

Split projects

1. Projects at design stage:
   For projects which are only at design stage and which don't have a detailed breakdown to support a capitalisation threshold, a standard percentage of 70% capital/30% revenue will be applied to the project code. Once there is a Full Business Case (FBC) developed for the project, for seeking the appropriate approvals, the Estates Finance Team will use this to assess the actual split. If there is a material difference, the capitalisation % will be adjusted.

2. Programme works
   Projects which are undertaken further to the Estates programme of works to replace lifecycle assets must be assessed on a programme by programme basis. Examples of this type of project include replacements of chillers, lifts, HVACs, etc in a particular area. For each programme, Estates Finance and Financial Reporting will agree a % split to apply to that whole programme.

Revenue projects

1. Fabric repairs:
   Projects which do not involve replacing equipment, but is work done to the fabric of the building – e.g. repairs to masonry, roof repairs, plasterwork repairs – will usually be 100% revenue.
2. Essential repairs:
   A project of £800k to complete essential repairs to roof, windows, stonework at various buildings on the campus. This is a 100% revenue project.

Capital projects:

1. Projects to increase capacity:
   - Replacing a lift by enlarging the shaft and increasing the carrying capacity from 5 to 20 people
   - Building an extension to a lecture theatre
   - Extending a nursery to increase capacity

2. Projects to extend the useful life
   - Replacing a flat roof with a pitched roof if it increases the useful life of the building
   - A project to reinstate a laboratory after a fire. Where most of the building fabric, mechanical, electrics and fixtures and fittings are being replaced rather than repaired, the project would be considered a capital project. The existing assets which are being removed, replaced or upgraded must also be removed from the register and this may include recognising an impairment if the assets are not already fully depreciated.

APPENDIX 3 – Estates Capital Projects

Assets under construction – will remain under "work in progress" until completed. Estates Finance will regularly review projects and anticipated completion dates.

Project completion

Estates Finance advise the Financial Reporting team when a project is complete and therefore can be capitalised in the Fixed Asset Register. The notification to the Financial Reporting team should include the completed *E&B Capitalisation Form* together with evidence of the project being complete e.g. completion certificate from the project manager.

Componentisation

The Financial Reporting team is responsible for updating the fixed asset module for any completed projects and ensuring these are correctly componentised between the different areas of buildings (based on the information provided by Estates Finance in the *E&B Capitalisation Form*). Projects which are equal to or greater than £3m must be assessed for componentisation on an individual basis.

Category	% split across building	Depn Term	Components
A Structure		100-165 years	Foundations, ground treatment/remediation, excavation & upfill, drainage & underground services. Hard & soft landscaping, including roads, signage, fencing etc. Structural frame and floor slabs, stairs, secondary steelwork, blockwork partitioning.
B Services		30-35 years	Mechanical, Electrical, Plumbing (above ground), IT & Specialist services, lifts escalators.
C Fit out		25-40 years	Partitioning, internal, floor and wall finishes, toilets & other fit outs, decoration, internal signage. User specific unfixed finishes & components, furniture etc.
D Envelope		35 years	Roof finishes & elevation treatment. (cladding, curtain walling etc.)

To ensure an efficient balance between depreciation not being materially misstated and the additional administration burden, a de minimis level of £3m is applied to building projects.

Activity within projects below £3m generally does not include structural or envelope spend. For these projects the default position is to classify the spend as 40% fit out, 60% services, unless there is any reason to do otherwise – for example, a project to complete structural work on a vacant building should be classed as structural work.

Building asset codes

Enhancements to existing buildings will be incorporated as an addition to the existing building and depreciated in line with the remaining life of the building/component. New buildings will be given a new building code within the Fixed Asset Register using the building code convention. New buildings also require a building budget project/cost centre to be set up prior to capitalising which will record future building running costs including depreciation. Estates Finance will be responsible for ensuring appropriate building budget projects/cost centres are set up for new builds.

APPENDIX 4 – Impairment Review Procedure

The impairment review process for buildings and assets under construction is owned by Estates Finance, with assistance from Financial Reporting and the Estates Team.

On an annual basis, the Estates Finance Team will coordinate an impairment review which takes into account the following:

1) Rolling programme of impairment reviews on a sample basis
2) Adhoc event impairment reviews (e.g. fire damage)

The results of these impairment reviews should be completed and entered into Agresso ahead of year end on 31st July each year. Both parts of the impairment review should be documented in a memo which is then provided to the external auditors.

Timeline for completing this review:

1. Initial review to be completed and provided to Financial Reporting by 30th June each year. A full impairment memo is to be completed.
2. A post balance sheet review should be completed by 31st October – the initial memo should be updated to reflect any changes which may have occurred since the balance sheet date (31st July).

1) Initial Review (by 30th June)

	Activity	Responsible person
1	Obtain fixed asset register listing of all in scope assets which includes the following data: - Net book value - Depreciation to date - Remaining life of assets	Financial Reporting/Estates Finance
2	**Part 1. Rolling programme of impairment reviews** Agree timeframe with Estates Team to review Asset values, and basis to substantiate this value. All Assets to be reviewed within a 5 year basis. Priority to be given to: - Higher value buildings - Older buildings - 1960s/1970s buildings - Buildings which have been identified in the Estates Strategy as requiring major refurbishment work - Buildings which are already subject to a capital or maintenance refurbishment project Estates can leverage the information they already have in relation to the estate in the first instance – for example, condition surveys completed to inform the Estates Strategy.	Estates team/Estates Finance
	Part 2. Adhoc event impairment reviews Conduct discussions with Estates Team regarding any events during the year which may give rise to an asset impairment: - Fires - Floods - Indication of impaired cladding - Building demolition - Building no longer in use	Estates team/Estates Finance
3	Estates Team to provide values which are either: - No changes to asset value and depreciation - Impairment charge against asset	Estates team/Estates Finance
4	Proposed impairments to be reviewed and approved by the Head of Estates Finance	Estates Finance

5	Estates Finance Team to notify Financial Reporting Team of any entries to be reflected in the Fixed Asset Register and General Ledger	Estates Finance/Financial Reporting
6	Complete memo outlining the steps taken and the results.	Estates Finance

2) <u>Post Balance Sheet Review (by 31st October)</u>

A further review should be undertaken by the Estates Finance Team, in conjunction with the wider Estates Team, closer to the date that the audit report is signed off. At a minimum this should involve a discussion with the Estates Team about any post balance sheet events which may have occurred which may indicate impairment of the estate.

APPENDIX 5 – Contacts and Useful Links

Financial Reporting Team	finance-accountingandtax@glasgow.ac.uk
Insurance Team	finance-insurance@glasgow.ac.uk https://www.gla.ac.uk/myglasgow/insurance/
Estates Finance Team	
College Finance Teams	Science and Engineering: https://www.gla.ac.uk/colleges/scienceengineering/collegedirectory/#d.en.641499 MVLS: https://www.gla.ac.uk/colleges/mvls/informationforstaff/servicesforstaff/finance/ Arts: https://www.gla.ac.uk/colleges/arts/informationforstaff/finance/ Social Sciences: https://www.gla.ac.uk/colleges/socialsciences/staffinfo/finance/
VAT	finance-accountingandtax@glasgow.ac.uk https://www.gla.ac.uk/myglasgow/financevat/