Queen Mary
University of London

Capital Expenditure Policy

Outcome requested:	Finance and Investment Committee is requested to **approve** the updated Capital Expenditure Policy.
Executive Summary:	**Capital Expenditure Policy** The Capital Expenditure Policy, which was last reviewed in 2016, has been reviewed and an updated version is included as an appendix to this paper. No material changes have been made to the policies, processes or thresholds that are set out in the policy. The policy has been updated for changes in terminology, for example replacing QMSE with SET, and in a number of instances wording has been changed or expanded to improve clarity. Details of accounting policies and examples of capital and revenue expenditure have been moved to appendices. A review of the governance of capital projects will be undertaken by the Project Management Office to ensure that our policies and associated governance structures and processes are effective and appropriate to the delivery of the 2030 Strategy. Capital Expenditure policies and processes are currently covered in five documents: Financial Regulations, Scheme of Delegation of Financial Authority, Capital Expenditure Policy and the Terms of Reference for both IT and Estates Strategy Boards.
Strategic Plan 2030 strategic aim reference:	N/A
Internal/External regulatory/statutory reference points:	Internal
Strategic Risks:	N/A
Subject to prior and onward consideration:	Audit and Risk Committee 11 June 2019
Confidential paper under FOIA/DPA:	No
Equality Impact Assessment:	None required
Timing:	The policy is reviewed every 3 years.
Author:	Andrew Gladin, Deputy Director of Finance

Date:	5 June 2019
Senior Management / External Sponsor	Joanne Jones, Director of Finance and Resources

Capital Expenditure Policy

Version: Draft v7
Date: 5 June 2019
Policy Owner: Deputy Director of Finance, Financial Control on behalf of Director of Finance
Approved by:

- **Senior Executive Team (SET) on: 28 May 2019**
- **Audit and Risk Committee on 11 June 2019**
- **Finance and Investment Committee on: 20 June 2019**

Contents

1 Introduction

The purpose of this document is to set out:

- how capital expenditure across QMUL is identified, planned, authorised and accounted for accurately in a timely manner.
- the policy for accounting for capital expenditure at QMUL
- guidance and examples of expenditure which would be classified as capital

The rules which define the accounting treatment for capital expenditure are set out in the accounting standards under which QMUL reports (FRS102 and the associated accounting guidance for the Higher Education sector).

This policy supports Queen Mary, University of London Financial Regulations, section 14 – Financial Planning; the Scheme of Delegation of Financial Authority and the accounting policies referred to in the Financial Statements, as defined in section 4 below.

http://www.arcs.qmul.ac.uk/policy_zone/index.html

The Scheme of Delegation of Financial Authority outlines the areas of responsibility and approval limits related to capital expenditure.

http://www.arcs.qmul.ac.uk/policy_zone/index.html

2 Governance and funding of capital expenditure

2.1 The annual capital expenditure budget and indicative capital budget for future years, including the funding of that expenditure, is approved annually by Council.

2.2 The inclusion of a project in the annual budget does not constitute authorisation to commit expenditure.

2.3 For all projects, funding and cashflow must be identified and approved before any expenditure is committed.

2.4 Estates Strategy Board (ESB) and IT Strategy Board (ITSB) propose detailed annual budgets, based on the 10 year capital frameworks for approval by SET and FIC.

2.5 All projects over £5m require a full business case and approval by FIC and Council.

2.6 Projects below £5m follow the project gateway processes for ESB and ITSB.

2.7 Project Boards must be established for all projects with budgets of £5m or more.

2.8 Requirements for funding for projects which arise outside of the annual Capital Budget cycle should be referred to the Finance Director.

2.9 Following the approval of a business case, projects may proceed. Any variances to budget or scope should be reported to ESB or ITSB for approval.

2.10 Authorisation limits for expenditure are set out in the Scheme of Delegation of Financial Authority.

2.11 Capital expenditure is monitored on a monthly basis. A summary report on overall capital expenditure is included in the monthly management accounts reviewed by SET and more comprehensive reports are reviewed by ESB and ITSB.

2.12 Where an item of capital expenditure is fully grant funded equipment the responsibility for approval lies with the relevant School. Purchase orders must be raised in the usual way and the expenditure will be accounted for in accordance with QM's accounting policies

3 Disposal/sale of assets

3.1 Where an asset comes to the end of its useful life, or is no longer required the Financial Accounting team should be contacted for advice on how the asset may be redeployed, disposed of or sold. For assets which are to be disposed of an Assets Disposal Form should submitted to the Fixed Assets and Cashflow Accountant, so that disposal can be recorded.

4 Impairment of assets

4.1 In the event of any impairment (loss) in the value of an asset over and above normal wear and tear (e.g. change in use of the asset or economic life is shortened), Finance must be notified via the Fixed Assets and Cashflow Accountant, so that the Fixed Asset Register can be updated and the relevant accounting entries actioned.

4.2 Circumstances which could give rise to an impairment are also reviewed annually by the Fixed Assets and Cashflow Accountant.

5 Accounting policies

5.1 The accounting policies for the classification of expenditure as capital or revenue, and the associated depreciation policies, will be compliant with the relevant accounting standards and guidance for the Higher Education Sector.

5.2 The Financial Accounting team are responsible for determining the appropriate treatment and classification of expenditure. Business cases and associated documentation should set out the nature of the expenditure and the project deliverables to enable this determination. Where necessary, Financial Accounting may consult with QM's external auditors for technical guidance.

5.3 QMUL defines capital expenditure as expenditure over £10,000 on an item or group of related items which has a life of more than 1 year and has a value in the teaching of students, research or administrative purposes and includes:

- Construction and improvements to buildings which increase the value, life or capacity of the building
- Major equipment purchases
- Computer hardware and software / applications

5.4 Costs should be recorded as gross costs including VAT

5.5 The cost of a fixed asset is its purchase price and any costs directly attributable with bringing it into working condition for its intended use. These costs include:

- Acquisition costs
- Site preparation and clearance
- Delivery and installation costs
- Professional fees i.e. architect fees, quantity surveyor (but not Procurement)
- Internally generated costs where these are directly attributable to the asset eg project management

5.6 Capitalised items are written off to the Statement of Comprehensive Income and Expenditure via a depreciation charge (definition – see section 20 – Appendix 1 Glossary) which is set in accordance with the asset life attributed to the items asset class as defined in the fixed asset accounting policy.

5.7 QM's accounting policies for assets are included at Appendix A.

5.8 Examples of capital and revenue expenditure are included at Appendix B.

6 Operating and Finance leases

6.1 The decision on how an asset is funded, whether via outright purchase or a lease rests with Finance. All leases with a term in excess of 12 months requires the approval of the Finance Director

7 Accounting for capital expenditure at QM

7.1 Capital expenditure must be recorded against the relevant capital account codes at the time of commitment e.g. when a Purchase order is raised.

7.2 Assets under construction – will be classified as “work in progress” until completed. Projects Managers and the relevant Finance Business Partner should liaise with the Fixed Assets and Cashflow Accountant and review projects and anticipated completion dates. Completed assets must be notified to Finance by the project manager at which point they will be transferred, from work in progress, on to the Fixed Asset Register.

7.3 Depreciation - will be charged from the time an asset comes into use, at the start of its useful life (e.g. building comes into use). The Fixed Assets and Cashflow Accountant must be notified when an asset comes into use, so that it can be included on the Fixed Asset Register and depreciation charged..

7.4 Retentions are accrued by Finance. These are reviewed regularly and released in the event that they are not due to be paid. The review is informed by the relevant Project Manager upon practical completion of the project.

8 Further guidance and training

This policy is supported by user guidance and training arranged and provided by Finance.

If you require any further guidance or have any queries related to this policy or about capital expenditure, please contact:

- your Finance Partner or the Fixed Assets and Cashflow Accountant.

Contact details can be found on the Finance intranet page

http://qm-web.finance.qmul.ac.uk/whos-who/

If you have any queries about raising purchase requisitions/orders or goods receipting, please contact:

- Procurement Team

Contact details can be found on the Procurement intranet page

http://qm-web.finance.qmul.ac.uk/purchasing/team/

Appendix A: Capital Expenditure Accounting Policy

The following accounting policies are extracted from the Queen Mary University of London Financial Statements.

Intangible assets

Intangible assets are stated at cost or at impaired value. Where it is considered that there has been any impairment in the value of an asset, the difference between the carrying value and the higher of its net realisable value or value in use is expensed in the consolidated statement of comprehensive income and expenditure.

Third party software, and the costs associated with its implementation, costing less than £10,000 per individual item or group of related items is written off in the year of acquisition. All other costs are amortised over 3-8 years on a straight line basis, the period of its estimated useful life.

Fixed assets

Fixed assets are stated at cost or deemed cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for intended use. Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

i. Buildings are depreciated over 50 years. Depreciation on leased buildings is calculated over the life of the lease if the lease is less than 50 years. No provision for depreciation is made against the value of land.

ii. Assets in the course of construction are stated at cost and are not depreciated until they are transferred to the completed asset class when ready for use.

iii. Freehold improvement works are depreciated over 20-40 years

iv. Leasehold improvement works are depreciated over 20-40 years or the lease term if shorter

v. Plant & Machinery is depreciated over 15 years.

vi. Fixtures & Fittings are depreciated over 10 years

vii. Equipment is depreciated over 3-8 years

viii. Plant & Machinery, Equipment and Fixtures & Fittings costing less than £10,000 per individual item or group of related items is written off in the year of acquisition. All other items are capitalised.

ix. Where assets are acquired with the aid of specific grants they are capitalised and depreciated over the shorter of the term of the grant or the depreciation terms as set out above.

x. Assets held under finance leases are depreciated over the period of the finance lease or the depreciation terms as set out above whichever is shorter.

xi. Improvements to properties held under short leases are depreciated over the life of the lease.

xii. Expenditure on an asset after it is purchased is capitalised when the expected future benefits from that asset as a result of the expenditure are greater than those previously assessed.

xiii. Where it is considered that there has been any impairment in the value of an asset, the difference between the carrying value and the higher of its net realisable value or value in use is expensed in the Consolidated Statement of Comprehensive Income and Expenditure. Circumstances which could give rise to an impairment are reviewed annually.

xiv. QMUL owns heritage assets, none of which either individually or collectively are material to these Financial Statements, which have not been capitalised.

xv. Expenditure to ensure that a tangible fixed asset maintains its previously recognised standard of performance is recognised in the Consolidated Statement of Comprehensive Income and Expenditure in the year it is incurred. QMUL has a planned maintenance programme which is reviewed annually.

Appendix B: Examples of Capital and Revenue Expenditure

Estates and buildings projects

A. For construction projects, the capital costs will include:

- Cost of materials
- Labour costs of own employees or building contractor, arising directly from the construction of the tangible fixed asset
- Professional fees directly related to the construction of the asset (e.g. architect, employer's agent, project manager, quantity surveyor)
- Delivery and installation of heating, lighting, lifts and air conditioning

B. The following costs will not be included as capital costs:

- Costs not directly related to the construction of the project such as administration and general overhead costs including unspecified and percentage based project office costs
- Costs incurred by, or on behalf of those staff, who are directly working on the project but are not directly related to the construction or acquisition of the asset e.g. training, general advice (finance, procurement) and consumables.
- Costs of moving into a new building.

C. Relevant capital plant and machinery or furniture installed in a new or refurbished building should be recorded separately from the construction or refurbishment and depreciated in accordance with the depreciation policy for the asset class.

D. Maintenance costs which include elements of tangible improvements/ betterment to the asset can be capitalised. For example – repainting a lecture theatre would be classed as revenue (and not capitalised). However, refurbishment of the lecture theatre which included an extension to increase capacity would be classed as capital.

IT projects

For IT related projects, the following can be capitalised (if over £10,000):

- Purchased software
- Hardware,
- Direct consultancy costs and internal staff costs (up to the point of implementation)

The following should not be included:

- Any internal margins
- Staff training, software and hardware maintenance costs and software licences
- Software as a Service (SAS)
- Annual software licences

Appendix B Continued

Other capital equipment including School, Institute and Research equipment

Equipment costing £10,000 or more per individual item or group of related items, and where the economic benefit of the asset has a useful life of more than one year, should be capitalised.

- Example 1 - microscopes, slide scanners, centrifuges where individually they cost > £10,000 would be capitalised.
- Example 2 - a computer lab where all computers are replaced may cost £50,000, but the individual computers cost less than £10,000 each – would not be capitalised.
- Example 3 –the purchase of a number of component parts to build a piece of equipment (an asset) which in total costs more than £10,000 would be capitalised.

Note: It is important to be aware that it is not always what is invoiced. It is necessary to take into account all the part payments for the related items e.g. 3 x payments of £8,000 = £24,000. The £24,000 would be capitalised. In such cases, Finance will rely on Faculties to provide information, to help determine and ensure these assets are identified and capitalised.

For further advice and guidance, please contact Finance (see section 18).

Feasibility studies

7.1 Feasibility studies for potential capital projects are initially capitalised. Where a project does not subsequently proceed, the feasibility study costs (initially charged to capital), can no longer be capitalised and must be charged to the revenue budget of the department initiating the study.

7.2 All projects in progress, will be reviewed in November and May, to ensure that it is appropriate to continue to capitalise the costs. In the event that a project is abandoned or significantly changed after capital costs have been incurred, some or all of the costs may need to be written off. Project Managers should inform their Finance Business Partner of any material changes to a project to enable Finance to determine the correct accounting treatment.

7.3 If the project has not been started in order for the costs to be treated as capital, a commitment will need to be provided from SET/ Finance and Investment Committee that a project will proceed.

Strategic Studies

8.1 The costs of strategic studies cannot be capitalised e.g. costs incurred to produce an IT Strategy, as these do not directly relate to a specific asset.

Appendix C - Glossary of accounting and QMUL terminology

Term	Definition
Abortive Costs	Costs incurred for a project which is not completed or does not result in an asset which is used by the University.
Accruals concept	The principle that revenue and costs are recognised as they are earned or incurred, are matched with one another, and are dealt with in the Statement of Comprehensive Income and Expenditure in the period to which they relate, irrespective of the period of receipt or payment.
Accruals at QMUL	QMUL follows accruals accounting. This is when income and expenses are recorded as they occur, regardless of when cash is exchanged. This means that assets are recorded in the accounts when they are acquired or costs incurred. A Purchase Order example for the purchase of equipment: • the school raised a purchase order for a microscope costing £15,000 and placed the order with the supplier in September • the supplier delivered the microscope in December as per the order but the organisation has not yet received and paid the invoice. • the school has “goods receipted” the Purchase Order for the microscope, as the microscope has been delivered as per the specification requested. • Finance can “accrue” (record in the accounts) the £15,000 amount owed (the liability) to the supplier for the microscope delivered, which will be paid at a later date once the invoice has been received. This means the accounts reflect the amount owed to the supplier, which provides a more accurate forecast. For projects – we take into account the value of work executed to date but where the invoice has not been received and/or paid.
Capital expenditure	The cost of acquiring, producing or enhancing fixed assets.
Depreciation	The measure of wearing out, consumption or other loss of value of a fixed asset whether arising from use, the passing of time, or it becomes obsolete through technology or market changes. It is an accounting entry (non-cash), and indicates how much of an asset’s value has been used up. Finance are responsible for the accounting entries, which writes down the asset cost in the balance sheet and are

Term	Definition
	charged to the Statement of Comprehensive Income and Expenditure.
International Financial Reporting Standard (FRS)	Is a single set of accounting standards, developed and maintained by the International Accounting Standards Board with the intention of those standards being capable of being applied on a globally consistent basis.
Fixed asset	An asset that is not consumed or sold during the normal course of business, such as land, buildings, equipment, machinery, vehicles. Any asset expected to last, or be in use for, more than one year is considered a fixed asset and has a cost over £10,000.
Impairment of an asset	The value of an asset is less than the amount recognised in QMUL books. For example – loss in the value of the asset or when the purpose of that asset no longer exists.
SORP	Statement of Recommended Practice; a set of clarifications of how accounting standards apply to a specific sector e.g. Higher Education.
Useful Life	Period over which an asset is expected to have value to the University