POLICY DOCUMENT

Burton Hospitals
NHS Foundation Trust

NHS

ACCOUNTING POLICY - NON CURRENT ASSETS

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Signature:	**Helen Scott-South** **Chief Executive**
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Burton Hospitals NHS Foundation Trust

POLICY INDEX SHEET

Title:	**Accounting Policy - Non Current Assets**
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Responsibility:	**Director of Finance**
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Linked Trust Policies:	**Standing Orders, Standing Financial Instructions, Scheme of Delegation and Reservation**
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Consulted	**Members of Capital Planning Group, Medical Equipment Group, Estates & Facilities Capital Group**

REVIEW AND AMENDMENT LOG

Version	Type of change	Date	Description of Change
2	Update	15/11/12	To reflect revised accounting treatment of donated assets effective from 2011/12
3	Review	March 16	No changes required.

ACCOUNTING POLICY - NON CURRENT ASSETS

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ACCOUNTING POLICY - NON CURRENT ASSETS

1. STRATEGIC AIMS, OBJECTIVES AND SCOPE OF THE POLICY

This Policy outlines the Trust's policy for accounting for non Current Assets. The aim of the Policy is to ensure that all non current assets are correctly accounted for. Non current assets include property, plant and equipment, intangible assets and assets held under finance leases. This Policy will be reviewed every three years unless an interim review is deemed necessary.

2. PROPERTY, PLANT AND EQUIPMENT - DEFINITION

2.1 Property, plant and equipment comprises tangible assets held by the Trust for use in the supply of healthcare or related services, products and administrative purposes that are expected to be used for more than one accounting period.

2.2 Spare parts, stand-by and servicing equipment are generally classed as inventory (stock) items and are therefore outside the scope of this Policy, unless they are expected to be used for more than one period in which case they can be classified as non-current assets.

3. PROPERTY, PLANT AND EQUIPMENT - CAPITALISATION

3.1 Property, plant and equipment will be recognised if it is probable that future economic benefits associated with the item will flow to the Trust.

3.2 Property, plant and equipment are initially recognised at cost.

3.3 In order to correctly reflect the high proportion of medical equipment held by the Trust, this Policy distinguishes between 'medical' equipment, which is used specifically in the provision of healthcare, IM&T equipment and other equipment.

3.4 Items of medical equipment are capitalised when they:

i. individually have a cost of at least £5,000 or

ii. collectively have a cost of at least £5,000 and individually have a cost of more then £250, where the assets are functionally interdependent or

iii. are under the management of the Medical Equipment Library; or

iv. comprise re-usable surgical instrumentation which may be capitalised with a collective cost of £5,000; or

v. form part of the initial equipping and setting-up cost of a new building, ward or unit, or the re-equipping of an existing building, ward or unit which has

been subject to significant refurbishment, irrespective of their individual or collective cost.

3.5 Items of IM&T equipment are capitalised when they:

i. individually have a cost of at least £5,000 or

ii. form part of the Trust's IT network; or

iii. form part of the initial equipping and setting-up cost of a new building, ward or unit, or the re-equipping of an existing building, ward or unit which has been subject to significant refurbishment, irrespective of their individual or collective cost.

3.6 Items of equipment (other than medical and IM&T equipment) are capitalised when they:

i. individually have a cost of at least £5,000 or

ii. collectively have a cost of at least £5,000 and individually have a cost of more then £250, where the assets are acquired at the same date and planned for disposal at around the same date, functionally interdependent and under single management controls; or

iii. form part of the initial equipping and setting-up cost of a new building, ward or unit, or the re-equipping of an existing building, ward or unit which has been subject to significant refurbishment, irrespective of their individual or collective cost

3.7 "Cost" includes all expenditure directly attributable to bringing the asset to a working condition for its intended use. Intended use means being capable of operating in the manner intended by management.

3.8 Borrowing costs may be capitalised as part of the cost for certain "qualifying assets":

i A qualifying asset is one that necessarily takes a substantial period of time to be made ready for intended use. Qualifying assets generally are those that are subject to major development or construction projects

ii An asset that is ready for intended use when acquired is not a qualifying asset, even if expenditure is subsequently incurred on the asset

iii Investments are not qualifying assets; however investment property may be a qualifying asset. (e.g. a substantial scheme of construction of an investment asset)

Notes: There is no specific guidance on how long a "substantial period of time" is. For the purposes of this Policy it will be assumed to be at least 6 months.

If an asset takes longer than 6 months due to inefficiencies in the production or construction then it will be deemed to have "not necessarily"

taken a substantial period of time and therefore not be a qualifying asset with regard to capitalisation of borrowing costs.

iv. Borrowing costs eligible for capitalisation include:

- interest on bank overdrafts and borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings:
- finance charges in respect of finance leases; and
- exchange differences to the extent they are regarded as an adjustment to interest costs

3.9 The costs incurred need not be external or incremental (e.g. the costs of Trust employees assigned to carry out work on specific capital projects may be capitalised).

3.10 The cost of an item of plant, property and equipment includes the cost of dismantling, removal or restoration.

3.11 Costs should only be capitalised in the event that an asset is acquired. Therefore feasibility studies to decide whether an asset is purchased, or to consider various options cannot be capitalised, in the event that the project or option does not proceed. However fees that fall payable only if an asset is purchased, such as arrangements made on these terms with agents, can be capitalised.

3.12 The cost of training staff to use a new item of property, plant or equipment cannot be capitalised. Where a price paid to a supplier includes an element of staff training this should be charged to revenue.

3.13 The costs of "opening" a new facility and general overheads and administrative costs are not part of the cost that can be capitalised.

3.14 The costs of "interruptions" may only be capitalised if

i. the interruption is temporary and is a necessary part of getting the asset into working conditions (e.g. having to wait for water levels to subside during a construction project): or

ii. the costs are an integral part of getting the asset into working condition even though physical construction has been suspended (e.g. the cost of delays in obtaining permits for eventual operation of the asset)

3.15 Assets that require a period of installation or construction will initially be capitalised as "assets under construction" as costs are accrued. Such assets will be reclassified and subject to depreciation on the 1st day of the calendar quarter following the date of commission i.e. the 1st of January, April, July or October.

3.16 The Trust will account for property, plant and equipment in the following categories:

i Land
ii. Buildings (excluding dwellings)
iii. Dwellings
iv. Assets under Construction
v. Plant and Machinery
vi. Transport Equipment
vii. Information Technology
viii. Furniture and Fittings

4. PROPERTY, PLANT AND EQUIPMENT - DEPRECIATION

4.1 Subsequent to initial recognition, plant, property and equipment is depreciated on a straight line basis over the useful life of the asset. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Assets are subject to depreciation from the 1st day of the calendar quarter following their date of acquisition or commission – for example an asset acquired during the period 1st April to 30th June would be subject to depreciation from 1st July.

4.2 No depreciation is provided on freehold land, assets under construction or assets surplus to requirements (held for sale).

4.3 The remaining categories of property plant and equipment will be subject to straight line depreciation charged over their estimated useful lives. Unless specifically calculated, estimated useful lives will be based on:

Building and Dwellings	in accordance with the advice of professional valuation
Plant and Machinery	5 to 15 years
Medical Equipment	5 to 15 years
Transport Equipment	7 years
IM&T Equipment	5 years* see note
Furniture and Fittings	10 years

Note * - IM&T equipment – where the Trust holds IM&T assets acquired prior to 1/4/07 these assets may be depreciated over a maximum standard life of 8 years, being the standard life for mainframe IM&T equipment in accordance with previous guidance (NHS Trusts Capital Accounting Manual). All acquisitions following this date will be depreciated over 5 years as above.

4.4 Buildings, dwellings and installations will be depreciated based on their current value as assessed by a professional valuer (see section 5). In the interim period between a capital project being completed and subject to depreciation, and valuation by a professional valuer being carried out, a life of 35 years will be used for depreciation calculation purposes. In the event that the remaining life of a building is less than 35 years, any capital works to the building shall be depreciated over the remaining life of that building.

4.5 Equipment will be depreciated on historic cost over the expected useful life of the asset.

5. PROPERTY, PLANT AND EQUIPMENT - VALUATION

5.1 Land, buildings and dwellings will be valued, in accordance with International Accounting Standard 16 (IAS 16), at market value.

5.2 Market value of land, buildings and dwellings will be calculated by a suitably qualified professional valuer. Where applicable the Modern Equivalent Asset (MEA) methodology will be used.

5.3 The Trust will utilise a 5 yearly cycle to ensure valuations are carried out at regular intervals.

Year 1	Full valuation of land, buildings and dwellings
Year 2	Valuation of buildings, plus any land or dwellings which have been subject to significant change since their last valuation
Year 3	Valuation of land and dwellings, plus any buildings which have been subject to significant change since their last valuation
Year 4	Valuation of buildings, plus any land or dwellings which have been subject to significant change since their last valuation
Year 5	Valuation of land and dwellings, plus any buildings which have been subject to significant change since their last valuation

5.4 The Trust will engage a suitable professional valuer for a 5 year period, subject to adequate contract performance.

5.5 Equipment will be valued at historic cost based on the purchase cost less accumulated depreciation.

5.6 The Trust will not use inflation indices for the valuation of non current assets.

5.7 Professional valuations will be based on the value as at 31st March of the appropriate accounting period.

6. PROPERTY, PLANT AND EQUIPMENT - DONATED ASSETS

6.1 The asset register will record donated assets separately from purchased assets.

6.2 Donated assets will be accounted for in the same way as purchased assets (as outlined in sections 3, 4 and 5 above).

7. INTANGIBLE ASSETS - DEFINITION

7.1 An intangible asset is an identifiable non-monetary asset without physical substance. In order to be capitalised an intangible asset must be:

- Identifiable;
- Non-monetary; and
- Controlled by the Trust and expected to provide future economic benefits over more than one accounting period.

7.2 In order to be identifiable the asset must meet one of the following criteria:

i. is separable (i.e. capable of being separated or divided from the Trust and sold, transferred, licensed, rented or exchanged either individually or together with a related contract, asset or liability); or

ii arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Trust or from other rights and obligations.

7.3 The Trust will account for intangible assets, should it be appropriate, in the following categories:

i Software Licences

ii. Licences and Trademarks

iii. Patents

iv. Development Expenditure

7.4 Intangible assets are non –monetary. Monetary assets are subject to other accounting requirements (e.g. as financial instruments).

8. INTANGIBLE ASSETS - CAPITALISATION

8.1 An intangible asset can be initially capitalised at cost where it meets the following criteria:

i it is probable that future economic benefit attributable to the asset will flow: and;

ii the cost of the asset can be measured reliably.

8.2 The cost of an intangible asset acquired in a separate transaction is the cash paid or the fair value of any other consideration given.

8.3 The cost of an internally generated asset includes the directly attributable expenditure of preparing the asset for its intended use and the principles applied to property, plant and equipment (section 3 above) apply.

8.4 Research and Development

Research is original and planned investigation undertaken with the prospect of gaining new knowledge and cannot be capitalised. Development is the application of research findings or other knowledge to a plan or design for the production of a new product, material or process before the start of commercial production or utilisation (e.g. development of a new IT system).

An internally developed intangible asset arising from research and development can be capitalised if the following can be demonstrated:

- the technical feasibility of the intangible asset such that it will be available for use or sale;
- the Trust intends to complete the asset for use or sale
- the asset will be capable of use or sale
- the asset will generate future economic benefit
- adequate technical and financial resources will be available to complete the development of the asset
- the expenditure attributable can be reliably measured.

8.5 Website Development costs

Costs associated with Web sites developed for advertising or promotional purposes must be charged to the Income and Expenditure accounts.

Costs associated with other Web sites may be capitalised if they meet the criteria for capitalising development costs as per paragraph 8.4 above.

8.6 Purchased computer software licences are capitalised where the licence relates to more than one accounting period and:

i. individually have a cost of at least £5,000 or

ii. is purchased together with a piece of equipment or IT hardware to form a system, where the collective cost is at least £5,000.

9. INTANGIBLE ASSETS – VALUATION AND AMORTISATION

9.1 Intangible fixed assets other than software licences held for operational use are valued at historic cost and are amortised over the estimated life of the asset on a straight line basis.

9.2 Software licences are valued at historic cost and are amortised over the shorter of the licence period or the estimated useful life.

10. IMPAIRMENTS - IDENTIFICATION

10.1 No asset will be carried at a value higher than its recoverable amount in terms of use or sale.

10.2 The Trust will assess each asset at the balance sheet reporting date (31st March) for any indication that it may be impaired.

10.3 Where assets are identified as impaired before the balance sheet date any impairment will be recognised at the point the decision to impair the asset was formally taken.

11. IMPAIRMENTS - RECORDING IMPAIRMENTS

11.1 Where an indication has been received that an asset has been impaired the "recoverable" amount for that asset will be calculated.

11.2 The "recoverable" amount of the asset shall be the higher of its fair value less cost of sale and its value in use.

The "value in use" will be nil if it is no longer used. However for assets that may be impaired due to reduced, but not zero usage, a "value in use" estimation will be required. For significant assets, such as buildings, a professional "in use" valuation may be sought. The following elements shall be considered in arriving at a "value in use":

- An estimate of the future cash flows the Trust expects to derive from the asset
- Expectations about possible variations in the amount or timing of those cash flows
- The time value of money
- The price for bearing the uncertainty inherent on the asset

11.3 Fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

11.4 If the "value in use" or the "fair value less cost of sales" is higher than the carrying amount then an impairment has not occurred.

11.5 An impairment loss shall be recognised immediately in the Income and Expenditure account unless amounts are carried for that asset in the Revaluation Reserve.

11.6 Where the impairment loss is in excess of the value held relating to that asset in the Revaluation Reserve any excess shall be charged to Income and Expenditure Account.

12. ASSETS HELD UNDER FINANCE LEASE

12.1 A finance lease is defined as a lease that transfers substantially all of the risks and rewards incidental to ownership of the leased asset from the lessor to the lessee; title to the asset may or may not transfer under such a lease. Note: an operating lease is any lease other than a finance lease and will not be capitalised.

12.2 The following are "primary indicators" of a finance lease:

- *Transfer or ownership:* If Legal ownership of the asset transfers to the Trust either during or at the end of the lease term
- *Purchase options*: The existence of a purchase option that the Trust intends to take
- *Major part of economic life*: If the Trust takes out a lease for the major part of the economic life of the asset
- *The present value of minimum lease payments equals substantially all of the fair value*
- *Specialised nature of the asset*: If a leased asset is so specialise that only the lessee can use it without major modification

12.3 The following are "supplemental indicators" of a finance lease:

- If the Trust falls responsible for any losses incurred by the lessor if the Trust cancels the lease
- Gains or losses from the fluctuation in the fair value of the residual fall to Trust
- The Trust can extend the lease at a rent that is substantially lower than the market rent

12.4 At the commencement of the lease both a leased asset and a lease liability are recognised at the lower of:

- the fair value of the leased asset at inception date; and
- the present value of minimum lease payments at the inception date

12.5 Present value will be calculated at a discount rate equivalent to the Trust's Public Dividend Capital rate of return.

12.6 The periodic payments will be split into 2 components: the finance charge for the period and the reduction of the lease liability.

12.7 The total finance charge will be the difference between the total value of lease payments and the amount recognised as a lease liability/asset as per 12.1 above.

12.8 Liability will be recognised at the commencement of the lease in respect of the total finance charges that will accrue.

12.9 The total finance charge (interest) will be allocated into the accounting periods for which the lease will run and charged to the Income and Expenditure account. Interest will be recognised on an annuity basis and will therefore decrease during the term of the lease.

12.10 Interest will be allocated to the accounting periods using a “sum of the digits” estimate with the heavier charges therefore occurring in the earlier periods of the lease term and charged accordingly to the Income and Expenditure account.

12.11 The leased asset will be depreciated on a straight line basis over the shorter of the term of the lease or the anticipated useful life of the asset. Depreciation will be charged to the Income and Expenditure account in the appropriate period.

12.12 The cash payments in respect of the lease will be charged against the lease liability created from the capitalisation of the lease asset and the total finance charge.

13. FURTHER GUIDANCE

This Policy is not exhaustive and therefore does not cover all possible instances that may arise. In the event of any query the following detailed standards should be used:

International Accounting Standard 16 : Property, Plant and Equipment
International Accounting Standard 38 : Intangible Assets
International Accounting Standard 17 : Leases
International Accounting Standard 36 : Impairment of Assets