Appendix 1

Capital Programme Working Group 22nd June 2006
Asset Management Team 24th July 2006

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Impact of Capital Expenditure/Disposals on the Asset Register

1.0 Background

1.1 As part of the Council's capital accounting process, it is necessary to produce a revised asset register at the end of each financial year showing the changes to the book value of the Council's assets. The register lists what the Council actually holds at the end of the financial year whereas valuation adjustments may take place throughout the year.

1.2 The main changes that occur to the book value of the Council's assets are due to one of the following factors:

- **Depreciation** – This usually only applies to buildings on the basis that buildings have a fixed life. Over the life of the asset there is an assumption that the value of the asset reduces as the building becomes obsolete. Depreciation does not apply to land as land has an infinite life.

- **Acquisitions and disposals** – The asset register takes into account adjustments to what the Council owns at any point in time (eg stock transfer, HMR acquisitions, sale of land transactions, vehicles and plant)

- **Impact of capital spending** – Throughout the year, the Council invests capital expenditure in improving its assets. Due regard needs to be taken as to whether such expenditure enhances the value of the asset concerned.

1.3 As there are far too many assets for the Council's valuers to value in any one year, the current practice is to revalue each of the Council's assets at least once every 5 years. Therefore, we try and revalue 20% of our assets each year. The effects of depreciation, acquisitions and disposals and impact of capital spending, nevertheless, are applied to the Council's entire Asset Register each year.

2.0 Capital Programme Expenditure.

2.1 Members of this team may recall that several months ago I was contacting sponsors of those schemes listed in the Capital Programme for 2005/06 and enquiring on what was being spent, the type of work being undertaken and the assets that Capital Programme monies were being spent on. The purpose of this exercise was to consider whether the impact of capital expenditure had an enhancing impact on the value of the asset being scrutinised.

2.2 Very often, the answers to our enquiries regarding capital spend result in vague responses. It is important to be able to be able to audit the Council's Capital Programme allocation procedure and to ensure that the following basic information is provided:

- We know how much we are spending on various assets (on an individual asset by asset basis)
- We know the nature of the expenditure (i.e why capital funds are being employed)
- We know whether such expenditure enhances the value of the asset (this is a matter for my team to assess)
- We know where to find the affected asset in the Council's asset register in order to make the necessary adjustments.
- We know whether the expenditure represents a new asset.

2.3 This is a shared, collective responsibility and is not the sole responsibility of the Council's property valuers or accountancy staff and each service manager should play their role in providing the relevant information in order to demonstrate that the Council is receiving value for money and that proper accounting practices are being employed.

3.0 The Way Forward.

3.1 Some colleagues may be familiar with an exercise we undertook a few years ago to identify and list the service manager responsible for the day to day management of each asset as listed in the Asset Register. The reasoning behind this was to set incentives for service managers to share in any savings they generated. The additional intention was to have a more "joined–up" approach to sharing property information by using networked software that would allow the easy exchange of such data. Sadly, this initiative was not supported.

3.2 Service managers should be familiar with the assets that they manage on a day to day basis and should know the full extent of how Capital Programme expenditure monies are being employed to improve those assets.

3.3 Therefore, I suggest that a copy of the Asset Register is made available to each Capital Programme bid sponsor to identify the Unique Property Reference Number (UPRN) that is assigned to those assets that are to benefit from capital investment.

3.4 From the point of initial release of the Capital Programme list of schemes it will be necessary to identify on the Asset Register the UPRN and for the project sponsor to formally set out the intended use of funds to improve the asset. I suggest this is set out on the Capital Programme Approval Request form that is completed in the period between publication of the Capital Programme and the spend itself. I also suggest that without such basic information being provided, approval to spend should not be given.

3.5 When the request has been approved, there will be quarterly monitoring by property/accountancy colleagues on how such expenditure is progressing and that this is fed back to Capital Programme working Group.

3.6 I also suggest that before the Council's Industrial Estates/Capital Receipts Panel give approval on which assts are to be recommended for release for sale, some basic information is provided relating to how the asset is recorded in the Council's Asset Register. Both the original/latest value and cumulative depreciation (obtained from Finance) can be recorded against the agreed consideration, which has the added benefit of focusing attention as to whether an appropriate/equitable price is obtained. The same process would apply to other assets to be deleted from the Council's ownership, as in the case of say a vehicle or other piece of plant or equipment.

3.7 Again, I stress that this should be a collective process. Without the support of colleagues in monitoring the impact of capital expenditure on the council's assets, the Asset Register valuation process is likely to be impaired.