

Audit Committee, 26 November 2015

Proposed change in capitalisation threshold

Executive summary and recommendations

Introduction

The capitalisation threshold for fixed assets is £1,000. The Executive proposes to increase it to £5,000.

Decision

The Committee is asked to approve the increase in the capitalisation threshold to £5,000.

Background information

The purpose of the change is to simplify our bookkeeping. With the threshold at £1,000, a relatively large number of low value, short life assets are capitalised and depreciated, mainly laptops. Capitalising these assets creates extra accounting entries but does not add any significant financial control benefit. The IT department separately track laptops, and the physical security of the buildings reduces the risk of theft of office furniture.

The effect of the change on the balance sheet and the Income and Expenditure account will be small. Increasing the capitalisation threshold to £5,000 will mean a reduction of approximately £150k / 3% reduction in the net book value of fixed assets, and a matching £150k increase in 2015-16 expenditure, compared to the £1,000 threshold.

If approved, the change in threshold will take effect during 2015-16, and will be reflected in the month 6 forecast. It will be a change in estimation technique rather than a change in accounting policy and so will not require a prior period adjustment in the accounts. The NAO have indicated they have no objection to the change.

Resource implications

None

Financial implications

Approximately £150k / 3% reduction in the net book value of fixed assets, and a matching £150k increase in 2015-16 expenditure, compared to the £1,000 threshold. No cash effect.

Appendices

None

Date of paper

18 November 2015