

**Wiltshire Council**

**Audit Committee**

**24 MARCH 2010**

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## **CAPITAL EXPENDITURE: DE- MINIMIS THRESHOLDS**

### **Purpose of Report**

1. The 2007/2008 ISA 260 report issued by the Council's external auditors (KPMG), recommended that the Council review its de-minimis thresholds.
2. A review has been carried out and this report explores the potential advantages and disadvantages of dispensing with the concept of de-minimis thresholds for capital accounting purposes as currently employed by the Council.

### **Background**

3. Many authorities maintain de- minimis thresholds above which expenditure may be accounted for as capital providing it meets the definition set out below:

*"All expenditure on the acquisition, creation or enhancement of tangible fixed assets should be capitalised on an accruals basis. Expenditure on the acquisition of a tangible asset, or expenditure which adds to, and not merely maintains, the value of an existing asset, should be capitalised and be classified as a tangible fixed asset, provided that it yields benefits to the authority and the services it provides are for a period of more than one year".*

*(Extract from CIPFAs Statement of Recommended Practice (The SORP) 2008-2009.*

4. The term de-minimis is also referred to within the SORP and authorities are given complete discretion as to how it should be applied:

*"It is not considered advisable to be prescriptive about the establishment of de minimis levels. The general principle for de minimis is that omissions, short cuts and estimates can be made, provided that the accounts which result are not materially different from those which would have resulted if all the requirements of the SORP had been met exactly. The conditions under which this is possible will vary between authorities and will depend on the particular types of transactions and balances being reviewed".*

*(Extract from CIPFAs Statement of Recommended Practice (The SORP) 2008-2009.*

5. In the past de-minimis has been a useful tool as it has reduced the administrative effort needed to capture all potential capital expenditures by limiting the number of smaller value assets actually capitalised, and was particularly helpful before comprehensive computer databases made the task of capital accounting much less onerous.

### **Current position**

6. This Council adopted the de- minimis thresholds previously used by Wiltshire County Council as set out below:

- Land, Buildings and Roads                    £50,000 and over.
- Vehicles, plant and equipment            £10,000 and over.

However, the purchase of individual assets valued below these thresholds may in certain circumstances, also be grouped together so that the overall purchase is then classified as capital expenditure.

7. For example the block purchase of items such as computer laptops may be capitalised even though individual items are valued well below the de - minimis limit. Items which cannot be reasonably grouped in this way and that fall below the relevant de-minimis level should however, always be charged to the appropriate service revenue account.
8. In many cases there will be a need for careful consideration as to whether items can be classed as being of a capital nature, and this will regularly require additional work and intervention to “package” purchases together to form a capital asset.
9. Not only is this an unnecessary administrative task, but also one than may lead to later problems as whenever there is a need for a subjective judgement, as in the case of combining a series of purchases, there is always a risk of misinterpretation.

### **Proposals**

10. The Council’s financial database (SAP) is designed to account for fixed assets in a way that dispenses with the need for the previously required manual intervention and therefore, the need for de-minimis thresholds.
11. It is therefore proposed to remove the existing de-minimis thresholds completely, and to rely instead upon the application of the recently developed capital guidance (taken from the SORP) to determine the nature of all expenditures.

## Advantages

- The true value of fixed assets will be recorded in the Council's accounts.
- Items of a capital nature that would have been charged to revenue because they fall below the de-minimis threshold will now be correctly capitalised.
- This will also remove an unnecessary spending pressure from revenue budgets.
- The need for intervention and subjective interpretation to "package" capital spending will be removed.
- The risk of incorrectly capitalising revenue expenditure will be reduced through a strict adherence to the definitions set out within the guidance framework.
- The risk of misinterpretation in respect of capitalisation issues will be minimised.

## Disadvantages

- Common sense will be required to ensure that only true assets are capitalised. There are however, strict controls within SAP designed to ensure the integrity of the asset register and all capital schemes and projects require the issue of a "project code" against which expenditures can then be allocated.

The use of these codes is carefully monitored by the Capital Team to ensure that only legitimate expenditures are subsequently capitalised.

12. The Council could have of course chosen to set lower de-minimis thresholds, but similar problems as outlined within the report would persist, and the advantages also outlined would be lost.

## **Main considerations for the Council**

13. The removal of the current de-minimis thresholds will amount to a change in the Council's current accounting policy.

## **Environmental Impact of the Proposal**

14. No environmental issues have been identified arising from this report.

### **Equality and Diversity Impact of the Proposal**

15. No issues in respect of equality and diversity have been identified arising from this report.

### **Risk Assessment**

16. No issues have been identified arising from this report.

### **Financial Implications**

17. There will be savings to the revenue budget as expenditures of a capital nature falling below the current de-minimis thresholds that would have been charged to revenue, will now be capitalised.

However, the value of these savings cannot be quantified at this time.

### **Legal Implications**

18. There are no legal issues arising from this report.

MARTIN DONOVAN  
Chief Finance Officer

Report Author:  
Nick Tregenna  
01225 713741

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Unpublished documents relied upon in the preparation of this report: NONE  
Environmental impact of the recommendations contained in this report: NONE