

Asset Register... review

PURPOSE OF REPORT

1. To inform the Council of the contents of the Asset Register (Appendix A) so that it may satisfy itself that the Asset Register accurately reflects the actual assets held and that the information is appropriate.

RECOMMENDATION:

2. That the Council approves the contents of the Asset Register; noting that the Council will receive a copy of the Asset Register as at 31st March 2018 as part of the Accounts 2017-18, and
3. That the Council considers an appropriate period for the 'remaining useful life' of the IT equipment, and whether or not it is prudent to create an 'Earmarked Reserve' for its replacement.

BACKGROUND

4. The internal audit report (see full copy at agenda item 15.a) included the following statement regarding the Council's Asset Register.

"The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We are again pleased to note compliance with this requirement, the Clerk maintaining a suitable register. Extant guidance now requires that asset values are reported in the Annual Return at purchase cost or, where that value is unknown at the previous year's Return level uplifted or decreased to reflect the acquisition of any new assets or disposals.

The asset value disclosed in the Annual Return at Section 2, Box 9 (£14,252) does not match that in the Asset Register (£15,822). This is because £1,570 of new IT assets purchased in the year are not included in the Annual Return figure.

As well as this increase in assets, the Council decided to write off some of its oldest assets (some seats and a bus shelter). The value of these write offs was £4,442 and has been reflected both in the asset register and in the Annual Return value.

Conclusions and recommendation

The Council has continued to comply with requirements to maintain a fixed asset register: however, it would appear that the new IT assets on the register are not included in the year's Annual Return."

What is the correct valuation of assets?

5. On reading the internal audit report, Cllr Larminie asked the following question, *"What is the depreciation policy on IT equipment? It should in my view be written down over a short period?"*
6. From a common sense perspective I would totally agree with this view. For instance If you purchase a laptop for say £2,000 with an anticipated life of say five years, it would be

reasonable to presume that after one year it has a value of £1,600; after two years £1,200; after three years £800; after the fourth year £400 and after five years it would have a NIL value and you would expect to have to replace it.

7. However, guidance received from the internal auditors in 2012 was *"Assets are included at cost where possible, with an uplift where substantial repair/ renovations have been completed in the year which will materially extend the life of the asset eg Wellhead, or at a valuation where the assets are monuments."* As a result of this guidance I have been including as Note 1 to the Fixed Asset Register the statement, **"No depreciation has been applied due to the guidance received in 2012 from the internal auditors."**
8. There are two points to take into account. Firstly, the Accounts are prepared on a 'Receipts and Payments' basis and not an 'Income and Expenditure' basis (aka accruals basis). Secondly, all the Assets have been purchased from 'Revenue' and not from 'Capital'. As a result, you cannot charge depreciation as you've already written them off in full in year of purchase i.e. the cost of purchase of the assets has already been fully charged in the Accounts. Similarly, as they were purchased from revenue there are no 'debt charges' to be recorded in the Accounts.
9. The Asset Register includes a column 'remaining useful economic life'. This would seem to be purely a note to the Council, acting as an 'aide memoir' so that the Council can have a view about if/when it may have to incur costs to replace or to materially repair an 'asset'. This provision of funds could be made by way of setting up an 'Earmarked Reserve' ie putting aside say £400 a year within the General Reserve so that the Council knows it will have £2,000 in cash to purchase replacement IT when the current equipment fails in say five years.
10. You will see in the Assets Register that I included the IT equipment under a heading of 'Operational Assets'. I noted under the column headed 'Remaining useful economic life'... a period of 5 years for the IT equipment, based on advice given by Cllr Hertz ('our resident IT expert'). From subsequent correspondence Cllr Hertz still considers '5 years seems to me to be reasonable' but then also states 'so I would suggest a two year write down period'.
11. I have no firm views about this either way. It may be more prudent to change this 'Remaining useful economic life' to two years rather than the five currently quoted, but it will not have any effect within the Accounts as we do not charge 'depreciation' (see para 8 above). However, as stated in agenda item 15.d Medium Term Financial Strategy, the Council looks to be having substantial cash reserves for the next three years, and it may be prudent to set up appropriate 'Earmarked Reserves' of which 'provision for future replacement of IT equipment' might be appropriate.

Chris Pottinger,
Clerk, Hannington Parish Council

6th September 2017