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1. Effective Date

1.1 This policy is effective on **22 November 2023**.

1.2 This policy replaces the previous version of Financial Administration Manual (FAM) Chapter 1020-4-1, Real Property Tangible Capital Assets issued on 13 October 2022.

1.3 The policy was approved by the Assistant Deputy Minister, Finance (ADM(Fin)) on **22 November 2023**.

2. Application

2.1 This policy applies to all real property tangible capital assets (TCAs) in the Department of National Defence (DND) and Canadian Armed Forces (CAF).

2.2 FAM Chapter 1020-4, Tangible Capital Assets is the overarching policy for capital assets and it applies to all of the department's major categories of TCAs, including real property. This policy provides additional policy direction for the real property TCAs and takes precedence over FAM Chapter 1020-4 for policy direction on specific real property TCA topics, but FAM Chapter 1020-4 must also be consulted as it still applies and provides in-depth policy coverage on capital asset topics not exclusive to real property TCA.

3. Context

3.1 As the custodian of one of the largest portfolio of federal government real property TCAs, the department must manage its real property TCAs in accordance with Treasury Board (TB) policies.

3.2 Due to the nature and complexity of its programs, the department and the CAF are faced with unique situations that may not be addressed or fully articulated under the TB Directive on Accounting Standards and Government of Canada Accounting Handbook (GC) 3150 Tangible Capital Assets. This policy outlines and explains the DND/CAF real property policies in these circumstances and does not generally repeat any of the information in the GC 3150, or DND FAM Chapter 1020-4, Tangible Capital Assets.

3.3 This policy must be read in conjunction with and after reading the following:

- GC 3150 Tangible Capital Assets; and
- FAM Chapter 1020-4, Tangible Capital Assets.

3.4 All financial documentation supporting the transactions must be retained for six years from the end of the fiscal year in which the transaction takes place. When an Accounts Receivable is created, all documentation is retained until the account is cleared. When a criminal disciplinary or recovery action is taken, all documentation must be retained and protected for six fiscal years after the process is completed.

3.5 See Appendix A for the definitions applicable to this policy and a list of acronyms used.

4. Objectives and Expected Results

4.1 The objectives of this policy are to:

- Identify the DND/CAF key stakeholders involved with the financial management (FM) of real property TCAs and outline their roles and responsibilities; and
- State and explain the DND/CAF FM policies for real property TCAs that are not addressed in GC 3150 Tangible Capital Assets, or FAM Chapter 1020-4, Tangible Capital Assets.

4.2 The expected results of implementing this policy are:

- Effective governance, oversight, and internal controls over DND/CAF real property TCAs;
- Key DND/CAF stakeholders are aware of and understand their roles and responsibilities with respect to real property TCAs; and
- DND/CAF's real property TCAs and transactions or activities related to their acquisition, use and condition over their lifecycle are appropriately recorded in the departmental financial management system (FMS) on a timely basis.

5. Requirements

Definition of a Real Property TCA

5.1 Real property TCAs include land, buildings, and any works on, above, or below the surface of the land.

5.2 All land owned by the Crown shall be capitalized, regardless of its cost, because it is a permanent real property TCA that can provide present or future economic benefits as well as result in expenditures such as Payment in Lieu of Taxes between the federal government and other levels of government.

5.3 Subsequent to the acquisition of land through purchase or lease, there may be enhancements performed which are classified as works, such as landscaping that has a limited life (e.g. clearing, planting trees, shrubs or flowers, seeding), installing park benches or litter baskets, paving, fencing, sidewalks, parking lots, building retaining walls, etc. Costs related to land development are separate and distinct from the land itself and are to be capitalized, if they meet the criteria of a TCA (see FAM Chapter 1020-4, Tangible Capital Assets).

Costs of Real Property TCAs

5.4 Further to paragraphs 5.11 to 5.13 of FAM Chapter 1020-4, Tangible Capital Assets, all costs directly attributable to bringing a TCA to the location and condition necessary for its intended use as part of its acquisition, construction, development or betterment activity must be capitalized as part of the TCA's cost.

5.5 The following additional costs, if applicable and directly attributable to a real property TCA being purchased, must be capitalized. Please note the following list is not exhaustive and only includes examples of the most common costs. For further details, please contact Capital Assets Reporting, Monitoring and Analysis (CARMA) through the appropriate Comptroller for procedural guidance on recording and accounting for the amounts appropriately in the departmental FMS.

5.6 For a building or works TCA:

- Real estate commissions or finder's fees; and
- Architectural, engineering and other professional fees.

5.7 For a land TCA:

- Legal costs, including municipal re-zoning applications;
- Soil tests and boundary survey costs;
- Municipal, territorial, or provincial land transfer taxes;
- Real estate commissions or finder's fees;
- Costs to demolish buildings or works on the property, existing at the time of purchase, with no replacement of such buildings or works anticipated; and
- Perform environmental land cleanups (not resulting from contaminated sites) required as part of the decision to purchase land (i.e. bringing the real property TCA to the condition necessary for its intended use).

5.8 Further to paragraph 5.14 of FAM Chapter 1020-4, the following additional costs, if applicable, must not be capitalized as part of the cost of a related purchased real property TCA:

- Facility management costs related to day-to-day operations of the TCA after it has been placed in service;
- Furnishing and decorating costs of a building such as furniture (see note below), plants and wall ornaments (e.g. picture frames);
- Expenditures to attract or retain tenants of the building (e.g. advertising);
- Costs related to environmental liabilities such as those resulting from contaminated sites;
- Costs related to archaeological sites (e.g. surveys, excavations); and
- Repairs and maintenance costs related to day-to-day operations of the TCA.

Note:

- Furniture may be under the capitalization threshold individually and is generally excluded from real property TCAs. However, in some cases, furniture may be accounted for as asset pooled items (API) if they meet all the criteria of a TCA as defined in paragraph 5.1 of FAM Chapter 1020-4, and if they are purchased or held in large quantities so as to represent significant expenditures overall for the department (i.e. material to DND). For further details on API, please see Appendix B of FAM Chapter 1020-4.

Internally Constructed Buildings and Works

5.9 Further to the guidance provided in the Costs of Real Property TCAs section of this policy and paragraph 5.40 of FAM Chapter 1020-4, Tangible Capital Assets, the following list gives examples of other types of commonly incurred costs, if applicable and directly attributable, that must be capitalized for internally constructed buildings and works:

- Construction costs;
- Site preparation costs;
- Initial improvement costs to make the building or works operational;
- Interest incurred during the construction period by the private partner in a public-private partnership arrangement that will be paid for by the department;
- Costs to demolish an old building or works directly related to the construction of a new building or works on the same site (i.e. must not be related to any asset retirement obligations (ARO) of the old real property TCA);
- Costs of renovation incurred during the construction period directly attributable to preparing the building for its intended use (e.g. carpeting, wall finishing such as wood trimmings, paint, railings);
- Municipal development and building permit fees paid; and
- Direct supervision of the construction site (e.g. Defence Construction Canada (DCC) site service costs).

5.10 Further to paragraph 5.8 of this policy and the guidance provided in the Internally Constructed TCAs subsection of FAM Chapter 1020-4, the following additional costs, if applicable, must not be capitalized as part of the cost of an internally constructed real property TCA:

- Costs incurred to help determine whether to proceed with a given project (e.g. feasibility studies, options analysis); and
- Relocation costs.

5.11 Where other items are purchased at the same time as the construction of a building or works, or where a project includes the construction of more than one real property TCA (e.g. the construction of a building with a works such as a parking lot), those items must be evaluated individually and capitalized in accordance with paragraphs 5.1 to 5.3 of FAM Chapter 1020-4.

Asset Retirement Obligations for Real Property TCAs

5.12 Further to the guidance provided in the Asset Retirement Obligations subsection of FAM Chapter 1020-4, Tangible Capital Assets, ARO includes the cost of disposing of debris of a demolished building in accordance with relevant regulations. These costs shall be included as part of the cost of the TCA when the criteria for an ARO are met.

5.13 Further to the Asset Retirement Obligations subsection of FAM Chapter 1020-4, where DND constructs a building or works on leased land and has a legal obligation to restore the land to its original condition at the end of the lease term, the estimate of the required asset retirement costs, such as demolition and cleaning-up costs, would be capitalized as part of the cost of the building or works, and would also be recorded as a liability.

Cost Sharing Real Property TCAs

5.14 Further to Appendix D of FAM Chapter 1020-4, Tangible Capital Assets, for a real property TCA to be considered a departmental asset, beneficial ownership and control must clearly rest with DND. The concept of control of an asset's economic benefits is a key factor in determining whether a real property TCA must be capitalized.

5.15 DND may enter into various types of shared cost agreements, including, but not limited to the agreements such as Non-Public Property (NPP), Other Government Departments (OGD) (e.g. Shared Services Canada (SSC)), and Public-Private Partnership (P3).

5.16 For further direction on the assessment of various types of shared cost agreements to determine which entity controls the real property TCA, please see Appendix D of FAM Chapter 1020-4. Contact CARMA or Director Infrastructure and Environment Comptrollership (DIEC) through the appropriate Comptroller for further guidance on assessing new agreements.

Leasehold Improvements and Transfers of Real Property TCAs

5.17 Land is sometimes loaned or leased between various levels of government or from an outside party through a loan or lease agreement. Land loaned or leased to DND, where DND has use of the land for a period but the ownership of the land will remain with the lender, shall not be capitalized as a real property TCA.

5.18 Where DND constructs a building and/or works on loaned or leased land, these costs should be capitalized as a leasehold improvement, except where the land is leased from another government department or the lease provides for transfer of ownership. In those cases, the building and/or works should be capitalized as a TCA rather than as a leasehold improvement. For further details on leasehold improvements, please see FAM Chapter 1020-4, Tangible Capital Assets.

5.19 For further details on leasehold improvements outside of Canada, please see the Real Property TCAs Outside of Canada section of this policy.

5.20 Land transferred to DND under an agreement with an outside party shall be capitalized as a TCA only if the agreement provides for a transfer of ownership to DND.

Useful Life and Amortization

5.21 Further to the guidance provided in the Useful Life and Amortization section of FAM Chapter 1020-4, Tangible Capital Assets amortization shall continue during a renovation period even if the building is vacated. Amortization only stops when a real property TCA is permanently removed from service.

5.22 Land is not amortized because it has an indefinite useful life and does not wear out over time. For further details on the appropriate useful life of buildings and works, please see the Useful Life and Amortization section of FAM Chapter 1020-4.

5.23 Where additional guidance is required in determining or revising the useful life of a real property TCA, CARMA should be consulted through the appropriate Comptroller for guidance and direction to ensure that an appropriate useful life is recorded in the departmental FMS.

Impairment of Real Property TCAs

5.24 Further to the guidance provided in the Impairment of TCAs section of FAM Chapter 1020-4, Tangible Capital Assets, DND is required to assess conditions that may indicate that the future economic benefits associated with a real property TCA have been reduced and a write-down is appropriate. In cases where a contamination issue arises and the fair value of the land is assessed to be worthless, the cost of land shall not be written down. These contamination costs may be recorded as liabilities. For further details on the accounting of contaminated costs, please see FAM Chapter 1021-3, Environmental Liabilities.

Accounting for Disposals of Real Property TCAs

5.25 Further to the guidance provided in the Accounting for Disposals section of FAM Chapter 1020-4, Tangible Capital Assets, once the required authorization and physical disposal of the TCA are complete, the disposal transaction shall be recorded accordingly in the departmental FMS. For further details on write-downs of TCAs, please see FAM Chapter 1020-4.

5.26 Canada Lands Company (CLC) and Public Services and Procurement Canada (PSPC), as the government's disposal agents, dispose the surplus real properties through a disposal process.

5.27 Proceeds from the sale of materials available as a result of the disposal of a building or works should be recorded as respendable revenues. For further details on revenues, please see FAM Chapter 1018-1, Managing Public Revenue.

5.28 Transfers of real property TCAs between OGDs will be recorded at net book value and the accounting treatment should not produce a gain or loss. For further details on asset transfers between OGDs, please see FAM Chapter 1020-4.

5.29 Where additional guidance is required for the accounting treatment of impaired or disposed real property TCAs, CARMA should be consulted through the appropriate Comptroller to ensure that all relevant transactions are recorded appropriately in a timely manner in the departmental FMS.

Real Property TCAs Outside of Canada

5.30 Where DND constructs a real property TCA outside of Canada on leased or licensed land outside of Canada, these costs should be capitalized as a leasehold improvement. For further details on leasehold improvements, please see FAM 1020-4, Tangible Capital Assets.

5.31 In exceptional cases, where DND or OGD owns title to the land, the building and/or works should be capitalized as a real property TCA rather than a leasehold improvement.

5.32 Further to GC 3150.21, where a lease agreement does not exist but the circumstances may be deemed to be lease-like for accounting purposes, the costs to construct a real property TCA or to improve an existing property are capitalized as leasehold improvements, unless the mission will last less than a year or DND will use the assets for less than a year, in which case the costs are expensed as incurred. This applies even if DND will be gifting the assets to the host nation at the end of the mission. CARMA must be consulted through the appropriate comptroller before determining if circumstances may be deemed lease-like for accounting purposes.

6. Roles and Responsibilities

6.1 The Roles and Responsibilities section of FAM Chapter 1020-4, Tangible Capital Assets identifies the roles and responsibilities of various DND organizations for TCAs in general. This section must be applied in conjunction with and <u>after</u> reading the Roles and Responsibilities section of the FAM Chapter 1020-4. The following identifies the additional roles and responsibilities related specifically to real property TCAs.

Assistant Deputy Minister (Infrastructure and Environment)

6.2 The Assistant Deputy Minister, Infrastructure and Environment (ADM(IE)) is responsible for:

- Implementing the real property TCA management framework within the department;
- Demonstrating how the management of real property TCAs is effectively integrated with program, expenditure, financial and human resources to promote value for money;
- Managing all DND real property TCAs and administering the capitalization of locally acquired real property TCAs for all Level One (L1) Advisors; and
- Ensuring the appropriate stewardship of real property TCAs that meet program requirements.

Director Infrastructure and Environment Comptrollership

6.3 As the L1 Comptroller for ADM(IE), the Director Infrastructure and Environment Comptrollership (DIEC) is responsible for:

- All responsibilities identified in paragraph 6.11 for L1 Comptrollers of FAM Chapter 1020-4;
- Performing the capitalization of the department’s real property TCAs, including at the bases and wings;
- Certifying real property Work-In-Progress (WIP) balances recorded in the departmental FMS and reporting any exceptions;
- Providing departmental FMS support and training to users with respect to asset accounting and financial management topics for all real property TCAs; and

- Liaising with CARMA for guidance with respect to procedures, processes, and policy interpretation related to real property TCAs and other real property transactions.

Director Financial Accounting

6.4 The Director Financial Accounting (DFA) is responsible for:

- Defining and developing departmental FM policy for real property TCAs; and
- Providing policy interpretation assistance on complex real property FM policy matters.

Capital Assets Reporting, Monitoring and Analysis

6.5 Reporting to the Director Financial Accounting (DFA), Capital Assets Reporting, Monitoring and Analysis (CARMA) is responsible for:

- All responsibilities identified in paragraph 6.7 for CARMA of FAM Chapter 1020-4 for all TCAs, including for real property TCAs; and
- Providing to L1 organizations interpretations, direction and advice on real property TCA policy, procedures, instructions and classification of material.

L1 Comptrollers

6.6 Other L1 Comptrollers are responsible for:

- All responsibilities identified in paragraph 6.11 for L1 Comptrollers of FAM Chapter 1020-4 for all TCAs, including for real property TCAs; and
- Reporting to DIEC any real property TCA financial information within their organization over a real property TCA's entire life cycle from acquisition to disposal, including changes in the asset's condition, use and/or its useful life.

Canadian Forces Housing Agency Comptroller

6.7 The Canadian Forces Housing Agency (CFHA) Comptroller is responsible for:

- All responsibilities identified in paragraph 6.11 for L1 Comptrollers of FAM Chapter 1020-4 for all TCAs, including for real property TCAs;
- Ensuring that the residential accommodation assets are accurately identified, properly valued, and promptly recorded in the Housing Agency Management Information System (HAMIS); and
- Reconciling the real property TCA information in the HAMIS with those in the departmental FMS.

Responsibility Centre Managers

6.8 The Responsibility Centre (RC) Managers are responsible for:

- All responsibilities identified in paragraph 6.12 for RC Managers of FAM Chapter 1020-4 for all TCAs, including for real property TCAs; and

- Ensuring that all real property TCAs within their area of responsibility are identified and promptly recorded in the departmental FMS by DIEC.

7. Consequences of Non-Compliance

7.1 Under the TB Policy on Financial Management, the Deputy Minister (DM) is responsible for investigating and acting when significant issues regarding policy compliance arise, and ensuring that appropriate remedial action is taken to address such issues within DND/CAF. The TB Framework for the Management of Compliance provides guidance on the considerations for determining the possible mix of consequences, which include the impact of the non-compliance, whether there has been a history of non-compliance, was there intent and other circumstances.

7.2 To support the DM's responsibility under the TB Policy on Financial Management, the ADM(Fin)/Chief Financial Officer (CFO) or in the case of a member of the CAF, the military chain of command at the ADM(Fin)/CFO's direction, must ensure corrective actions are taken to address instances of non-compliance with this policy. Corrective actions can include a requirement for additional training, changes to procedures or systems, removal or suspension of delegated financial authorities on a temporary or permanent basis, disciplinary action or other measures as appropriate.

8. References

8.1 Legislation

Federal Real Property and Federal Immovables Act

8.2 Treasury Board and Central Agency FM Policy Instruments

TB Directive on Accounting Standards: GC Handbook 3150 Tangible Capital Assets
TB Policy on the Planning and Management of Investments

8.3 DND/CAF FM Policies

FAM Chapter 1018-1, Managing Public Revenue
FAM Chapter 1020-4, Tangible Capital Assets
FAM Chapter 1021-3, Environmental Liabilities

8.4 DND/CAF FM Guides, Forms, Tools, and Other References

PS Handbook 3150 Tangible Capital Assets

9. Enquiries

9.1 Questions on policy interpretation and clarification are to be addressed to the appropriate Comptroller.

9.2 If the local Comptroller requires assistance, the question will be escalated through the financial chain of command.

9.3 If the L1 Comptroller needs guidance on the matter(s) raised, the L1 Comptroller may contact CARMA (+CARMA_Capital Assets - RSAI_Immobilisations@ADM(Fin) DFA@Ottawa-Hull).

Appendix A – Definitions and Acronyms

The following definitions apply to this policy:

Definitions

Building (Édifice) is a permanent fixed structure, normally with walls and a roof, forming an enclosure that is designed primarily for the shelter of people, living things, physical plant, or operational property.

Fair value (Juste valeur) is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act (PS 3150.05).

Land (Terrains) normally has an unlimited life and would not be amortized.

Real property (Biens immobiliers) refers to any right, interest or benefit in land, which includes mines, minerals and improvements on, above, or below the surface of the land.

Responsibility Centre (RC) Manager (Gestionnaire de centre de responsabilité) is the incumbent of a position that is allocated a budget and who has spending authority under the Financial Administration Act (FAA) for this budget.

Works (Ouvrages) are facilities that include grounds, parking lots, roads, road signs, culverts, fences, utility generation and distribution systems, auxiliary power units, airfield pavement, airfield light systems, storm sewer collection systems and others.

Acronyms

ADM(Fin) – Assistant Deputy Minister, Finance

ADM(IE) – Assistant Deputy Minister, Infrastructure and Environment

API – Asset Pooled Items

ARO – Asset Retirement Obligations

CAF – Canadian Armed Forces

CARMA – Capital Assets Reporting, Monitoring and Analysis

CFHA – Canadian Forces Housing Agency

CFO – Chief Financial Officer

CLC – Canada Lands Company

DCC – Defence Construction Canada

DFA – Director Financial Accounting

DIEC – Director Infrastructure and Environment Comptrollership

DM – Deputy Minister

DND – Department of National Defence

FAA – Financial Administration Act

FAM – Financial Administration Manual

FM – Financial Management

FMS – Financial Management System

GC – Government of Canada

HAMIS - Housing Agency Management Information System

IE – Infrastructure and Environment

L1 – Level 1

NPP – Non-Public Property

OGD – Other Government Departments

P3 – Public-Private Partnership

PS – Public Sector

PSPC – Public Services and Procurement Canada

RC – Responsibility Centre

SSC – Shared Services Canada

TB – Treasury Board

TCA – Tangible Capital Assets

WIP – Work-In-Progress