CAPITAL EXPENDITURE
What is Capital Expenditure?

Capital expenditure is defined in statute through the Local Government Act 2003. In general terms it represents expenditure in relation to:

- The acquisition or creation of a new asset
- The enhancement of existing assets

It MUST yield a benefit for a period of more than one year

It is relatively easy to identify the acquisition of a new asset, however, identifying what represents “Enhancement” is not so clear. In short, enhancement refers to works that **SUBSTANTIALLY** increase:

- The useful life of an asset
- The market value of an asset
- The extent to which the asset can be used

In most cases **repairs are excluded** as they usually represent normal maintenance / life cycle costs of an asset over its expected life.

Listed below are common areas of uncertainty and some examples of my interpretation of the Statutory Guidance for your reference.

Please be aware that this note is intended as a general definition of what may be classed as “Capital Expenditure”. Where funding is awarded for capital purposes, expenditure must fit these definitions. However, as all funding awards come with specific conditions, you must also ensure these requirements are met for expenditure to be eligible.

If you are in doubt, please do not hesitate to contact either Andrew Fisher or Chris Clarke on 307494.
<table>
<thead>
<tr>
<th>Item</th>
<th>Advice and Guidance</th>
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</thead>
<tbody>
<tr>
<td>Stationery/Files</td>
<td>In general stationery is classed as a minor consumable item and should be treated as revenue. Exceptions may include items such as specialist printing of plans or other documents where this is directly related to a capital project.</td>
</tr>
<tr>
<td>Servicing</td>
<td>Servicing and repairs represent routine maintenance costs and should be budgeted and charged to revenue. However, major replacement of plant and machinery such as boilers/lifts are normally accepted as capital.</td>
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<tr>
<td>Leases</td>
<td><strong>Under no circumstances should leasing charges be treated as capital.</strong> Operating leases are a revenue expense, and financing leases are not permitted under the terms of fair funding.</td>
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</tbody>
</table>
| Purchase of furniture and equipment | Generally, individual items of low value (say under £500) should not be treated as capital, with single purchases of desks / chairs normally being considered a revenue cost.  
However it is usually acceptable to charge bulk purchases or items forming part of a larger project as a capital cost.  
Significant investment in the purchase of large items may also be allowed. (e.g. a new or replacement photocopier with a life expectancy of 3+ years could be considered a capital investment).  
Fixtures and fittings will normally only be allowed if it is associated with a new building project – which includes the redesign of classroom layouts / change of use. |
| Access Improvements             | Works to improve accessibility are normally accepted as capital investment. This includes items such as access ramps, sound field systems and other adaptations for the disabled or those with special educational needs. |
| Purchase of ICT and components  | Purchase of new computing equipment and software may be treated as a capital cost. Software licences may also be charged only if it is a permanent licence (e.g. for the use of Microsoft products on a number of PCs, where there is no annual charge). Annual licence or subscription charges are not allowed and must be treated as revenue (e.g. antivirus renewal).  
The purchase of computer components, mice and keyboards should be treated as revenue. (A few exceptional cases have been allowed as Capital, where new machines were built in-house). |
| Carpets/floor coverings | Replacement of carpets and other coverings, regardless of value, should normally be treated as a revenue expense unless forming part of capital alterations or building works (such as change of structure / room layout etc.)

A few exceptions have been made for the purchase of specialist floor coverings. |
<table>
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<tbody>
<tr>
<td>Vehicles</td>
<td>Purchase of vehicles and large plant is acceptable capital investment. This however excludes maintenance and other running costs e.g. road tax, fuel, etc. which are revenue items.</td>
</tr>
</tbody>
</table>
| Roof works | General repairs to roof coverings and associated fixtures are generally considered maintenance costs and should be charged to revenue.

Full or substantial replacement of the roof covering, including flat roofs, may be charged as a capital expense. |
| Painting and General repairs (including guttering) | Painting, cleaning and general repairs to buildings are considered as maintenance and should be budgeted / charged to revenue. Such works can be expensive, but are considered a normal lifecycle cost.

Significant repairs to the structure / fabric of the building, including items such as collapsed drains are considered to be capital items – extending the life rather than just maintaining. Where painting and other remedial works are required as a direct result of these works, this too can be charged as a capital expense. |
| Windows | Significant window replacement may be charged as capital provided a material enhancement can be shown. This could be improved thermal insulation, security etc.

Please note that like for like replacement does not represent an enhancement and is therefore a revenue cost. |
| Asbestos removal / encapsulation | Removal or encapsulation of asbestos may be charged as capital. |

*If you have any specific queries, please contact Andrew Fisher on 307494, or by e-mail to: andrew.fisher@plymouth.gov.uk*
Devolved Capital

As the majority of capital expenditure under school control is supported by Devolved Formula Capital (DFC) some extracts of the DCSF guidance relating to its use are listed below. These are taken from the DFC Technical Note for funding 2008-2011 (January 08 revision), which can be found at: www.teachernet.gov.uk/management/resourcesfinanceandbuilding/capitalinvestment/guidance/

Current guidance which is written in broad terms includes:

“DFC must be spent on capital and within time limits….

- Schools can use DFC for any capital purpose…. DFC can only be used for capital expenditure. In general terms, DFC can be used for:
  a) Structural improvements to buildings, fixtures and fittings
  b) The purchase of capital equipment including ICT
  c) Other long term improvements to the school estate
- DFC cannot be used to acquire assets through extended financing arrangements (e.g. finance leases) as this counts as schools borrowing which is not approved by the Department
- In prioritising need, schools should consider their own long term liabilities. They are urged to develop their own strategic asset management plan
- Priorities should take account of national priorities and align with the local authority’s asset management plans
- DFC is intended to allow schools to invest in ICT equipment.”

Asset Management

It is an important requirement that you advise School Organisation of any planned alterations or building projects at your school. Guidance notes and relevant forms can be obtained from Michelle Endacott on 307426.

Please speak to Michelle before commencing any building project as she will be able to assist you in obtaining advice and guidance for all aspects of asset management planning and project delivery.
ADMINISTERING CAPITAL INCOME AND EXPENDITURE
2009/10

The notes below detail briefly how you should use Civica (Radius) codes to record capital income and expenditure and should be read in conjunction with the “What is Capital Expenditure?” guidance notes. Please note that there are a few changes to previous guidance in respect of classification and detail codes. These include the amended use of classifications 86 and 87 together with a new detail code for software purchases.

Classification Codes

You will be aware that where a project features Local Authority (LA) or other external funding, all income and expenditure relating to that project must be separately recorded under a single classification code. Funding for a number of small value capital “bids” of a similar nature may be grouped together and allocated to a single classification.

In addition, capital projects of significant value that are supported by Devolved Capital or other school resources (including School Budget Share) should be separately identified. Again, all income and expenditure relating to that project (or asset) must be recorded under a single classification code. (As before, small projects that are of a similar nature may be grouped together).

The Councils’ Asset Register requires us to identify those items exceeding:

- Approximately £5,000 for the purchase of vehicles, plant or equipment
- Approximately £10,000 for building works

A revised list of classifications available to record income and expenditure for specific projects is provided in the table below.

You may be aware that classification 86 was used last year to record ICT Investment. However, all capital ICT purchases may now be charged to classification 87 which includes the Harnessing Technology grant allocations. Please note that the grant itself must be used before 31 August in the year following allocation (so all 2008/09 grant funding should be used before 31 August 2009). Any overspend must be cleared before the year end, as this expenditure may not be carried forward.

A specific project may include funding from a number of sources – e.g. grants, income from donations etc, or in the form of contributions from devolved capital or school budget share. Please ensure all funding is recorded against the relevant classification, matching the related expenditure.

Please note that in the event of a transfer of expenditure (say from budget share to a capital classification code), the full value of the original transactions must be made, unless only part of the expenditure is of a capital nature – in such cases please provide a copy of the invoice detailing the capital expense.
Finally, please do not transfer part of a capital expense in order to “balance” a code, as it is important the full cost is recorded in the Council’s records.

**Available Classification Codes**

<table>
<thead>
<tr>
<th>Classification Code</th>
<th>Classification Details</th>
<th>Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Devolved Capital</td>
<td>All general Devolved Capital expenditure. All supported or significant projects should be recorded on separate classification codes (see notes above for details).</td>
</tr>
<tr>
<td>08</td>
<td>Project 1</td>
<td>Specific Projects</td>
</tr>
<tr>
<td>89</td>
<td>Project 2</td>
<td></td>
</tr>
<tr>
<td>90</td>
<td>Project 3</td>
<td>Please ensure all transactions relating to a specific project are shown in the allocated classification code.</td>
</tr>
<tr>
<td>91</td>
<td>Project 4</td>
<td></td>
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<tr>
<td>88</td>
<td>Project 5</td>
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<tr>
<td>84</td>
<td>Project 6</td>
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<td>85</td>
<td>Project 7</td>
<td></td>
</tr>
<tr>
<td>86</td>
<td>Project 8</td>
<td></td>
</tr>
<tr>
<td>87</td>
<td>Harnessing Technology/ICT investment</td>
<td>Spending against the Harnessing Technology grant, together with any other ICT capital expenditure may be included here.</td>
</tr>
</tbody>
</table>

**Local Payment Schools**

It is intended that all classification codes should be central payments, except in the case of Devolved Capital (13) and Harnessing Technology / ICT Investment (87).

Should you require guidance in setting up these codes in your system, please contact your School Finance Officer.

**Devolved Capital**

The DCSF issued a new formula for the calculation of Devolved Capital which began in 2008/09 following the Government Spending Review. It contains a per school and per pupil allocation, with schools considered “modernised” receiving support at 50% of this rate per the following table:

<table>
<thead>
<tr>
<th>Devolved Formula Capital Allocation Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Un-modernised School</td>
</tr>
<tr>
<td>Per School</td>
</tr>
<tr>
<td>18,500</td>
</tr>
</tbody>
</table>
Devolved Capital Abatement for New or 100% Modernised Schools

It was agreed following the Schools Funding Formula Review Consultation that “The abatement period should be extended locally for new or 100% modernised schools, in line with typical lifecycle costs”. Therefore, no Devolved Capital will be allocated for the first 3 years of a new or 100% modernised school. Thereafter, it will be allocated in line with life cycle costs up to year 15. The maximum amount available will be that of the DCSF allocation for a modernised school as above.

Detail Codes

In addition to existing codes it is now necessary to separately identify ICT expenditure between hardware and software. This is because the Council is now required to identify this expenditure as a different asset type within its records.

To facilitate this, detail code 7709 has been created to record all software purchases, with code 7704 now being used exclusively for Hardware. Please be aware that renewable software licences or subscriptions are not valid capital purchases.

Please use only the following detail codes in connection with capital classifications.

Income

- 8852 Income Allocations (IAN – including LA reimbursements)
- 8861 Balances Brought Forward
- 8862 Income - Contributions from budget share
- 8857 Income - Contributions from devolved capital
- 8101 Income from External Grant
- 8103 Other External Capital Funding (including school funds)

Expenditure

- 7703 Furniture and Equipment
- 7704 ICT Hardware
- 7705 Building Expenses
- 7706 Contributions to Other Funds (used to transfer funding between capital classifications in conjunction with 8857 above)
- 7707 Fees and Supervision
- 7708 Local Authority Charge
- 7709 ICT Software

Notes

Please use detail code 7701 for charging school budget share contributions, crediting 8862 in Capital. For adjustments where income
needs to be credited back to budget share please credit detail code 8126.

It is anticipated that transfer of funding between classification codes (using 7706 & 8857) will only be required for contributing from Devolved Capital to other project codes.

**Common Errors / Problems with Coding**

For your reference, below are some of the common coding related problems encountered during closedown and in general monitoring of school capital classification codes. Please review your records to help avoid these in your area

- Revenue income / expenditure codes being used for capital. Please ensure only CFR codes in the groups CE or CI (as listed above) are used.
  The classification code with the most errors is 87, where expenditure is regularly coded using the revenue detail codes for software, hardware, course fees, etc. The only anticipated detail expenditure codes for classification 87 are 7704 and 7709 due to the nature of expenses incurred.

- Significant school “projects” were not notified or separately coded and remained within Devolved Capital. Please ensure that any “projects” as listed above are reported to finance and that all related project costs are shown in a separate classification code. **You must** also notify the capital planning team in advance of any building works taking place. (Please forward a copy of completed F9 forms to Andrew Fisher / Chris Clarke)

- Spending against a number of LA supported projects fell short of the amount indicated in the original bids. (For example – Based on their bid for £15k, “School A” was allocated £10k LA funding and expected to contribute a further £5k from devolved capital. On completion, total project expenditure was only £9k). **Please be advised** that where this occurs, we reserve the right to recover a fair proportion of the LA allocation, based on the original bid. Taking the example illustrated, the LA funding would be reduced to £6k, representing two thirds of the total cost.
  It is understood that bids are based on estimated costs, therefore where expenditure is close to the original bid value, recovery action is unlikely.

- External / other income has been coded to either IAN (8852), brought forward (8861) or contra detail codes (8857/8862). These codes are for specific purposes and should not be used for general income. It is also important that **IAN allocations should reconcile to your most recent IAN letter.**

- Devolved Capital contributions to projects were not actioned. It is expected that project contributions will be made in the financial year they
are required, Therefore it is not anticipated that project classifications will be overspent at the close of the financial year. **Please note** all school capital balances are checked during closedown and, where appropriate, an adjustment will be made to devolved capital interest charges where unpaid contributions are noted.

- **ICT** – please be aware that the only expenditure chargeable to fund 87 **must** be either computer hardware or software. **It cannot** include consumable items (e.g. additional toner cartridges) or be an upgrade to existing equipment. It is not anticipated upgrades will have a significant increase in value or life of the asset. If you are unsure, please ask.