A9. Capital Expenditure

Preamble

Capital expenditure is an important element in the development of the local authority's services since it represents a major investment in providing new and improving existing assets. The local authority's Financial Regulations provide a consistent framework for the preparation and appraisal of the capital programme, to provide appropriate authorisations for schemes to proceed and to allow committees to manage their capital programmes within defined parameters. The Director for Childrens Services in consultation with other Strategic Directors is responsible for the preparation of the Childrens Services draft capital programme in accordance with Financial Regulations. However, it is open to schools to finance capital expenditure from their delegated budgets. Governing Bodies and Headteachers also need to be aware that certain lease agreements (finance leases) constitute capital expenditure and count against local authority's total expenditure approvals.

See also:

Conditions and rules governing use of Devolved Capital allocations

A32 Leasing

The Distinction between Capital and Revenue Expenditure

Capital expenditure relates mainly to the acquisition, construction or improvement of tangible fixed assets, which will provide benefits to the local authority over a period of years. Where, however, such expenditure is not material to the size and nature of the local authority, it is common practice not to capitalise it.

Revenue expenditure is expenditure usually of a recurring nature necessary for the continuing functioning of an authority, and which, whilst it may contribute to the maintenance or enhancement of an asset, produces no lasting asset.

The distinction between capital and revenue expenditure is important, since, whereas revenue expenditure may not be met by borrowing, except temporarily pending the receipt of revenue income, capital expenditure can be financed by borrowing, subject to statutory constraints. The cost of capital expenditure can therefore be spread over a period of years subject to these statutory constraints.

Definition of Capital Expenditure

Capital expenditure is defined as:

- the acquisition, reclamation, enhancement or laying out of land;
- the acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures;
- the acquisition, installation or replacement of movable or immovable plant, machinery, vehicles, apparatus and vessels;
- advances, grants or financial assistance to another person towards expenses to be incurred by him/her in respect of the items mentioned above;
- the acquisition of share or loan capital in a corporate body.
- expenditure incurred on the acquisition or preparation of a computer program for use for a period of at least one year.

Regulations

9.1 Governing Bodies are entitled to use their revenue budget to finance the cost of capital expenditure on the school premises.

9.2 Schools must follow the approval procedure for self-financed building, engineering and grounds improvement projects before undertaking any works. No work can be undertaken until written approval has been received from the Director for Childrens Services. Where governors approve one-off capital expenditure details of both the scheme and it’s financing, from all sources, should be sent to the school’s EFS finance adviser.

9.3 Finance from external sources, such as lottery money or private funds, must be clearly shown as such, and its provision guaranteed in writing. Details of progress and payments are to be included in the Headteachers monitoring statements.