

## **A9. Capital Expenditure**

### **Preamble**

Capital expenditure 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 capital to provide appropriate authorisations for schemes to proceed and to allow committees to manage their capital programmes within defined parameters. Schools can finance capital expenditure from their delegated budgets. Governing Bodies and Headteachers also need to be aware that finance lease agreements constitute capital expenditure and count against local authority total expenditure approvals.

### **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 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 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 OCC Property & Facilities via completion of the [Self-Financed Approval Form](#). Where governors approve one-off capital expenditure details of both the scheme and its financing should be sent to the school's EFS finance adviser to review affordability against the school's budget plan.
- 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.