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What is the difference between capital and revenue spending
Expenditure that relates to items giving a benefit to the council of more than one year is generally classified as capital.

Expenditure, which relates to the day-to-day operation of services, is classified as revenue. For example, the acquisition or upgrading of an asset would be capital, while its everyday maintenance/repair would be revenue.

In addition, the council usually regards any item below £10,000 as revenue. Capital expenditure can also be funded differently to revenue spending, e.g. via borrowing or capital receipts.

Why can't I charge what I like to capital
This is because the council has limited funds to spend on capital and must be prudent with its borrowing.

It is also unfair that ongoing borrowing costs relating to funding (i.e. interest charged on capital borrowed) should have to be met from future year's budgets if there is no long term benefit from the investment.

Additionally, there is specific legislation, financial reporting standards, and codes of practice that define which expenditure can be capitalised.

What are the relevant legislation and accounting codes of practice
The relevant statutes and standards are: the Local Government Act 2003, section 23, Statement of Recommended Practice (SORP) 2008 and the Prudential Code, as well as Financial Reporting Standards (FRS 15 in particular)

What can we charge to capital

- Acquisition, reclamation, enhancement or laying out of land
- Acquisition, construction, preparation, enhancement or replacement of roads, buildings or other structures
- Acquisition, installation or replacement of moveable or immovable plant, machinery, apparatus, vehicles and vessels
- Expenditure incurred on the acquisition or preparation of a computer programme (including acquisition of rights to use a programme) for the use for a period of at least one year (including the right to use such a programme)

Enhancement of an asset applies to work that should lead to at least one of the following:

- Lengthen substantially the useful life of the asset
- Increase substantially the open market value of the asset, or
- Increase substantially the extent to which the asset can or will be used for the purposes of or in connection with the functions of the local authority concerned.

What can we not charge to capital

- Expenditure, which purely maintains the useful life or open market value of an asset cannot be classified as capital and should be charged to revenue e.g. repairs, trees/plants, building maintenance, provision of professional IT services
- Expenditure, which does not result in an asset
- Expenditure, which does not enhance or increase the useful economic life of an asset or provide future benefit.

How do we deal with the cost of unpaid bills for goods and services for capital projects at the end of the financial year
All expenditure on capital projects must be reported on an accrual basis as part of the year-end procedure.

An accrual is put through when the cost is incurred in the accounting period but the invoice has not been paid yet. Therefore, accruing means we are accounting for the value of goods or services received, but not paid for in the same accounting period (i.e. financial year).

Managers must be able to provide reliable evidence that all accruals accurately relate to work completed in the period. Accruals must not be used to carry forward capital budgets. In the new accounting period, accruals have to be offset by invoices, which clearly relate to the costs incurred in the previous period. Example of evidence: valuation certificates for contracts in progress, invoice.

Can I charge IT costs, including installation, to capital
Complete systems often require equipment (hardware), programs (software) and expert consultants to get everything up and running. Provided that the consultants are only employed for the project installation, their employment costs can be treated as part of the capital cost.

After installation the cost of maintaining or rectifying the IT system would have to be charged to revenue.

Can I charge staff salaries to a capital project
In most circumstances, the answer is no. Most staff are employed in the delivery of day-to-day services. There are some technical staff such as architects who are wholly employed in connection with design or implementation of capital projects. Their employment costs can be charged to capital if the project goes ahead.

Salaries cannot be capitalised as a means of easing revenue budget pressures.

Does the cost of delivery count as capital
Yes, if it is integral to the completion of the asset as with installation, it is included in the capital cost.

Can we charge repair costs to capital
No - repair would involve restoring an asset to its expected condition/value after damage or wear-and-tear (and would count as maintenance). Therefore repair does not increase the value or life of an asset. Work that qualifies as capital is usually far more substantial than work that would be classed as repair.

What about the cost of small items like tables and chairs, which have a life of more than one year
These are not normally treated as capital because the cost is below a minimum level. The minimum level – also called the de minimus – is currently £10,000. We only treat small items as capital if they feature as part of a larger project and even then, the equipment cost by itself must be significant.

I am going to spend over £10,000 on books. Can I charge this to capital
Usually these items are not capitalised, as they are day-to-day expenditure that cannot be included in the council's asset register. However, if the books were purchased as part of a larger project, such as the wholesale re-equipping of a school library, this would be allowed as this provides benefits to the students for more than a year and therefore represents a capital investment.

What happens if we don't comply with the rules
Control over spending becomes more difficult and the achievement of the targets set for the authority may be jeopardised. All capital expenditure increases the value of assets recorded on the council's asset register, so if non-capital expenditure is charged to capital, this could lead to the value of the council's assets being overstated.

The council's external auditors examine our capital transactions very carefully to ensure that the expenditure qualifies under the government rules. If it does not qualify, they can require us to amend our accounts if necessary. If the value of an asset is overstated it requires an impairment amendment, which would involve commissioning an expensive valuation from a qualified surveyor at short notice and making complicated last-minute adjustments to the accounts.

If the auditors are still not satisfied, this may have negative impact on their opinion on the final accounts. It means that there are serious reservations about the accuracy of the accounts. Non-compliance with rules could expose the council to additional costs, damaged reputation and doubt about leadership accountability.

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