

APPENDIX A

DEFINITION OF CAPITAL EXPENDITURE

1 Section 16 of the 2003 Act defines "capital expenditure" as "expenditure of the authority which falls to be capitalised in accordance with proper practices". In turn section 21(2) defines "proper practices" as those accounting practices that local authorities are required to follow by virtue of any enactment, or of a code of practice or other document specified in regulations. Under this power the Secretary of State has specified (among other documents) the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code"). The Code does not apply to parish councils. However, the first of the criteria set out in paragraph 24 of this guide relies on the Code's provisions to provide a definition of capital expenditure for parishes consistent with the definition applicable elsewhere in the public sector. This is done purely to ensure that all applications are judged against uniform criteria, and does not imply that the Code is in any way applicable to a parish council's accounting statements.

2 The key relevant paragraphs of the 2012-13 Code for the purposes of the capital expenditure definition are as follows:

4.1.2.11 Property, plant and equipment are tangible assets (ie assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

Recognition

4.1.2.16 The cost of an item of property, plant and equipment falling under this section of the Code shall be recognised (and hence capitalised) as an asset on a local authority Balance Sheet if, and only if:

- it is probable that the future economic benefits or service potential associated with the item will flow to the authority, and
- the cost of the item can be measured reliably.

4.1.2.17 Costs that meet the recognition principle in paragraph 4.1.2.16 include initial costs of acquisition and construction, and costs incurred subsequently to enhance, replace part of, or service the asset.

The Code goes on to exclude day-to-day servicing (ie repairs and maintenance) from the definition if they do not add to the future economic benefits or service potential of the asset.

3 In addition, section 16 allows the Secretary of State to adjust the definition of capital expenditure by regulation, and, in the case of a particular authority, by direction. Regulation 25 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), as amended, provides as follows:

Expenditure to be capital expenditure

25. —(1) For the purposes of Chapter 1 of Part 1 the following expenditure of a local authority, incurred on or after 1st April 2004, shall be treated as being capital expenditure insofar as it is not capital expenditure by virtue of section 16(1) —

(a) expenditure incurred on the acquisition or preparation of a computer program, including expenditure on the acquisition of a right to use the program, if the authority acquire or prepare the program for use for a period of at least one year for any purpose relevant to its functions;

(b) subject to paragraph (2), the giving of a loan, grant or other financial assistance to any person, whether for use by that person or by a third party, towards expenditure which would, if incurred by the authority, be capital expenditure;

(c) the repayment of any grant or other financial assistance given to the local authority for the purposes of expenditure which is capital expenditure;

(d) subject to paragraph (3) the acquisition of share capital in any body corporate;

(e) expenditure incurred on works to any land or building in which the local authority does not have an interest, which would be capital expenditure if the local authority had an interest in that land or building;

(ea) expenditure incurred on the acquisition, production or construction of assets for use by or disposal to, a person other than the local authority which would be capital expenditure if those assets were acquired produced, or constructed for use by the local authority; and

(f) the payment of any levy by a local authority under section 136 of the Leasehold Reform Housing and Urban Development Act 1993 (levy on disposals)

(2) Where the expenditure referred to in paragraph (1)(b) is a loan given by a parish council or charter trustees to any person, it shall not be treated as being capital expenditure by virtue of this regulation.

(3) Where the expenditure referred to in paragraph (1)(d) is—

(a) an investment in a money market fund; or

(b) an investment in the shares of a company to which Part 4 of the Finance Act 2006 (Real Estate Investment Trusts) applies; or

(c) the acquisition of shares in an investment scheme approved by the Treasury under section 11 (1) of the Trustee Investments Act 1961 (local authority investment schemes).

it shall not be treated as being capital expenditure by virtue of this regulation.

Parish councils should note in particular the effect of paragraph (2) of the regulation.