

Technical Enquiry Service- Frequently Asked Question

What counts as capital expenditure?

Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services. The Prudential Code provides a professional code of practice to support local authorities in taking their decisions. The powers to borrowing are contained within the Local Government Act 2003 and, other than for short term cash flow purposes, borrowing over the medium term should be for a capital purpose. The Prudential Code does not itself define capital expenditure. In England, Wales and Northern Ireland, there are in fact three routes by which expenditure can qualify as capital under the framework:

1. The expenditure results in the acquisition of, or the construction of, or the addition of subsequent costs to noncurrent assets (tangible and intangible) in accordance with 'proper practices' Section 16 of the Local Government Act and section 19 of the Local Government Finance (Northern Ireland) Act 2011.
2. The expenditure meets one of the definitions specified in regulations made under the Acts.
3. The Secretary of State makes a direction that the expenditure can be treated as capital expenditure.

More details in relation to these can be found in the Practitioners Guide to Capital Finance in Local Government. <http://www.cipfa.org/policy-and-guidance/publications/p/practitioners-guide-to-capital-finance-in-local-government-2012-edition-hard-copy> and the capitalisation directions guidance for England 2013-14 can be found at: <https://www.gov.uk/government/publications/capitalisation-2013-to-2014-policy-and-procedures>. Welsh guidance can be found at <http://wales.gov.uk/topics/localgovernment/finandfunding/capitalisation/?lang=en>. Northern Ireland guidance is issued by the Department for the Environment <http://www.doeni.gov.uk/index.htm>.

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