Expenditure – Capital or Revenue?

The aim of this document is to provide a clear distinction between capital and revenue expenditure.

**Why is it important that this distinction is made?**

We are required to account for revenue and capital expenditure differently. Generally, capital expenditure results in a non-current asset, which is reported separately in Suffolk County Council’s Accounts from other expenditure. Thus, for the organisation to establish an accurate impression of its financial status, plan and make decisions, the correct and consistent classification of expenditure is necessary.

**What are non-current assets?**

Non-current assets are items owned by the authority that have an expected useful life of longer than one year. Examples include; land, buildings, school buses, roads, road signs, computers, IT infrastructure and software licences.

**How do we identify capital expenditure?**

* Capital Expenditure is expenditure that results in the acquisition or construction of a non-current asset (land, building, vehicle, furniture or equipment) or enhancement of an existing non-current asset.

To be an enhancement, work undertaken must either:

1. **Lengthen substantially the useful life of the asset** – beyond the current assessment of the useful life of the asset. For example, the assessment would usually assume that the property would always have effective paint coverage and therefore, painting would only ensure that the property remained useful for the period originally anticipated. In contrast, the assessment might assume that the property will continue to have a flat roof kept in good repair. Its subsequent replacement with a pitched roof which, will be more effective at protecting the building from degradation by the elements, might result in a more optimistic assessment of the prospective useful life.
2. **Increase substantially the market value of the asset** – if the asset were valued after the works it would be valued at a higher value than prior to the works.
3. **Increase substantially the extent to which the asset can or will be used for the purpose of or in conjunction with the functions of the local authority concerned** – for example extending a building to provide a wider service or making a building fit for a purpose that it would not otherwise be fit for.

* Revenue Expenditure is expenditure incurred for the purpose of the organisations daily activity, service/trade or to maintain non-current assets, for example, employees pay, travel expenses, consumables.

Expenditure on loans and grants to other parties for capital purposes or expenditure to enhance an asset owned by another party can also be capital. The expenditure to be met by the loan or grant or on another party’s asset should meet the definition of capital detailed here.

Only assets with a value greater than £6k are entered onto Suffolk County Council’s fixed asset register (a list of all the non-current assets included on the Balance Sheet in the Accounts). However, all spend that meets the capital expenditure definition above is recorded as capital spend regardless of its value.

**Flow chart of expenditure**

The following flowchart shows the decision process to be followed when determining whether an item of expenditure should be treated as capital or revenue.

Revenue Expenditure

Capital Expenditure

Maintain performance or value of asset

Improve performance or value of asset

Capital

Projects

Less than 1 year

More than 1 year

### Purchases

## Adaptations to Existing Buildings

## Stationery, Stock

(Items that are constantly changing)

### New Equipment,

Buildings, or

Land

## Permanent

## Temporary

Distinguishing between expenditure on existing assets that maintains the use or value of that asset and expenditure that improves use or value can be difficult and judgement will always be required. The following key words can be indicators of whether expenditure is more likely to be Capital or Revenue expenditure.

|  |  |
| --- | --- |
| **Key words indicating Capital expenditure** | **Key words indicating Revenue expenditure** |
| Enhance  Upgrade  Extend  Improve | Repair  Maintain  Replace  Like-for-like  Remedial  Renew |

The following page gives some examples of the most common expenditure on existing assets and whether it should be treated as capital or revenue.

**Examples of Capital and Revenue Expenditure**

|  |  |
| --- | --- |
| **Capital Expenditure** | **Revenue Expenditure** |
| Structural maintenance of roads, bridges & footpaths | Routine maintenance of roads, bridges & footpaths (e.g. filling potholes) |
| Extending a building | Maintaining a building (re-pointing, repairing minor cracks, painting etc) |
| Structural repairs on a building, where the value has been written down in the accounts to reflect damage. | Repairs for damage not reflected by a reduction in the value of the building in the accounts. |
| Major refurbishments or overhauls that extend the life or value of an asset beyond its assessed standard | Painting and decorating, routine maintenance |
| Re-roofing of buildings | Roof repairs or replacing broken tiles |
| Upgrading poor quality old windows with new, higher quality ones | Window repairs or replacement of broken windows |
| Installation of central heating | Replacement of central heating or broken parts of a heating system |
| Improvement of floor structures | Floor coverings |
| Installation of new kitchens or toilet facilities | Repairs or replacement of kitchen or toilet fittings |
| Installation of water supply services/equipment | Repairs or replacement of water supply services/equipment |
| Installation of new systems and plant, where additional or more advanced and not a like-for-like replacement | Like-for-like replacement of systems and plant within a building |
| Removal of asbestos where a risk to health and safety and affecting the use or value of the building | Removal of asbestos where it poses no risk to health or value of the building if left in situ. Inspection, air-testing and protective sealant treatment relating to asbestos. |
| Remodelling to make a building fit-for-purpose that otherwise would not be | Remodelling that does not significantly affect the service provided |
| Legal & project management fees, architects’, surveyors’ and engineers’ fees where directly attributable to an enhancement (including recharges of SCC staff time for these purposes) | Feasibility studies and finance fees |

If after reading this guidance you are still unsure whether a particular item of expenditure should be capital or revenue, please contact the Corporate Finance Team (corporate.finance@suffolk.gov.uk)