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| **CAPITAL EXPENDITURE** |

**TABLE OF CONTENTS**

[INTRODUCTION 1](#_Toc127281665)

[SCOPE & PURPOSE 2](#_Toc127281666)

[DEFINITIONS 2](#_Toc127281667)

[PRINCIPLES 3](#_Toc127281668)

[GOVERNANCE & REPORTING 3](#_Toc127281669)

[CAPITAL EXPENDITURE 4](#_Toc127281670)

[CAPITAL AUTHORISATION 4](#_Toc127281671)

[CAPITAL BUDGETING PROCESS 5](#_Toc127281672)

[DISPOSAL / SALE & IMPAIREMENT OF ASSETS 5](#_Toc127281673)

[RESOURCES 6](#_Toc127281674)

[Resource 1: Special Areas Guidance 6](#_Toc127281675)

[Resource 2: Quick Reference Decision Tree 7](#_Toc127281676)

[Resource 3: Technical Guidance - Process for Capital Expenditure 8](#_Toc127281677)

[Resource 4: Technical Guidance – Care Homes Decision Tree 10](#_Toc127281678)

[Resource 5: Technical Guidance – Retirement Living Decision Tree 11](#_Toc127281679)

[Resource 6: Technical Guidance – Epworth House Decision Tree 12](#_Toc127281680)

[APPENDICES 13](#_Toc127281681)

[Appendix 1: Useful Economic Life (UEL) by Asset Type 13](#_Toc127281682)

[Appendix 2: Capital Expenditure Request Form (CER) [FP105a] 14](#_Toc127281683)

[Appendix 3 – Financial Appraisal Summary 15](#_Toc127281684)

[Appendix 4 – Capital Disposal Approval [FP105b) 16](#_Toc127281685)

# INTRODUCTION

Capital expenditure (CapEx) are the funds used by MHA to acquire, upgrade, and maintain physical assets such as (but not limited to) property, buildings, technology, or equipment (see Definitions section for a comprehensive breakdown).

# SCOPE & PURPOSE

The overall purpose of this policy is to:

* Confirm and clarify the policy that must be followed by MHA
* Ensure that capital expenditure across MHA is clearly identified, planned, authorised, and accounted for accurately and in a timely manner.

# DEFINITIONS

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| **Term** | **Definition** |
| Capital Expenditure | Any expenditure which meets the following criteria:   1. The expenditure is over the appropriate de minimis levels:  * Any single item of expenditure must be greater than £500 to be capital expenditure * Repairs expenditure must be greater than £5,000 to be considered for inclusion as capital expenditure.  1. The expenditure is on an item that has a life of more than one year. 2. The expenditure is to acquire, construct, improve or enhance an asset, which adds value to, sustains or extends the useful economic life or adds new productive capacity to the organisation. 3. The cost of a fixed asset is its purchase price and any costs directly attributable to bring it into working condition for its intended use. These costs include:  * Acquisition costs * Site preparation and clearance * Delivery and installation costs * Professional fees i.e. architect fees, quantity surveyor (but not Procurement costs) * Internally generated costs where these are directly attributable to the asset e.g. project management.  1. Costs should include VAT; finance will review the VAT treatment on a project-by-project basis. Due to MHA’s mix of activities, MHA is not able to recover all VAT and consequently it should be considered as a cost. 2. Capitalised items are written off to the Statement of Comprehensive Income via a depreciation charge which is in line with the asset life attributed to the items asset class as shown in Appendix 1. |
| Revenue | All expenditure is deemed revenue expenditure unless it meets the definition of capital expenditure. |

# PRINCIPLES

* 1. MHA’s Capital Expenditure Policy is guided by the requirements contained in the financial reporting standards (FRS102), the accounting guidance for the Charity Sector (Charities SORP (FRS 102)), and the accounting guidance for the Housing sector (Housing SORP 2014). MHA must adhere to these standards in preparing its financial statements; this policy is therefore consistent with FRS102.
  2. FRS102 requires that capital expenditure be recorded separately from revenue expenditure. MHA requires that capital and revenue expenditure be budgeted for and approved separately in order that the implications for the Statement of Comprehensive Income, Balance Sheet and Cash flow can be identified and managed.
  3. This policy aligns with MHA’s delegated authorities as set out in the Board Manual and the accounting policies referred to in the Financial Statements.
  4. The Board Manual details ‘delegated authorities’ which outline the areas of responsibility and approval limits related to capital expenditure.
  5. This policy provides examples of what should not be capitalised, i.e. expenditure that is classed as revenue and should be charged to the Statement of Comprehensive Income.
  6. This policy must be implemented with supplementary user guidance (resources and appendices).
  7. A Quick Reference decision tree has been included in Resource 2 to give general guidance as to whether an item of expenditure qualifies as Capital or Revenue.
  8. More detailed decisions trees specific to your area of operation are referenced in the technical guidance provided in Resources 3 to 6 that accompany this policy.
  9. Please refer to the Finance Team for any questions relating to this policy or capital expenditure.

# GOVERNANCE & REPORTING

2.1. MHA’s Board subject to the ‘delegated authorities,’ approve the overall capital budget for MHA. Overall responsibility for controlling capital expenditure rests with the Director of Finance.

2.2. The capital budget is allocated between:

* Development and Estates expenditure which is managed by the Chief Operating Officer;
* IT expenditure which is managed by the Director of Finance;
* Change programme which is managed by the CEO;
* Equipment purchases which are managed by the Chief Operating Officer.

2.3. PO’s are tracked and monitored to determine the volumes and their ageing.

2.4. Any expenditure that will be accounted for as Cost of Goods Sold (COGS) for Housing for Sale properties must follow the Capital Expenditure governance rules.

# CAPITAL EXPENDITURE

|  |  |
| --- | --- |
| **Examples of Capital Expenditure** | |
| Expenditure which adds new productive capacity to the organisation. | * Acquisitions of freehold land or buildings - new care home or retirement living scheme * Construction of buildings - new care home, retirement living scheme or support offices) |
| Refurbishment works to existing properties. | * Building renovations or upgrades (capital improvements) * Carpets or external painting as part of a major refurbishment |
| Works to existing properties where a component is being replaced. | * roof, windows, external doors, kitchen, and bathroom * plant such as lifts, heating, ventilation, and air-conditioning systems |
| Purchases of replacement equipment. | * Equipment or furniture * Telecommunication and information technology hardware |
| Software purchases and associated implementation costs. | * Software * Hardware * Directly attributable implementation costs |

# CAPITAL AUTHORISATION

3.1. Budget inclusion is **not** authorisation to spend.

3.2. All capital spend must be approved through approval of a Capital Expenditure Request form (CER). The CER must be approved in line with the Authority Matrix on the bottom of the form. Approvals should be sought where possible prior to submission of the CER to Finance.

3.3. Expenditure relating to the Capital Programme works do not require completion of a CER.

3.4. Finance will confirm that spend is capital in nature and within approved and available budget.

3.5. A Financial evaluation template may need to be completed and summary page presented with the CER. Finance will advise on this.

3.6. Account and cost codes will be assigned by the Finance Team during the completion of the CER.

3.7. Completed CERs must be submitted to Finance by email to the CER Inbox together with relevant quotes and available support.

3.8. Finance will confirm final approval and issue a CER reference within 24 hours of the CER being received. The CER reference should be quoted on Purchase Orders and any correspondence with suppliers.

3.9. A Purchase Order (PO) must not be raised (via EBis for Head Office) until the CER has been approved at the appropriate level.

3.10. Suppliers must not be engaged until a PO has been raised and a PO number (PON) is available to provide to the supplier or spend has been approved through the CER process for homes/schemes not using EBis for purchase ordering.

3.11. Receipting of goods or services against PO must be actioned as soon as the assets have been received so that the items can be accounted for correctly and on a timely basis.

3.12. Financial governance to be in accordance with the delegated authorities approved by the Board.

**Note**: Capital Authorisation principles will be amended once new ones are implemented

# CAPITAL BUDGETING PROCESS

4.1. All capital expenditure should be budgeted for during the annual budgeting process. Budget guidance and support is provided by the Commercial Finance team within Finance.

4.2. Finance and Capital Expenditure Committee will monitor Estates expenditure, including the expenditure relating to Housing for Sale properties which is undertaken to make them saleable or rentable.

# DISPOSAL / SALE & IMPAIREMENT OF ASSETS

5.1. The sale or disposal of an asset (or component of an asset) should be approved in accordance with the approval matrix and an **Asset Disposal Form** completed **(see Appendix 4).**

5.2. Circumstances which could give rise to impairment are reviewed annually by Finance. This will include a review of any properties which are no longer used for charitable purposes.

# RESOURCES

## Resource 1: Special Areas Guidance

|  |  |  |
| --- | --- | --- |
| **Area** | **Revenue** | **Capital Expenditure** |
| Change or IT Projects | Anything which is not capital.  Specifically, the following cannot be capitalised:   * Annual Licence costs (unless incurred during system development phase) * Ongoing maintenance costs (unless incurred during system development phase)   Post project implementation costs such as Staff training, software, or hardware maintenance costs. | IT related capital expenditure is:   1. Expenditure that is over the single item de minimis value of £500. 2. The expenditure is on an item that has a life of more than one year. 3. The expenditure is to acquire, construct, improve or enhance an asset, which adds value to, sustains or extends the useful economic life or adds new productive capacity to the organisation. Examples are:  * Purchased software * Hardware * Direct consultancy costs and internal staff costs (up to the point of implementation of a project). |
| Property (Including Development & Estates) | Anything which is not capital.  If the asset is constructed by MHA, revenue costs will include:   * Costs not related to the construction of the project such as administration and general overhead costs including unspecified and percentage-based project office costs; * Costs incurred by, or on behalf of those staff, who are directly working on the project but are not related to the construction or acquisition of the asset e.g. training, general advice (finance, procurement) and consumables (i.e. buffets); * Costs of moving into a new building. | Development or Estates Capital expenditure is:   1. Expenditure that is over the appropriate de minimis levels:  * Any single item of expenditure must be greater than £500 to be capital expenditure * Repairs expenditure must be greater than £5,000 to be capital expenditure  1. The expenditure is on an item that has a life of more than one year. 2. The expenditure is to acquire, construct, improve or enhance an asset, which adds value to, sustains or extends the useful economic life or adds new productive capacity to the organisation.   If the asset is constructed by MHA, the capital costs will include:   * Labour costs of own employees or building contractor, arising directly from the construction of the tangible fixed asset; * Professional fees related to the construction of the asset (e.g. architect, employer’s agent, project manager, quantity surveyor); * Delivery and installation of building fixtures. |

## Resource 2: Quick Reference Decision Tree

A picture containing timeline

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## Resource 3: Technical Guidance - Process for Capital Expenditure

All capital expenditure must be allocated to the relevant capital project or account codes at the time of commitment e.g. when a CER is raised. Relevant account codes will be advised by the Finance team.

Finance will have overall responsibility for determining the distinction between capital and revenue and treatment of leases, in line with the UK accounting rules, based on information provided by homes, schemes or departments. Finance must be consulted to discuss proposed items of spend, to ensure decisions are made about the correct treatment.

Receipting of goods / services against purchase orders related to capital spend must be actioned on a timely basis once the goods / services have been received as per requirements in the original order, to ensure accurate accruals can be included in the monthly management accounts.

Finance Business Partners should confirm with their BP/PM’s about work executed to date, so that the value of this can be correctly accounted for (where the invoice has not yet been received and/or paid).

Assets under construction – (i.e. not finalised) will remain under “work in progress” until completed.

Depreciation - will be charged from the time an asset comes into use, at the start of its useful life (e.g. building comes into use). Finance must be informed when an asset comes into use.

Depreciation will be charged monthly in the management accounts in line with the agreed depreciation polices.

Retentions process– a Register of Retentions is maintained, and information is included in the notes to the accounts. Retentions are accrued monthly by the Property Business Partner through the construction phase of the project. These will be reviewed periodically and released in the event that they are not due to be paid.

The ownership status of a retirement living dwelling(s) should be confirmed before works are undertaken or equipment purchased. Works should only be undertaken, or equipment purchased when responsibility falls to MHA as landlord or managing agent.

Where expenditure on retirement living schemes will be funded by Leaseholders’ sinking or contingency funds due regard should be given to the requirements of Section 20 of the Landlord and Tenant Act 1985.

Relevant capital plant and machinery or furniture installed in a new or refurbished building should be distinguished from the construction or refurbishment and depreciated in accordance with the depreciation policy for the asset class.

## Diagram Description automatically generatedResource 4: Technical Guidance – Care Homes Decision Tree

## Resource 5: Technical Guidance – Retirement Living Decision Tree

Please note: any expenditure that will be accounted for as Cost of Goods Sold (COGS) for

Housing for Sale properties must follow the Capital Expenditure Governance rules set out in this

Section 2.Diagram

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## Diagram Description automatically generatedResource 6: Technical Guidance – Epworth House Decision Tree

# APPENDICES

## Appendix 1: Useful Economic Life (UEL) by Asset Type

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **UEL** | **Description** | **UEL** |
| Buildings Freehold | 40 | Furniture | 10 |
| Buildings Freehold (Housing Association) | 60 | Garden structures | 20 |
| Pitched Roofing | 40 | Wooden Garden structures | 10 |
| Flat Roofing - Bitumen | 40 | Garden furniture | 10 |
| Flat Roofing - Felt | 30 | Garden equipment | 5 |
| Flat Roofing – Steel Sheet | 60 | Gym equipment | 10 |
| Fascia’s and Guttering | 30 | Hairdressing equipment | 10 |
| Windows | 30 | Heating Equipment | 5 |
| Doors | 30 | Heating System | 20 |
| Kitchens | 20 | Kitchen Equipment | 10 |
| Bathroom – Care Home | 15 | Kitchen Fixtures & Fittings | 20 |
| Bathroom Wet Room – Care Home | 10 | Laundry Room Equipment | 10 |
| Bathroom – Retirement Living | 30 | Laundry Room Fixtures & Fittings | 20 |
| Communal Bathroom | 10 | Lifting Equipment | 10 |
| Boilers | 15 | Lifts (Fixed) | 20 |
| Radiators and Pipework | 15 | Medical Equipment | 10 |
| Electrical Works | 30 | Music Equipment | 10 |
| Solar Panels | 25 | Security Systems | 15 |
| Septic Tanks | 25 | Sluice room equipment | 15 |
| Air Conditioning System | 15 | Telephone equipment | 8 |
| Audio-Visual equipment | 5 | Computer Hardware | 3 |
| Bathroom Fixtures | 20 | Computer Servers | 8 |
| Beds (Specialist) | 10 | Computer Software | 3-5 |
| Call System | 15 | Minibus | 5 |
| Cleaning Equipment | 10 | Motor Car | 5 |
| Door entry system | 15 | Van | 5 |
| Fire Safety Systems | 15 | Tractor | 10 |
| Furnishings | 10 | External Painting | 5 |

## Appendix 2: Capital Expenditure Request Form (CER) [FP105a]



## Appendix 3 – Financial Appraisal Summary

## Appendix 4 – Capital Disposal Approval [FP105b)

