

## **Definition of Capital Expenditure**

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#### Purpose of the Document

This note provides guidance on the definition, scope and classification of capital expenditure. It sets out the treatment of capital expenditure and scoring in Resource Accounting and Budgeting and in national accounts under the European System of Accounts (ESA95). It replaces CLASS(98)1.

Departments should use this guidance for recording their capital expenditure on the PES database.

Chapter 3 of the Resource Accounting Manual (RAM)1 gives more information on the treatment of capital expenditure in resource accounts.

This note does not give advice on the valuation of capital assets (see RAM 3.2.10 and 3.6.3), nor write-downs, impairment and revaluations of capital assets (see RAM 3.2.21 and PES (99)13 paragraphs 18 and 22; PES(99)30 paragraphs 43 to 44); nor depreciation (see RAM 3.2.27-35).

For further advice, departments should approach in the first instance their normal Treasury spending team division contact. Treasury spending teams are invited to discuss classification issues with Jeff Golland (Tel 020 7270 5337) or David Dipple (Tel 020 7270 5338). Difficult cases will be referred by HM Treasury to the ONS for a determination.

#### Scope of Capital Expenditure

"Capital Expenditure" can have a different scope depending on the context. This paper covers capital expenditure in its widest sense as shown by the list below. These components of capital expenditure occasionally have different treatments in resource accounts, Estimates; and national accounts. The national accounts treatment determines the measurement of net investment

and Total Managed Expenditure(TME) - the government=s main expenditure aggregate – from which the budgeting treatment is derived (TME = DEL + AME). RAM determines the resource accounting treatment, and in most cases Estimates use the same definitions. See tables in annex.

Note that the terms "gross" and "net" can have different meanings when applied to capital expenditure. Capital expenditure can be recorded before or after capital asset sales; and it can be before or after a deduction for depreciation of capital assets. The fiscal measure "net investment" is net of asset sales and depreciation. In national accounts, "gross capital formation" is net of asset sales and before the deduction of depreciation.

The main components of capital expenditure are:

a) purchase less sale of fixed assets:

This is recorded as capital expenditure in resource accounts, Estimates, budgets, and net investment (except single use military equipment). The budgeting treatment for sales is different from the accounting treatment during the transitional period for the introduction of RAB.

b) expenditure on capital grants

These are in the operating cost statement in resource accounts; shown in a resource column under the shoulder heading "other expenditure outside DEL" in Estimates; but in the capital budget; and in net investment. Under resource accounting, receipts of capital grants go into a reserve which is released into the OCS in line with the depreciation of the asset funded by the grant.

c) lending, net of repayments

Lending in this context consists of financial assets such as loans and shares that are acquired to further the policies of a department. It excludes financial assets acquired to manage liquidity (such as bank accounts). Lending is part of capital expenditure in resource accounts, Estimates, and budgets; but not in net investment.

d) net stock building

This is a cash to accruals adjustment in resource accounts and Estimates; outside budgets; but in net investment.

## FIXED CAPITAL

### Types of Assets

Assets are rights or other access to future economic benefits controlled by an entity as a result of past transactions or events. In this context, 'future economic benefits' means that the asset will contribute in some way to the provision of services or other outputs by departments.

Assets can be financial (bank deposits, bonds, loans, shares, accounts receivable) or non-financial (land, buildings, vehicles, equipment, machines, rights to use physical structures or information, goodwill and other intangibles, stocks and valuables).

For non-financial assets, access to economic benefits can be obtained in various ways. Usually it is obtained by ownership of goods. Sometimes similar access to economic benefits may be obtained without legal ownership, for example where goods are leased by way of a finance lease. In these circumstances, the asset may be barely distinguishable in terms of financial commitment and opportunity for 'risk and reward' from that obtained through legal title.

Capital expenditure includes expenditure to acquire fixed capital assets. This section describes different types of assets.

### Tangible Fixed Assets

A tangible fixed asset is an asset that has physical substance and is used to produce or supply goods and services, for rental to others, or for administrative purposes on a continuing basis for more than one year. Fixed capital expenditure is the creation or purchase, net of sales, of fixed assets. It includes:

- acquisition, reclamation or laying out of land;
- acquisition, construction, preparation or replacement of buildings and other structures and their associated fixtures and fittings;
- acquisition, installation or replacement of movable or fixed plant, machinery, vehicles and vessels.

The expenditure should be recorded on an accruals basis in accounts and budgets.

Expenditure on assets under construction should be recorded when payments become due.

Stockpile fixed assets should be treated in the same manner as conventional fixed assets. So the purchase of capital assets for later use or sale would be recorded as capital expenditure.

For further information see RAM 3.2

### Intangible Fixed Assets

Intangible fixed assets are defined as non-financial assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights. Examples of intangible assets are: scientific or

technical knowledge in order to produce new or substantially improved materials; copyright; and intellectual property rights.

Development is the use of scientific or technical knowledge in order to produce new or substantially improved materials, devices, products or services, to install new processes or systems prior to the start of commercial production or commercial applications, or to improve substantially those already produced or installed. Development may be treated as capital expenditure if at the time it is incurred it meets all the criteria below

- there is a clearly defined project
- the related expenditure is separately identifiable
- the outcome of the project has been assessed with reasonable certainty as to:
  - its technical feasibility
  - it resulting in a product or service that will eventually be brought into use
- adequate resources exist, or are reasonably expected to be available, to enable the project to be completed and to provide any consequential increases in working capital.

Otherwise, development expenditure should be recorded as current expenditure.

For further details see RAM chapter 3.10.

## Software

Major items of software such as operating systems and substantial applications packages are included in capital expenditure. Routine expenditure on maintenance and updating will usually be current. Where customers place a contract for a specific piece of software to be developed to meet their particular needs then expenditure on the contract may be regarded as capital expenditure.

The treatment of expenditure on software licenses may be treated as:

- current expenditure where the licenses are paid on a recurrent basis, even where the period between repayments is more than a year; and
- capital expenditure where a single payment is made covering the use over the expected life of the software and where there is no opportunity for the vendor to seek renewal payments. In effect the software has been purchased.

For further information see RAM 3.9.

## Databases

Apply the same rules as for other assets created in-house or purchased.

## Military Assets

Under ESA95, expenditure on the acquisition of, or enhancement to:

- dual purpose military goods, will be treated as capital expenditure. These are assets of a kind that could be used by civilian organisations for the production of goods and services. Examples are airfields, docks, roads and hospitals. Expenditure on almost all fixed structures should be treated as capital expenditure as would that on types of equipment which have alternative non-military uses - such as transport equipment, computers and communication equipment and hospital equipment.
- single purpose military goods, eg, weapons and the equipment which supports and delivers such weapons - warships, submarines, fighter aircraft, tanks, missile carriers and launchers - will be treated as current.

For resource accounting and budgeting, all expenditure on the acquisition of, or enhancement to, military assets, regardless of its treatment in national accounts, is treated as capital. The expenditure on single use military assets is therefore recorded separately on the PES database in economic category B70/71 so that an adjustment can be made in national accounts.

## Heritage Assets

Heritage assets are those assets which are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, and works of art.

Under resource accounting departments are required to attest annually to the ongoing heritage credentials of its heritage assets. There are certain characteristics which, whilst they may be present in other assets as well, are often displayed by heritage assets. For heritage assets, typically:

- their value to government and the public in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value derived from a market mechanism or price;

- established custom and, in many cases, primary statute and trustee obligations impose prohibitions or severe restrictions on disposal by sale;
- they are often irreplaceable and their value may increase over time even if their physical condition deteriorates;
- they may require significant maintenance expenditure so that they can continue to be enjoyed by future generations;
- their life is measured in hundreds of years.

Operational heritage assets are those which, in addition to being held for their characteristics as part of the nation's heritage, are also used by the entity for other activities or to provide other services for which it is responsible. An example is a historical building used for both ceremonial occasions and office accommodation.

There is likely to be no expenditure on the construction of new heritage assets since they have to meet the criteria above. However some might undergo substantial renovation to extend their life: this should be recorded as capital expenditure.

In resource accounting, the creation, purchase or improvement of new heritage assets would be added to the balance sheet, but existing heritage assets would not be.

For further information see RAM 3.5

## Land

This economic category includes

- the purchase, net of sales, of natural assets over which ownership may be enforced and transferred; and
- taking steps to increase the value of natural assets realised by the productive activity of economic entities.

In the case of the sale and purchase of land, costs of ownership transfer should be identified and recorded separately if this can be done without disproportionate cost. These costs include professional fees and stamp duty paid. Separate identification is needed for national accounts because the costs of ownership transfer count as capital formation, while the purchase of land itself does not. Land purchases and sales are however capital transactions.

In national accounts "natural assets" are called "tangible non-produced assets" and include sub-soil minerals and in-land water in those cases where ownership rights can be enforced.

#### Valuables, Works of Art, Jewellery

The acquisition of works of art, jewellery, precious stones and antiques is capital expenditure. In national accounts this can be classified as either:

- capital formation, if the assets are used to produce services, or as
- the acquisition of valuables – if they are acquired as a store value, like an investment.

It is assumed that Government departments do not buy valuables as an investment but in order to produce heritage – to be displayed in museums for example. They are therefore recorded in the same economic category (E15) as the acquisition of plant and machinery.

For further information see RAM 3.5.12

#### Work In Progress/Under Construction

Work on assets under construction are recorded in national accounts in either of two ways:

- as the capital expenditure of the eventual owner of the asset
- as the addition to the constructor's stocks of unfinished goods.

If the asset is being constructed specifically for an owner known in advance – typically under a construction contract - then the work should be recorded as the capital expenditure of the eventual owner. Valuing such work presents problems: the pragmatic solution is to say that the value of the work equals the value of any stage payments made under the contract. Under such contracts it is often the case that ownership of the incomplete asset passes to the eventual owner when stage payments are made. If actual data are available on the increasing value of the asset under construction that those can be used as the capital expenditure of the future owner if there is no doubt that the construction work is adding to the purchaser's liabilities.

If the asset is being constructed for eventual sale but not under a contract to an eventual owner known in advance, the work is recorded as the addition to the stocks of the constructor's unfinished goods.

Resource accounts are consistent with the national accounts approach: capital expenditure is recorded when payments are made for work in progress

on assets under construction. Such payments lead to the creation of an asset in the RAB balance sheet.

For on-balance sheet PFI assets the capital expenditure is recorded when the asset becomes operational.

For further information see RAM 3.2.4

## SOME ACCOUNTING AND BUDGETING ISSUES

Sale of assets: profit/loss

RAM says that the actual proceeds from the sale of an asset should be split into two parts:

- the book value of the asset currently recorded in the balance sheet;
- the difference between the book value and actual proceeds (the profit/loss on sale).

The first item is (negative) capital expenditure; and the second is current expenditure in the OCS (subtracted for a profit, added if a loss).

During the transitional phase for the introduction of RAB, the Estimates and budgets will record both items as capital expenditure.

Further information on budgeting treatment is in PES(00)1 paragraphs 36 to 45.

### Barter Deals and Other Non-Cash Transactions

Non-Cash transactions in assets need to be recorded as if they had been a cash payment at the market price. Examples of non-cash transactions are:

Government exchanges some land that it owns worth ,15m for some buildings also worth ,15m, the records should show (a) a sale of land and (b) a purchase of buildings. Where both parts of the barter have (a) the same value and (b) the same economic category, nothing needs to be recorded as the two transactions cancel out;

Government makes a transfer in kind, eg a gift say of a building worth £15m, the records should show: (a) a grant to the recipient of £15m and (b) a sale of a building for £15m. Receipt of a gift of a building worth £15m should be recorded as (a) receipt of a cash donation of £15m and (b) purchase of a building for £15m.

Government accepts a low price for the sale of a building on the understanding that it will be able to occupy it for a low rent in the future. Both the asset sale and rents should be recorded at market prices.

Government agrees to write-off a debt owed to it. This is recorded as capital transfer and a repayment of the loan.

A new PES paper on barter deals will be issued soon.

### Finance Leases

Accounts and budgets should reflect the economic substance of transactions rather than the legal form. For all complex transactions the department's accountants would apply the principles of FRS 5, Reporting the Substance of Transactions, and SSAP 21, Accounting for Leases and Hire Purchase Contracts. These guidelines determine whether a lease is a finance lease or an operating lease. If it is an operating lease the payments are recorded as payments for services. If it is a finance lease the department would record capital expenditure and borrowing with the regular payments treated as repayment of the borrowing and interest.

### Private Finance Initiative PFI

The objective of the PFI is to harness the benefits of private sector management by purchasing services rather than fixed assets. PFI transactions should be accounted for in accordance with Technical Note No.1 (Revised); How to Account for PFI Transactions, which has been issued under cover of DAO(GEN)12/99. The Technical Note sets out additional practical guidance on how the Accounting Standards Board's Application Note entitled Amendment to FRS 5 - Private Finance Initiative and Similar Contracts is to be followed in the public sector, and the Technical Note should be read in conjunction with the Application Note.

For detailed advice on how to record on-balance sheet PFI transaction see PES(99)24 and PES(00)1 paragraphs 132 to 136.

### Public Corporation Capital Expenditure

This scores in capital AME for self-financing public corporations (SFPCs), and capital DEL for other PCs. Nothing scores in the OCS or in Estimates, apart from any actual payments from the department to a PC to finance its capital expenditure.

PC capital expenditure includes all categories of capital - expenditure on fixed assets, intangibles stocks, valuables, and the acquisition of financial assets. Capital grants from the parent department to the public corporation are recorded outside the budget. It is the expenditure financed by the grant which will be in the capital budget.

## BORDERLINE BETWEEN CURRENT AND CAPITAL EXPENDITURE

### Grouping of Assets

If treated singly, an asset may well fall below the capitalisation threshold. Several small value assets of a similar nature may be purchased at once, for example as part of the same project. If so, it is the value of the purchase of all the assets that determines whether expenditure falls above or below the capitalisation threshold.

For example, a new chair, costing £300, would be current expenditure; whereas a programme of replacing all the chairs (each costing £300) in a particular building would be capital expenditure, even though individually these chairs were within a capitalisation threshold.

The question of grouping typically applies to the purchase of information technology equipment or office furniture.

For further information see RAB 3.2.8

### Call-Off Contracts

These are when a department has a single contract with a supplier, and logs many individual orders against the contract. Contracts might be settled by a single payment against a single monthly invoice. Call-off contracts should not be seen as intrinsically grouped purchases. Instead, the individual items or groups of items paid for by way of call-off contracts should be classified separately. So, suppose a department has a capitalisation threshold of £2,000 and buys personal computers at £1,000 each via a call-off contract:

- a series of individual orders for single PCs would each count as current expenditure, even though the total bill exceeds £2,000;
- an order for twenty PCs to re-equip a team - this would count as capital expenditure, as the total is a grouped purchase and the total cost exceeds £2,000.

### Capitalisation Thresholds

Departments may set capitalisation thresholds for fixed assets to suit their own circumstances.

When setting capitalisation thresholds, departments should, subject to materiality, take into account the following factors:

- practicality: keeping the maintenance of asset registers within manageable proportions;
- flexibility: different threshold limits might be appropriate for different types of fixed asset, between different parts of the departmental group,

and also between programme assets (e.g. infrastructure) and operating assets (e.g. IT equipment, office furniture);

- consistency: departments should ensure an appropriate degree of consistency within the departmental group for the production of consolidated departmental resource accounts;

Any changes in thresholds will have to be notified to the Treasury at a prescribed point prior to spending reviews.

For further information see RAM 3.2.7.

### Routine Maintenance v Capital Expenditure

Subsequent expenditure to ensure that a tangible fixed asset maintains its previously assessed standard of performance should be recorded as current expenditure (in OCS and resource DEL). Subsequent expenditure on a tangible fixed asset should be recorded as capital expenditure in any of these four circumstances:

- where it provides an enhancement to the economic benefits of the asset in excess of the previously assessed standard of performance;
- where a component of the asset, having been treated separately for depreciation purposes and depreciated over its individual useful life, is replaced or restored
- where it relates to a major inspection or overhaul of the asset that restores the economic benefits of the asset that have been consumed by the entity and have already been reflected
- where it substantially lengthens its useful life beyond that conferred by repairs and maintenance

Examples of expenditure to be treated as capital are:

- major refurbishment of a building which takes the building to a higher standard than it had when it was first built or last refurbished;
- replacing old railway track along an entire route;
- major enhancement to a computer system to extend its use beyond the original life expectancy.

For further information see RAM 3.2.3

### In-House Capital Formation

Department's can employ their own staff and other resources to produce capital assets, rather than buying them from external suppliers.

In other cases, the purchase of a capital asset might require a department to undertake other expenditure necessary to procure and commission the asset. Such internal costs will include own employees' (e.g. site workers', in-house architects' and surveyors') salaries and expenses arising directly from the construction and acquisition of the specific tangible fixed asset. Administration and other general overhead costs should be excluded. Employee costs not related to the specific asset (such as site selection activities) are not to be recorded as capital. Only those costs that are directly attributable to bringing the asset into working condition for its intended use should be recorded as capital expenditure.

Costs incurred in the early stages of a project to acquire or create a capital asset should only be recorded as capital if at the time they are incurred:

- there is a clearly defined project; and
- the costs are separately identifiable; and
- it is reasonably certain that the project will be completed and will result in an asset that will eventually be brought into use.

Where a department's own staff are involved in the acquisition, construction or development of a tangible fixed asset (such as a piece of internally generated computer software), the relevant proportion of the internal costs relating to those staff should be recorded as capital if material and if the criteria above are met.

Internal costs should not be recorded as capital if they relate to activities which can only be carried out by in-house staff, i.e. which for the sake of good internal administration could not be purchased from an outside party.

Cost of capital charges relating to assets that are used to produce other capital assets (such as a computer used by staff writing software that will be capitalised) should not be recorded as capital; neither should any actual financing costs.

For further advice see RAM 3.10.2; PES(99)18 paragraph 32; and PES(00)1 paragraphs 93-94.

#### Costs of Ownership Transfer

Capital expenditure includes the cost associated with transferring ownership such as legal expenses and stamp duties that are directly attributable to the acquisition of an asset.

## Consultant's Fees

Capital expenditure includes any architects= and surveyors= fees where they are an integral part of, and specific to, the acquisition or the construction of a building. This also applies to consultancy costs in procuring other capital assets.

Expenditure on consultancy to help decide whether a capital acquisition or project should go ahead is current. Expenditure to determine what sort of asset is required, or to specify the performance and other characteristics of the asset, should be also be classified as current.

Expenditure on research and development consultancy is current.

Capital expenditure should include only the incremental costs that would have been avoided if the capital asset had not been produced or bought. It is not appropriate to treat as capital expenditure a portion of the time of staff associated with a capital project if they would have been employed in any event.

## CAPITAL GRANTS

### General Issues

Grants are unrequited payments. Grants are given with no expectation of any financial return to the donor, and without any goods or services being supplied to the donor in return. Grants can be given on condition that the recipient undertakes certain action or expenditure: for example to keep a museum open or educate students. Grants are recorded as capital grants if they are for the purpose of financing the recipient's acquisition of fixed capital assets as agreed by the grant donor.

Grants for the acquisition of financial assets should be recorded as subsidies. Such financial assets include pre-payments for goods and services - a grant for this purpose would be a subsidy not a capital grant.

Grants to write-off debts owed by the recipient to the donor can be treated as capital grants.

For further guidance see PES(00)1 paragraphs 93 to 94.

Capital grants score as current expenditure in resource accounts (in the Operating Cost Statement) and in Estimates (part of the Request for Resources). For budgets they are treated as capital and so are included within capital DEL; and they are part of the fiscal aggregate net investment.

Scoring capital grants made by government departments depends on the sector classification of the recipient thus:

- to the private sector - public expenditure aggregates will show this grant against the public sector donor; (for further guidance see PES(99)31 paragraphs 9 to 18);
- to a central government body given a grant-in-aid. This includes most non-departmental public bodies (eg, the National Army Museum's grant-in-aid from MOD). The department's budget will record the expenditure of the NDPB, not the grant given to it. The department's Estimate, and resource accounts, will record the grant, and none of the NDPB's actual expenditure.
- to a public corporation: the actual capital expenditure of the public corporation will score in the department's budget. The department's Estimate, and resource accounts, will record the grant, and none of the corporation's actual expenditure.

### Investment Grants

Investment grants are a type of capital grant given for the purpose of accruing fixed assets.

### Grants Paid Abroad

Grants paid abroad should be divided between current and capital depending on the intended use of the grant.

### Debt Write-offs

Suppose a department agrees that a debtor no longer needs to pay a debt owed to the department. For example this might happen with loans for overseas development; or in the case of a loss-making public corporation. In such cases a capital transfer is recorded in the department's capital budget equal to the value of the loan written off; and the loan is shown as being repaid. In effect, there is gift to the debtor to pay off the debt.

### Receipts of Grants

Capital grants can be received by Government as well as given. For example there are grants from the EU to Government research establishments and local authorities, and museums might receive grants for the purpose of acquiring a specific work of art. Receipts of capital grants are netted-off in a department's capital DEL, except those from the EU.

### EU Investment Grants

Investment grants from the EU are not part of a department's capital DEL. They do reduce net investment, and TME, but this is through the net EU contributions' line in AME.

They are included in the OCS and Estimates (spending sector J)

## Capital Injections/Subscriptions

Some payments by Government might be called capital injections, equity subscriptions, investments, or participations, or some other title suggesting that the payment leads to the acquisition of share capital in the recipient.

In some of these cases these payments give the right to future dividends and the equity can be sold or value realised in some other way in the future. These cases should be recorded as financial transactions since they represent the acquisition of a financial asset.

In other cases there is no expectation of receiving anything in return for the payment. In these cases the payments should be recorded as capital grants.

## STOCKS

### Types of Stocks

In resource accounting stocks include:

- goods or other assets purchased for resale
- consumable stores
- raw materials and components purchased for incorporation into products for sale
- finished goods;
- products and services in intermediate stages of completion;
- long-term contract balances
- the natural growth of cultivated timber

Central government has categories of stocks that are unique to Government. These include:

- stockpile goods and military reserve stocks;
- confiscated, seized, forfeited and foreclosed property;
- goods held under price support programmes (intervention stocks).

Net expenditure on stock building is in net investment and TME

## Stocks of Current Assets

Net expenditure on stocks of current assets is outside resource and capital DEL and so outside departmental budgets.

In accounts and Estimates, changes in stocks are an accruals to cash adjustment. The accounts record the consumption of resources, and production of goods and services for sale. This will take account of consumables drawn from stocks irrespective of when they were bought, and finished goods added stocks irrespective of when they are sold. Additions to stocks of consumables, and sales of stocks of finished goods, are cash transactions unrelated to the consumption of resources and production of goods and services. So they are recorded as accruals to cash adjustments within "adjust for movements in working capital other than cash" along with changes in creditors and debtors.

DEL follows the resource approach rather than national accounts, which views stock building as capital formation.

## Stocks of Capital Assets

Expenditure on capital assets to be held as stocks of capital assets, rather than used in production, are treated as capital DEL in line with the national accounts treatment. So they are treated as capital expenditure like any other acquisition of a capital asset.

## FINANCIAL TRANSACTIONS

### Financial Investments

This is sometimes called net lending or policy lending. It includes loans given and shares purchased, net of repayments and sales of shares. It is in a department's capital DEL and is voted in Estimates. It excludes financial assets acquired to manage the department's liquidity such as bank deposits and balances at the Office of Paymaster General (OPG).

For more information see RAM 3.11

### Equity Injection/Withdrawal

Some payments by Government might be called capital injections, equity subscriptions, investments, or participations, or some other title suggesting that the payment leads to the acquisition of share capital in the recipient.

Some equity injections give the right to future dividends and the equity can be sold or value realised in some other way in the future. These cases should be recorded as financial transactions since they represent the acquisition of a financial asset.

Sometimes an equity injection is made with no expectation of receiving anything in return for the payment. In these cases the payments should be recorded as capital grants. The grant is classified as capital on the assumption that it leads to capital formation or the acquisition of financial assets to improve the recipient's balance sheet.

An equity withdrawal is when a public corporation makes a payment to Government funded from accumulated reserves or the sale of assets. It is recorded as a financial transaction and reduces capital DEL. Payments by public corporations to the department funded out of current profits are classified as dividends – current receipts.

### Sales of Shares

A sales of shares in a private sector company counts as negative net lending by the department and score negatively in capital DEL. A public corporation can become a private company when government sells shares such that it no longer has a majority of the shares (a privatisation). Such a company is judged to be private company when the shares are sold. So in a privatisation the share sale is negative net lending.

A sale of shares in a public corporation which still leaves the government with a majority shareholding (a minority sale) counts a borrowing from the private sector by the public corporation, and replaces an equivalent amount of borrowing by the public corporation from Government. (This is because shares are regarded as a financial liability of the issuer). The receipt of the cash by government is recorded as a withdrawal of equity from the public corporation. This is because the government's stake in the business is reduced. Neither of transactions (borrowing by the PC and the equity withdrawal have any impact on the department's budget since transactions between a department and its public corporations do not score under RAB. (Under cash recording there was also no impact since the two transactions cancel each other in the External Finance Requirement).

### Student Loans

Student loans are subsidized. They carry, in effect, a rate of interest equivalent to the rate of inflation; they are presented as interest-free loans, with students making payments equivalent to inflation.

In resource accounts, in order to reflect the full extent of the subsidy, and so that the provision for the subsidy can be correctly calculated, an inflation adjustment will be debited to the operating cost statement and credited to the general fund.

For information on treatment in resource accounts, including the inflation adjustment, see RAM 3.11.10

### Other Loans Given by the Department

See PES(00)1 paragraphs 53 to 55; and PES(99)30 paragraphs 10 to 16.

#### Working Capital / Changes in Debtors

Changes in these assets affect the department's net cash requirement and the resources to cash reconciliation in the Estimates and resource accounts. They do not affect the resource or capital DEL, nor the OCS. For further information see RAM 3.13 and 3.14; PES(99)18 paragraphs 22 to 23; PES(99)30 paragraphs 50 to 63; and PES(00)6 paragraphs 11 and 12.