



Department of Health

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<p>To: Regional General Managers District General Managers General Managers of Postgraduate Special Health Authorities Capital Charges Contact Officers in all Authorities</p>	<p>Your reference</p> <p>Our reference EL(89)MB/145</p> <p>Date 16 August 1989</p>
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Dear General Manager

CAPITAL CHARGES UPDATE 89/3

I enclose a copy of Capital Charges Update 89/3, which provides further guidance on the date from which capital charges become chargeable, the effect on capital charges of acquiring new buildings or adapting existing ones, valuations, and the effects of repair and maintenance costs.

Yours sincerely

R J Peters

R J PETERS
Deputy Director of Financial Management (Capital Charges)

Warrington Health Authority	
17 AUG 1989	
D. G. M.	
D. P. H.	
C. M. O.	
P. S. A.	
D. R.	
D. F.	
W. E. M.	

file

This letter will be cancelled on 30 April 1991 unless notified separately.

*Pl. copy to
Dr. Dale
Dr. Leeds
Dr. Brown
Dr. Kemp
U. G. P. S.*

■ CAPITAL CHARGES ■

CAPITAL CHARGES UPDATE 89/3

This Update clarifies a number of queries which have been raised.

1. Chargeable Date

Working Paper No 5 states (para 2.13) that depreciation should be charged on buildings from the time they are first brought into use. Para 3.8 states that depreciation (on all assets) should be charged when an asset is first available for use.

The purpose of the two elements of capital charges are to reflect the effluxion of value over time whether or not directly related to usage (depreciation) and a charge for the use of the capital invested in the asset (interest). It follows from this that the elements should begin to apply as follows:

Depreciation

Depreciation occurs whether or not an asset is used. It follows therefore that depreciation should be charged from the time at which an asset is available for use.

Interest

As soon as resources are tied-up in the provision of an asset an opportunity cost arises. It should follow that interest is payable from the time at which the asset is delivered or the time of payment, whichever is earlier. This could, however, create a confusing situation and for simplicity interest will be calculated from the time they are available for use. In respect of buildings (or possibly other assets which are subject to a construction timetable) para 2.14 of Working Paper No 5 states that compound interest will be charged on 'work-in-progress' from the time of expenditure.

2. New or Adapted Buildings

Working Paper No 5 paragraphs 2.8 to 2.10 explains that buildings will be valued by the District Valuer triennially and subject to index-linking between these valuations. There will be buildings which are acquired or are adapted between valuations. In these circumstances the expenditure (i.e. the cost of the capital scheme) will be used as a substitute for a value until the next valuation. Where buildings are adapted (or extended) the cost of the scheme will be added to the existing value until such time as the adapted building is valued.

3. Valuation of Assets

Capital Charges Update 89/1 explained the basis of valuation for land and buildings. There has however been some confusion as to precisely what the District Valuer will value. The attached annex analyses the elements of buildings. Elements 1-3 and 6 will be valued by the District Valuer. The remaining elements will require valuation by health authorities.

For plant and engineering elements of buildings (4 and 5 of the annex), the Management Executive recommends the use of The Royal Institution of Chartered Surveyors' "Building Cost Information Service" as a basis for calculating current costs which can be adjusted to arrive at current values. Relevant information will be supplied to subscribers and health authorities by The Royal Institution of Chartered Surveyors in the near future.

4. Repairs and Maintenance

The revised definition of capital expenditure explains that expenditure on maintaining capital assets is a revenue charge (paragraph 2 of Annex to EL(89)MB62). For the purpose of capital charges such expenditure will be relevant only if it alters the value or the life of the asset.

ANALYSIS OF BUILDINGS ELEMENTS

1	SUBSTRUCTURE)	
2A	Frame)	
2B	Upper Floors)	
2C	Roof)	Shell
2D	Stairs)	
2E	External Walls)	
2F	Windows and external doors)	
2G	Internal walls and partitions)	Internal
2H	Internal doors)	Structures
2	SUPERSTRUCTURE		
3A	Wall finishes		
3B	Floor finishes		
3C	Ceiling finishes		
3	INTERNAL FINISHES		
4	FITTINGS		
5A	Sanitary appliances		
5B	Services equipment		
5C	Disposal installations		
5D	Water installations		
5E	Heat source		
5F	Space heating and air treatment		
5G	Ventilating systems		
5H	Electrical installations		
5I	Gas installations		
5J	Lift and conveyor installations		
5K	Protective installations		
5L	Communications installations		
5M	Special installations		
5	SERVICES		
6A	Site works		
6B	Drainage		
6C	External services		
6D	Minor building works		
6	EXTERNAL WORKS		