



**Department of Health and Social Security**  
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To: Regional General Managers General Managers of SHAs	Your reference
cc: District General Managers Regional Directors of Finance District Directors of Finance Directors of Finance of SHAs	Our reference EL(89)P113 Date 11 July 1989

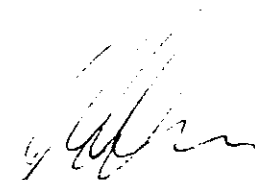
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Dear Colleague

CAPITAL CHARGES

I enclose a copy of 'Capital Charges Update 89/2'. Thank you for designating an officer as contact point for capital charges as requested in EL(89)MB110. Distribution arrangements are being made so that for future issues of 'Updates' a copy will be sent directly to the named officer.

Yours sincerely



R J PETERS

Deputy Director of Financial Management (Capital Charges)

Enc

This letter will be cancelled in April 1991.



Warrington Health Authority	
17 JUL 1989	
D. G. M.	
D. P. A.	
D. P.	
D. F.	
W. E. M.	

**Update**

# ■ CAPITAL CHARGES ■

CAPITAL CHARGES UPDATE 89/2

This update, which is the second of what is intended to be a regular series, has 4 purposes:

1. to introduce the newly formed Capital Charges Unit
2. to advise on the formation of the Capital Charges Steering Group
3. to provide some further guidance on the preparation of asset registers
4. to confirm the interest rate to be used

## Capital Charges Unit

The Capital Charges Unit has been formed to help the NHS implement capital charging as explained in Working Paper 5. The unit will be a small resource centre to support regions and districts and to record progress within the service. It is apparent that progress made so far varies widely and it is hoped the unit will provide a means of transferring knowledge. The unit is intended as being of assistance to managers in the health service; please feel free to seek guidance from the office. The unit is headed by Mr R J Peters who can be contacted at room 434, Friars House, 157-168 Blackfriars Road, London SE1 8EU (01 972 2000 ext 23406 or 23407).



### Capital Charges Steering Group

Working Paper 5 referred to the formation of a Capital Charges Steering Group to ensure that the details of the scheme were developed in association with the health service. This group has now been formed and has wide representation from the NHS, and the Department. It is intended that the group will form a number of technical sub-groups working on specific aspects. This will bring the involvement of still more NHS staff which is seen as vital in ensuring that the final product is a workable scheme.

The full membership of the Group currently is:

Ms S V Masters	-	NHSME Director of Finance (Chairman)
Mr D Allison	-	RGM North Western RHA
Mr G Ayres	-	Asst RGM, North Western RHA
Mr D Clark	-	Director of Finance, Northern RHA
Mr E Jackson	-	Regional Supplies Manager, Oxford RHA
Mr R MacLaren	-	Scottish Office
Mr M Parsonage	-	Economic Advisors Dept, DH
Mr R Peters	-	Head of Capital Charges Unit, DH
Mr N Thomas	-	Welsh Office
Mr R Underwood	-	Director of Finance, SE Staffs HA
Mr D Wellard	-	HM Treasury
Mr T Whiteley	-	Estate & Property Management

Directorate, DH

## Asset Registers

Queries received already have demonstrated that there is a requirement for some further guidance on the preparation of asset registers. The Department does not wish to be over-prescriptive in respect of asset registers as much will depend on the existing data base within each authority and on management responsibilities for assets. However, an Annex is attached to this update which restates the requirement and offers some further guidance.

Managers will by now be aware that the Department has announced that £11.5 million extra resources are being made available to assist with the cost of constructing asset registers and it is hoped that this will enable the required timetable for preparation to be met.

In respect of computing (it is assumed that authorities will create computerised asset registers), EL(89)MB/60 drew attention to systems used in 3 pilot sites and there are other systems commercially available. The selection of systems is a matter for local determination but the Capital Charges Unit will in due course have data on those systems most frequently used by authorities.

## Interest Rate

Working Paper 5 stated that the Government would specify the rate of interest to be levied for capital charges. The

Government has announced that this rate will be 6%. (See appendix 8 to Financial Matters May 1989).

Any queries in relation to this Update should be directed to Mr R J Peters.





PREPARATION OF ASSET REGISTERS

Working Paper No 5 requires Authorities to establish comprehensive asset registers by 31 March 1990 and EL(89)MB60 gave Authorities some details of pilot sites which had prepared such registers.

Asset registers will be of immense benefit to Authorities in the management of their resources and Authorities are commended to complete and maintain detailed registers. Further guidance is outlined below on the preparation of registers. This guidance refers principally to the minimum requirements of asset registers necessary to provide the basis for calculating capital charges. Registers for this purpose must be available for April 1990. Data over and above these minimum requirements is extremely useful and separate guidance will be issued to Authorities in this context.

Definition of an asset

The annex to EL(89)MB62 gave details of the revised definition of capital expenditure. Any asset acquired from expenditure meeting this definition and which has an expected useful life of more than 1 year should therefore be recorded as an asset for the purpose of capital charges. An asset which would reasonably require repair and/or maintenance would usually fall into this category. Groups of assets, of which individual items may have a cost of less than £1,000,

which are inter-dependant or would normally be provided and replaced as a group should be treated as capital assets for this purpose. This description still of course has to comply with the requirement of durability. For the purpose of further illustration, the stock of furniture in a ward would be regarded as one asset as would a suite of office furniture but all of the books in a medical library would not be. It may be advisable to record ward furniture as 'beds' and 'other'.

Minimum data set for asset register (for capital charges)

In order to allow for the introduction of capital charges, the following data will be required as a minimum in asset registers. Additional data will of course be required in order to secure benefits from improved asset management.

Asset identification & description	-	serial no., category (1)
Asset location	-	management responsibility
Date of acquisition	-	
Method of acquisition	-	purchase, donation, loan etc
Initial capital expenditure (2)	-	
Expected replacement cost (3)	-	
Expected date of replacement (or end of life)	-	

## Notes

- (1) The category of assets will be important as it is intended to promulgate asset lives for various categories.

Final categories (or groups) of assets are subject to further discussion but the following is a possible classification:

Freehold land	Freehold buildings
Leasehold property	Furniture
Vehicles	Beds
Office equipment (e.g. typewriter)	Small portable appliances (e.g. kettles, irons)
Light and power system	Heating system
Medical gases	Communications
Internal decorations (including floor coverings and soft furnishings)	Medical equipment
IT equipment	

Some of these categories (e.g. medical equipment) will probably require sub-divisions.

- (2) On first construction of asset registers, if the initial capital expenditure is unknown, this can be omitted provided that the (approximate) date of acquisition and the replacement cost are known.
  
- (3) Replacement cost should include the cost of any material and labour associated with the replacement. It should not include the residual cost of the asset being replaced, any demolition or removal costs, any costs of disruption during replacement or any associated fees. The replacement cost should be expressed at a current price base.