Audit and Risk Assurance Committee

Meeting Date	10 June 2026
Title	Capital Expenditure Policy
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Executive Sponsor	Alastair Bridges, Executive Director of Resources

Executive Summary

Overview
This Capital Expenditure (Capex) Policy sets out the principles and procedures for identifying, recognising, and managing capital expenditure in accordance with IAS 16 and IAS 38.

The policy defines the criteria for capitalisation, ensures consistent treatment of expenditure across the organisation, and establishes robust controls over the recording, monitoring, and reporting of fixed assets.

Purpose
The purpose of this policy is to:

- Ensure compliance with applicable accounting standards and financial reporting requirements
- Provide clear guidance on the distinction between capital and operational expenditure
- Promote consistency and accuracy in the recording of assets within the fixed asset register
- Strengthen financial governance, control, and audit readiness
- Support effective decision-making in relation to capital investment

Key Sections
The policy includes the following key areas:

- Definition and recognition of capital expenditure in line with IAS 16 and IAS 38
- Capitalisation criteria, including thresholds and development cost requirements
- Capital vs operational expenditure guidance, with practical examples
- Directly attributable costs, including staff, consultancy, and implementation costs
- Evidence requirements to support capitalisation decisions
- Depreciation and useful economic lives
- Assets Under Construction / Development (AUC/AUD) processes and controls

- Disposal of assets, including approval thresholds and documentation requirements
- Year-end asset review and impairment assessment in line with IAS 36

Key Changes from Previous Version
This revised policy introduces several important enhancements:

- Stronger alignment with accounting standards, including increased references to IAS 16 and IAS 38
- Expanded guidance and examples of both capital and operational expenditure across relevant departments
- Clearer definition of capital costs, including directly attributable expenditure
- Introduction of formal evidence requirements to support capitalisation decisions
- New sections added, including:
    - Assets Under Construction / Development (AUC/AUD)
    - Disposal of assets
    - Impairment review procedures
- Improved clarity and structure, supporting consistency, transparency, and audit compliance

Conclusion and recommendations
The Committee is asked to recommend the updated Capex policy to the Council for approval.

Action required	The Committee is asked to recommend the updated capex policy to the Council for approval.
Previous consideration	The Capex Policy was last approved by the Council in 2022.
Next steps	Following approval from the Audit and Risk Assurance Committee, the updated Capex Policy will be presented to the People and Resources Committee on 11 June and then to the Council for approval at its meeting on 16 July 2026.
Financial and resource implications	Ensuring the Capex Policy is adhered to by the organisation.
Associated strategic priority/priorities	Build a resilient, healthy, capable and sustainable organisation
Associated strategic risk(s)	3.a Quality of our data leads to assumptions or gaps in understanding, and therefore inadequate or uninformed decision making
Risk appetite	Financial - measured
Communication and engagement	The Finance team was involved in updating the Capex Policy.

Equality, diversity and inclusion (EDI) impact and Welsh language standards	The equality impacts were considered when updating the Capex Policy.
Other impact assessments	Not applicable
Reason for consideration in the private session of the meeting (if applicable)	Not applicable

CAPITAL EXPENDITURE POLICY

Status of document:	Draft
Version:	2.0
Approved by:	ELT
Date of approval:	TBC
Effective from:	TBC
Owners:	Alastair Bridges, Executive Director of Resources Alan Keshtmand, Head of Finance and Commercial
Authors:	Alan Keshtmand, Head of Finance and Commercial Aihab Al Koubaisi, Financial Controller
Next policy review date:	June 2029

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1. Definition of capital expenditure under IAS 16 and IAS 38

Capital expenditure (CapEx) refers to costs that are recognised as assets under International Accounting Standard (IAS) 16 - Property, Plant and Equipment, and IAS 38 - Intangible Assets. Expenditure is capitalised when it is directly attributable to creating, producing or preparing an asset so that it is capable of operating as intended by the organisation. This may include purchase costs, construction, development, installation, directly attributable staff time, and professional fees. Costs that do not meet these criteria-such as administrative overheads, research, feasibility studies, maintenance, and ongoing training-must be expensed.

2. Key principles for capitalisation

The purchase of individual assets or groups of assets costing more than £5,000 (including VAT), with a useful life of more than one year, and which are intended for use on a continuing basis, are classified as capital expenditure. Such assets, including equipment, furniture and property are recorded in our fixed asset register and depreciated/amortised over their useful economic life in line with the fixed asset policy.

Development costs relating to internally generated intangible assets are capitalised only when all of the recognition criteria set out in IAS 38 are met, and the organisation can demonstrate the following:

- Technical feasibility
- Intention to complete
- Ability to use
- Probable future economic benefit
- Availability of resources
- Reliable measurement of costs

Category	Policy Guidance
Buildings	Buildings are capitalised at cost and depreciated over their useful economic life or lease term, whichever is shorter. This include any costs that are directly attributable to bringing it to its finished condition. Any opening costs, advertising and promotional activities cannot be capitalised and are expensed to Business as Usual (BAU). Refer to Annexe 1: Buildings (Estates) – Operational vs Capital Expenditure
Capital Projects	These are capitalised at cost and should include all directly attributable costs up to the launch of the project. Items below the capitalisation threshold of £5,000 may be capitalised where they form part of a single integrated capital project. Staff costs are capitalised only to the extent that they are directly attributable to the development or construction of the asset. This includes permanent staff and contractor staff costs. The percentage of time spent on capital projects by employees must be recorded and approved using the “Employees Capex Project Time Allocation review – BUC” spreadsheet (refer to note 1 below). After the project has launched, all subsequent

	running costs are coded to BAU (Refer to Annexe 2: Capital Projects – Operational vs Capital Expenditure)
Leases	Leases are accounted for in accordance with IFRS 16. Right-of-use assets and lease liabilities are recognised for most leases, except for short-term leases (less than 12 months) and low-value assets, which are expensed.

3. Examples of capital expenditure costs

Under IAS 16 and IAS 38, directly attributable costs may include:

a) Implementation and installation services:

- External consulting or IT services required to implement and install the system.
- Any costs related to setting up servers, databases and other infrastructure to support software systems.
- Project management services for the implementation.

b) Customisation and development:

- Customising modules for specific finance functions (e.g. PO Creation).
- Integrating software systems (e.g. Registration CRM System/Business Central).
- Development work for tailored functionalities, such as bespoke reporting (e.g. Income & Expenditure Statement).

c) Data migration:

Data migration costs are capitalised only where they are necessary to bring the asset to the condition required for its intended use. Costs incurred in transferring data from legacy systems to a new system. This includes data extraction, transformation and loading processes.

d) Consultancy services related to initial setup:

Consultancy required to design the architecture or system framework, as well as to validate the business processes for the development project is capitalised (e.g. IBM consultancy around integration with the CRM system).

4. Operational costs that must be expensed include:

- Software as a service (SaaS) subscription fees
- Ongoing support and maintenance
- User licenses
- Staff training
- Cloud hosting fees
- Backup and disaster recovery
- System monitoring and security
- Minor system enhancements

Please refer to annex 3 for capital and operational expenditure examples relevant to departments.

5. Capital expenditure evidence requirements

In order to capitalise an asset and meet the policy standards of IAS 16 and IAS 38, it is essential to store, maintain, and ensure that the necessary evidence is readily available. Examples of evidence include the following:

- Timesheet or cost tracking: staff should record % of time spent on capital projects.[1]
- Project approval documentation: showing the project meets capitalisation criteria.
- Evidence of direct involvement: role descriptions, deliverables or signed time/assignment logs.
- Clear cut-off: costs stop being capitalised when the asset is ready for use (post go-live).

6. Assigning capital expenditure costs to the correct nominal accounts

It is essential that all capital expenditure costs are correctly coded to the appropriate capital expenditure nominal code. Accurate coding ensures that all eligible costs are capitalised in accordance with IAS 16 and IAS 38 and are subsequently captured within the fixed asset register.

Budget holders and purchase order owners must take particular care to assign the correct capital expenditure nominal code when raising purchase orders for assets or capital projects. This is critical for ensuring compliance with accounting standards and maintaining accurate financial records.

If you are unsure which nominal code to use, please consult your Finance Business Partner, the Financial Accountant, or the Financial Controller. They will be able to provide guidance to ensure that costs are classified correctly and treated appropriately for capitalisation purposes.

7. Depreciation

Depreciation is provided on tangible and intangible fixed assets to write them down to their estimated useful lives in equal instalments as follows:

Freehold or Long Leasehold premises	50 years
Office fit out and refurbishment	Period of the lease or useful economic life of the asset
Office furniture and equipment	4 years
Software system development	3 - 7 years
Computer equipment	3 years

[1] WIP – document not completed yet

The HCPC will revalue freehold/long leasehold premises in accordance with FRS102 and will use this valuation as deemed cost going forward.

8. Assets Under construction / development (AUC/AUD)

a) Monthly review of assets under construction / development

A monthly review of all Assets Under Construction (AUC) and Assets Under Development (AUD) will be undertaken jointly by the Finance Team and the Business Change Team. The purpose of this review is to assess the status, progress, and expected completion of each asset currently classified as AUC/AUD.

b) Treatment of AUC/AUD in the fixed asset register

In accordance with HCPC's capitalisation procedures and relevant accounting standards, AUC/AUD will be recorded within the fixed asset register.

However, these assets will not be depreciated while they remain under construction or development. Depreciation will only commence once the asset is deemed to be available for use and has transitioned from AUC/AUD to a completed and operational asset category, as set out in the depreciation policy.

c) Notification of asset completion and readiness for use

When an asset is confirmed as being in use, the Business Change Team must formally notify the Finance Team.

This notification must include a project completion report formally approved by ELT clearly stating that the asset is now operational and no longer under construction or development.

d) Transition to in-use and depreciation commencement

Upon receiving the approved project completion report, the finance team will:

Transfer the asset from the AUC/AUD category to the appropriate "In Use" asset classification within the fixed asset register. The finance team will then commence depreciation in line with HCPC's depreciation policy.

9. Disposal of assets

The disposal of obsolete or surplus equipment or furniture requires the prior approval of the Head of Finance if the net book value is equal to or less than £5,000 (collective value of items) and the prior approval of the Executive Director of Resources or CEO is required if the net book value exceeds £5,000.

A disposal form[2] must be completed and authorised before any assets are disposed of. In accordance with finance policy, this must be authorised by the respective personnel mentioned above.

The disposal form must include the following:

- Details of the asset(s) including asset number and location
- Reason for disposal
- Method of disposal
- Total Net Book Value (NBV)
- Potential costs of removal
- Any sale proceeds
- How sensitive data is being dealt with

When assets are sold, an invoice must be produced with all proceeds going to the HCPC.

The fixed asset register must be adjusted to reflect any disposals made in relation to all of the above.

10. Year-End asset utilisation and impairment review

a) Definition of IAS 36 – Impairment of Assets

IAS 36 requires entities to ensure that assets are carried at no more than their recoverable amount. An asset is considered impaired when its carrying amount exceeds the higher of:

- its fair value less costs of disposal, and
- its value in use (the present value of future cash flows expected to arise from the asset).

Where impairment indicators exist, entities must estimate the recoverable amount and recognise an impairment loss if necessary.

b) Annual confirmation of asset utilisation

At the end of each financial year, the Finance Team will contact asset owners across all departments to confirm whether each asset recorded on the fixed asset register is still being used as at year-end.

Asset owners must confirm:

- whether the asset remains in active use;
- whether it has been taken out of use, disposed of, or is being held for future use.

c) Assessment of impairment indicators

Asset owners are responsible for evaluating whether there are any indicators that an asset may be impaired in accordance with IAS 36. Indicators may include:

[2] Asset Disposal Form.xlsx

- Physical damage or deterioration;
- Obsolescence or significant underperformance;
- Major changes in operational requirements;
- Adverse economic, technological, market, or regulatory developments;
- Evidence that expected economic benefits have declined.

d) Quantifying impairment

Where impairment indicators are identified, asset owners must work with the Finance Team to:

- Determine the extent of the impairment;
- Provide a reasonable financial estimate of the impairment amount;
- Submit supporting information or evidence to justify the impairment assessment.

e) Finance team responsibilities

Upon receiving feedback from asset owners, the Finance Team will:

- Review all confirmations and impairment analyses for completeness and accuracy;
- Update the Fixed Asset Register to reflect any impairments;
- Ensure compliance with IAS 36 in calculating and recording impairment losses;
- Recognise impairment adjustments in the year-end financial statements.

11. Review and confirmation of fully depreciated assets

a) Objective of the review

The objective of this review is to ensure the fixed asset register (FAR) presents a true and fair view of the assets held by the organisation. Fully depreciated assets may continue to remain in operational use, and it is essential that the FAR accurately reflects which assets are still active and which have become obsolete.

b) Interim and year end review process of fully depreciated assets

During the interim and year end, the Finance Team will conduct a formal review with asset owners from the relevant departments to confirm the status of fully depreciated assets.

Asset owners will be required to verify whether:

- The fully depreciated asset is still being used by the organisation; or
- The fully depreciated asset is no longer in use and has become obsolete.

This review supports the integrity of the FAR and strengthens internal financial controls.

c) Treatment of fully depreciated assets still in use

Where a fully depreciated asset is confirmed as still being actively used, it will remain on the fixed asset register even though its net book value is nil.

This ensures transparency and proper representation of assets that continue to support operations despite being fully depreciated.

d) Treatment of fully depreciated assets no longer in use

If an asset owner confirms that a fully depreciated asset is no longer in use and has become obsolete, the finance team will remove the asset from:

- The fixed asset register; and
- The organisation's accounting system (Business Central).

The accounting treatment for derecognition is as follows:

- Credit the asset cost account;
- Debit accumulated depreciation;
- resulting in a net book value of zero and removal from the financial records.

e) Example of a fully depreciated asset no longer in use

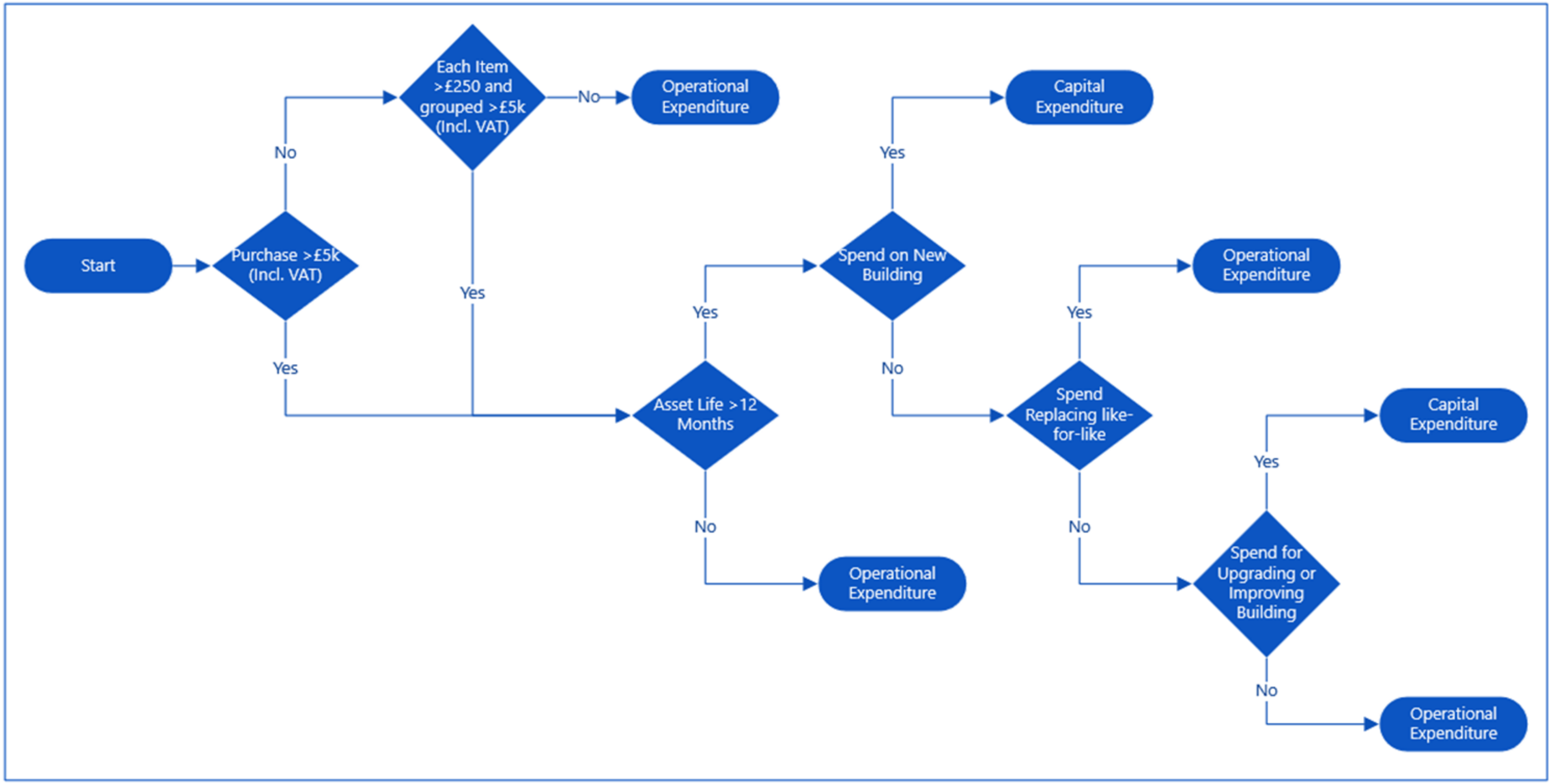
If the organisation replaces its legacy system with a new system, the legacy system becomes obsolete and should no longer remain on the FAR. This fully depreciated legacy system must be removed from fixed asset register using the derecognition process described above.

f) Responsibility and timing

The interim/year end review will be carried out collaboratively between the Finance Team and all asset owners. Asset owners are responsible for providing accurate and timely confirmation of the operational status of assets assigned to their departments.

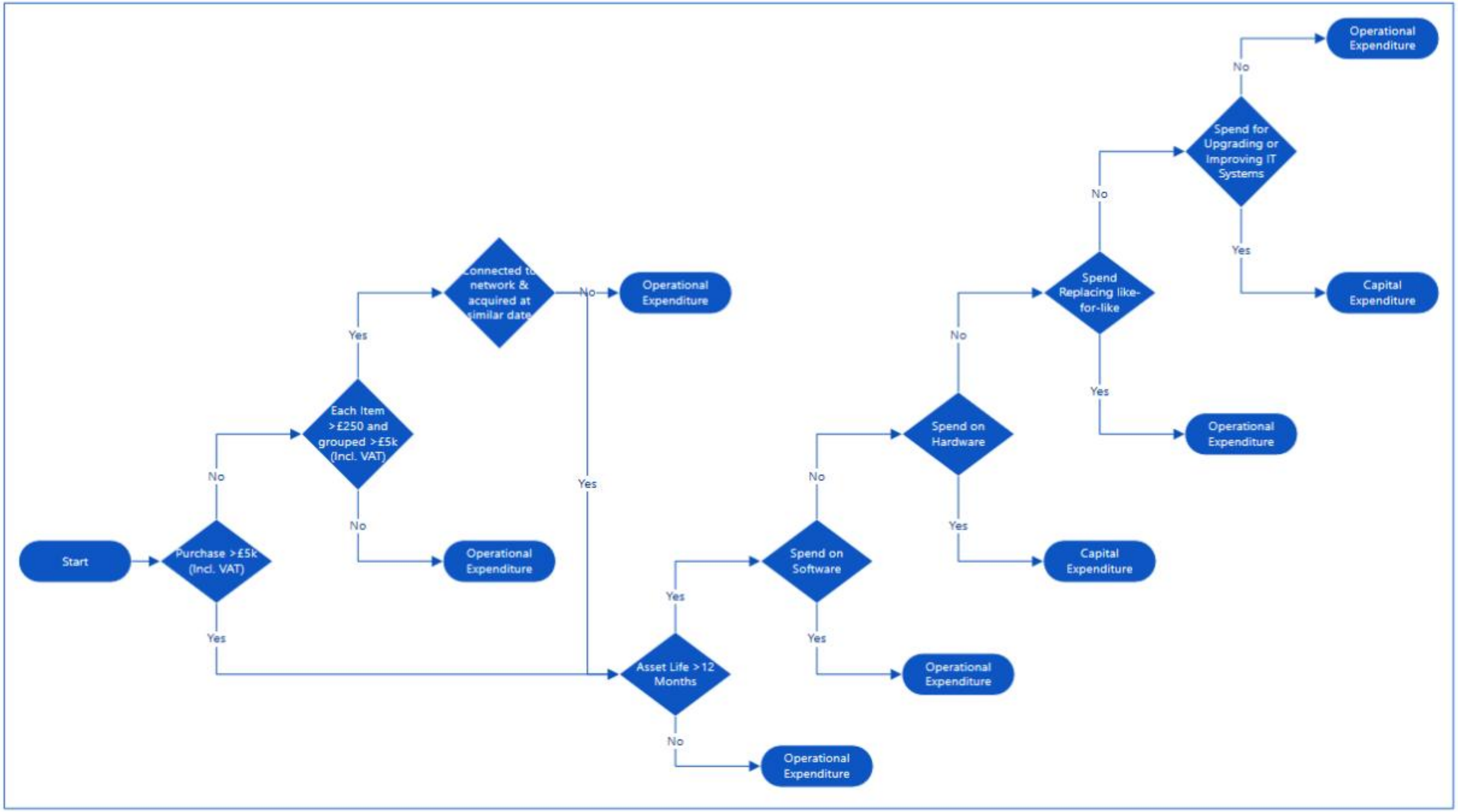
ANNEXE 1

Buildings (Estates) – Operational vs Capital Expenditure



ANNEXE 2

Capital Projects – Operational vs Capital Expenditure



ANNEXE 3

Department	Capital Expenditure	Operational Expenditure
IT & Digital Transformation	[1] Salaries of software developers, system architects or testers building a new regulatory database, finance system or ERP. [2] Project management and configuration time spent developing a bespoke module in-house (e.g. online registration portal). [3] For example, IT developer spends 60% of their time developing the new 'Registrant Self-Service Portal' (a new intangible asset), 60% of their salary and NI/pension can be capitalised.	[1] IT helpdesk support, bug fixing or system maintenance. [2] Time spent evaluating potential vendors or writing business cases.
Finance & Commercial	[1] Staff time spent designing and implementing a new financial reporting system (e.g. Business Central or Workday Adaptive Planning). [2] Process redesign directly tied to the system build (e.g. creating automated workflows, chart of accounts restructuring) [3] For example, Systems Accountant and FP&A Manager work on implementing a new financial reporting tool for 6 months. Their directly attributable project hours are capitalised to the software system asset.	[1] Routine management accounting, reconciliations and financial control work. [2] Preparation of budgets, forecasts or finance reports.
Facilities Management	[1] Time spent managing or supervising the office refurbishment, new leasehold improvements or fit-out projects. [2] Involvement in project planning and contractor oversight. [3] For example, Facilities Manager supervises a new HQ fit-out project for three months, 25% of their annual salary is capitalised as part of the leasehold improvement cost.	[1] Regular facilities maintenance, cleaning, or health and safety inspections. [2] Time spent managing existing leases or daily building issues.

Business Change (Projects/Product Management)	[1] Programme or project management time directly attributable to delivering capital projects (ERP, digital transformation, new regulatory systems). [2] Time spent coordinating implementation phases, testing, or go-live. [3] For example, Project Manager leads the Digital Transformation Programme, delivering new online platform. Their time and that of the Business Analyst(s) working on configuration are capitalised.	[1] Project reporting, benefits tracking or organisational change activities not essential to asset creation.
Human Resources	[1] HR staff configuring and implementing a new HR or payroll system (if part of a capital project) [2] Internal project resource working directly on design, data migration and testing. [3] HR System Project Lead works three months on implementing the new HR platform. Their salary and on-costs for that period can be capitalised to 'HR System' asset.	[1] Training delivery, policy design or recruitment [2] BAU HR operations
Communications	[1] Staff directly involved in developing digital content or web architecture, if it forms part of a capitalised digital asset (e.g. regulatory website). [2] Digital Content Manager codes and integrates the new website portal interface. Their time can be capitalised as part of the web development costs.	[1] Campaigns, communications plans or stakeholder engagement.