

Ref S.212/03/12

9 April 2014

CIRCULAR 07/2014:

Classification of Allocations for Machinery, Plant Acquisition and Research and Development in the Estimates:

1. I am directed by the Minister for Public Expenditure & Reform to refer to the classification of capital expenditure within the Estimates and the Public Capital Programme.
2. As defined in *Public Financial Procedures*¹, a capital asset is any asset intended for use on a continuing basis with an expected life of more than one year. Any expenditure resulting in the acquisition of a capital asset must be classified as capital expenditure in the Estimates and the Public Capital Programme.
3. In this context, I wish to clarify that the purchase of all plant, machinery, vehicles (including military vehicles²) and equipment should be classified by Departments/Offices as **capital expenditure**. Any proposed exception to this rule must be agreed with the Department of Public Expenditure and Reform in advance.
4. Following the introduction of the new European System of Accounts (ESA 2010) in September 2014, Research and Development expenditure should also be classified as capital expenditure.
5. These classifications are necessary to ensure that Estimates allocations fully comply with Eurostat definitions of transactions contributing to gross capital formation as set out in ESA 2010, definitions of capital assets in *Public Financial Procedures* as outlined above and Public Accounts Committee recommendations in relation to the classification of Garda vehicles in the Estimates³.

¹ B1.2.24, *Public Financial Procedures*, Stationary Office, Dublin, 2008

² In line with the new European System of Accounts (ESA 2010) which come into effect from September 2014, all military acquisitions of weapons systems and their means of delivery such as military aircrafts or vessels which were formerly treated as intermediate consumption will now be treated as gross fixed capital formation.

³ Garda Síochána Recommendation 4, P.11, *Minute of the Minister for Public Expenditure and Reform in response to the Committee of Public Accounts Final Report on the Appropriation Accounts 2007; Annual Report of the Comptroller and Auditor General 2007; and Special Reports of the Comptroller and Auditor General, Public Accounts Committee.*

6. For the purposes of this circular, machinery and equipment includes (but is not limited to) all
 - vehicles (including cars, lorries, vans, motorcycles, military vehicles and other conveyances);
 - waterborne craft;
 - aircraft;
 - weapon systems;
 - construction equipment;
 - ICT equipment, and
 - any other mobile or fixed plant and machinery.
7. Should the application of this Circular necessitate a reclassification of allocations from current to capital, this should be done on an Exchequer neutral basis and agreed with the Department of Public Expenditure and Reform in advance.
8. The cost of ongoing maintenance and repair of vehicles and other machinery should continue to be classified as current expenditure.
9. You are requested to bring this Circular to the attention of Finance Officers and any other staff in your Department/Office involved in planning and controlling capital expenditure and also to relevant public bodies under the aegis of your Department/Office.
10. Queries on the application of this circular should be directed to Margot Dunne (Email: margot.dunne@per.gov.ie, Tel. 01 6045523), Central Capital Expenditure Policy Section, Department of Public Expenditure & Reform.

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