

<b>Date of meeting:</b>	Wednesday, 13 December 2017
<b>Title of report:</b>	<b>Proposal to reduce the value of the de minimis value for schools' capital</b>
<b>Type of report:</b> Delete as required	For decision
<b>Executive summary:</b> Including reason for submission	Schools are currently advised to treat any expenditure on capital assets with a value below £5k as revenue. Whilst the original basis of this decision appears now to be irrelevant, it is also proving a hindrance to schools given the constraints faced in relation to their revenue funding.
<b>Budget / Risk implications:</b>	N/A
<b>Recommendations:</b>	To reduce the de minimis level for schools' capital expenditure from £5k to £2k
<b>Voting requirements:</b>	Schools members only
<b>Appendices:</b> To be attached	N/A
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<b>Presenting officer:</b> If not the originator	Anton Hodge, Assistant Director – Strategic Services

**Proposal to reduce the de minimis value for schools' capital****1.0 PURPOSE OF THE REPORT**

- 1.1 To seek the Partnership's endorsement to the proposal to reduce the de minimis value for schools' capital.

**2.0 BACKGROUND**

- 2.1 All schools receive a Devolved Formula Capital allocation from the Education and Skills Funding Agency (ESFA) on an annual basis. Being a devolved allocation, it has a specific purpose with conditions as to its use. However, published guidance from the ESFA is limited and schools often seek the advice of the Local Authority as to whether their proposed use of the fund meets the grant conditions.

**3.0 DEVELOPMENT OF GUIDANCE FOR SCHOOLS AND FMS SUPPORT OFFICERS**

- 3.1 More detailed guidance is being developed to help schools which builds on that already available within the School Finance Manual (chapter 4). Paragraph 4.1.4 of the current version refers to a de minimis level of £5k for all schools, above which expenditure on capital assets must be treated as capital even if it is funded from revenue (Direct Revenue Funding). Given the constraints on school revenue budgets and the reductions in schools' capital funding in recent years, concerns have been raised that a de minimis level of £5k is now too high.
- 3.2 The localised setting of a £5k level is believed to relate to the VAT rules relating to VA schools as they cannot recover VAT incurred on their capital expenditure.
- 3.3 The argument that by setting a higher de minimis level, VA schools could recover VAT on capital asset expenditure if it was charged to revenue, is flawed.
- 3.4 Whilst non-VA schools receive 100% of their annual DFC allocation from the ESFA, VA schools receive only 90% with the remaining 10% having to be met by the Governing Body. However, VA schools receive, on top of their 90% allocation, an amount equivalent to the VAT on that amount which is unrecoverable. So whilst VA schools cannot recover any VAT incurred, they are funded for that additional cost.
- 3.5 The VAT on the Governing Body's 10% contribution cannot be recovered and, as such, the amounts involved are negligible.
- 3.6 The 'Capital Funding for Voluntary Aided (VA) Schools in England (Blue Book Guidance)' states a capital de minimis level of £2k below which any capital expenditure must be charged to revenue.

**4.0 RECOMMENDATIONS**

- 4.1 Given the constraints on schools' revenue budgets, this rule is proving a hindrance to schools. As such, there is no reason to maintain a de minimis level of £5k and it is proposed that the level be reduced to £2k for all schools which will bring it in line with the ESFA's guidance on VA capital expenditure.

STUART CARLTON

Corporate Director – Children and Young People's Service