

4.0 CAPITAL EXPENDITURE AND FUNDING

4.1 Definition of Capital Expenditure

4.1.1 Capital expenditure is defined as any expenditure on the acquisition, creation or enhancement of fixed assets. This includes expenditure on:

- The acquisition of land, buildings, plant apparatus and vehicles
- New construction, conversion and renovation
- ICT hardware

4.1.2 Enhancement means the carrying out of works which are intended to:

- Lengthen substantially the life of the asset
- Increase substantially the open market value of the asset
- Increase substantially the extent to which the asset can be used

4.1.3 This is the formal definition within which Local Authorities are required by legislation to operate and is distinct from day to day cyclical routine maintenance which is addressed through the LMS scheme.

4.1.4 Capital assets with a value of £2k or over must be charged to capital even if they are fully funded from revenue. The process of achieving this is done by transferring the expenditure from the revenue code to capital and transferring the corresponding income from the revenue budget (debiting E30) to the capital budget (crediting CI04). This is known as **direct revenue financing** (for more information see paragraph 4.10.3).

4.1.5 Any item of expenditure, irrespective of value, can be charged to Devolved Formula Capital (DFC) as long as it is part of a devolved capital project that has been approved by the Strategic Planning Team, Education and Skills (for more information see paragraph 4.7).

4.2 Identifying School Building Priorities

4.2.1 **Asset Management Plans**

4.2.1.1 All Community, Foundation and Voluntary Schools should have an Asset Management Plan (AMP) which:

- provides an agreed basis for local decisions on spending priorities and links with other Local Authority (LA) plans;
- helps Headteachers and Governors in the development of their individual school plans by making the process of decision making on funding priorities across the LA fair and transparent;
- helps in the development of partnership projects:
- is consistent with the strategic objectives of the LA; and
- provides assurance to stakeholders that capital projects are soundly based and good value for money.

4.2.1.2 The LA has overall responsibility for the production of individual plans although each one is developed in partnership with the respective Headteacher, Governors and Diocese of the school concerned.

4.2.1.3 The Plan not only informs all significant capital and revenue spending on school premises irrespective of whether that spend is met from funding (i) held centrally by the LA or (ii) delegated, devolved or granted to the school but will also reflect the needs and priorities of individual schools and form part of their development plans.

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4.2.1.4 AMPs relate to all property within the school estate whether of a permanent or temporary, owned or leased, educational or residential nature. This includes swimming pools, roads, paving and playing fields both attached and detached as well as any other off-site facilities provided for the school. All premises related capital items are assessed including fittings, fixed furniture and cabling for ICT facilities.

4.2.1.5 There are three elements to the AMP:

- condition assessment - physical state of premises
- suitability assessment - ability of premises to meet curriculum & management needs
- sufficiency assessment - quantity & organisation of places

4.2.2 Condition Data

4.2.2.1 The LA undertakes condition surveys by means of a 5 year rolling programme, copies of which are provided to each school. These are updated as works are undertaken and the Schools Maintenance Surveyor is the main point of contact in relation to updates and the interpretation of the data held. The LA uses this data to determine building related priorities in the annual Schools' Capital Programme including those of a capital maintenance nature. It is therefore important that data is accurate and kept up to date to reflect any changes to school buildings.

4.2.2.2 In addition, DfE also collect and maintain data on the condition of school premises which they use to determine how capital funding is allocated nationally.

4.2.3 Suitability Data

4.2.3.1 The Strategic Planning Team issue schools with guidance to support them in carrying out their own suitability assessments. Once projects have been completed, schools are asked to review their data to ensure that it is up to date.

4.2.3.2 DfE no longer collect this data but it is used by the LA to determine priorities for the LA Schools' Capital Programme.

4.2.4 Sufficiency (Capacity) Data

4.2.4.1 The sufficiency assessment provides the net capacity of the school or the number of pupil places a school can accommodate.

4.2.4.2 DfE guidance describes the method of calculating this and is intended to provide a consistent approach to determine the surplus or shortfall of places within planning areas. Dividing the net capacity figure by year groups can indicate the admission number that can generally be accommodated.

4.2.4.3 Sufficiency data is submitted to the DfE by the LA as part of the annual 'Surplus Capacity and Places Return' (SCAP) which informs national decisions relating to how capital Basic Need funding is deployed.

4.2.4.4 Net capacity calculations are updated by the Strategic Planning Team following any LA led capital project that results in changes to teaching accommodation. **Schools must therefore inform the Strategic Planning Team if they make any changes that alter how a space is used.** The net capacity for each school can be viewed by accessing Concerto, the web based system that holds asset information on each school.

4.2.5 Accessibility Strategy

4.2.5.1 Schools are required to establish and keep under review an Accessibility Plan. This can be used to identify priorities for investment in accessibility related works.

4.3 LA Schools Capital Programme – Community and Voluntary Controlled Schools

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4.3.1 Expenditure managed centrally under the umbrella of the LA Schools Capital Programme includes schemes that both provide new pupil places under the Basic Need Programme and those that address the condition, suitability or sufficiency of accommodation as identified in the Asset Management Plan. In the majority of cases, schemes are managed centrally with the associated expenditure and income also being accounted for centrally.

4.3.2 The Process of Developing a Capital Programme

4.3.2.1 Start of Project

- Initial estimates for schemes in the Capital Programme are obtained by the Strategic Planning Team following advice from the Investments and Delivery Team and/or the LA's consultants, Align Property Partners (APP).

4.3.2.2 Pre-Tender

- The scheme, if approved by Members as part of the Capital Programme, is then worked up in more detail with the school to develop a scheme brief. The architect is provided with a budget in order to produce sketch plans and Quantity Surveyors produce a Bill of Quantities.
- Changes may be made to the scheme due to the need for compliance with regulatory legislation (Health and Safety, etc) or where additional works are requested by the school but which will be funded from DFC. It is assumed that where schools are able to contribute to high priority schemes from DFC they will do so.
- If the design at this stage is over budget, discussion will take place with the school. Decisions may be taken to either reduce the scale of the scheme or for the school to make a further contribution to costs, the latter being subject to written agreement.

4.3.2.3 Tender

- On receipt of tenders from contractors, APP produce a tender report detailing the costs and approved funding of the proposed scheme for distribution.
- Any school contribution would be the subject of a written agreement including who would be responsible for meeting any increases in costs which may occur during the project.

4.3.2.4 Final Agreement of Funding

- Increased costs may be identified at any point during the project. The options are:
 - To identify scheme reductions to bring the costs back in line with the original funding;
 - To vire funds from elsewhere in the Capital Programme; or
 - To increase the contribution from the school.
- Which option(s) is/are chosen will depend on the circumstances of the individual project.
- Once the funding has been agreed, the final tender report is produced (including any amendment to the school contribution) and agreed.
- In most cases the amount of contribution from the school at this point will be fixed whether the final costs are marginally higher or lower than the estimates or not. However, if the school requests 'additions' to the scheme after the tender stage they will need to agree in writing to separately meet the resultant additional costs. This will reflect the full additional cost of the work including additional preliminaries and design fees.

4.4 Annual Capital Planned Maintenance Programme

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- 4.4.1 Within the LA Schools Capital Programme, a capital planned maintenance programme is prepared annually in conjunction with Property Services.
- 4.4.2 The programme is based on the careful ranking of capital maintenance priorities against available financial resources. Therefore, those projects assessed as being of the highest priority will be undertaken within each annual programme.
- 4.4.3 The scheme is funded by means of:
- A block allocation of funding from the main Schools Capital Programme
 - **A contribution from Devolved Formula Capital from each school in the programme** (the lower of either that year's DFC allocation or the value of the work undertaken at the school)
- 4.4.4 Toilet replacement works are no longer included in the annual Capital Maintenance Programme. Such schemes will either be managed by the LA via an Executive approved toilet replacement programme within the Schools Capital Programme or by individual schools with the cost being met from schools' own Devolved Formula Capital allocations. Schools should commission toilet replacement projects from Align Property Partners or their chosen property consultant. Alternatively, they should approach Strategic Planning for advice about inclusion in the main programme.
- 4.5 **LA Schools Capital Programme – Voluntary Aided Schools**
- 4.5.1 The arrangements for Voluntary Aided schools differs to that for Community and Voluntary Controlled schools and the DfE guidance relating to Voluntary Aided schools can be found at <https://www.gov.uk/guidance/voluntary-aided-schools-capital-funding>.
- 4.5.2
- 4.5.3 The latest HMRC guidance in relation to VA schools can be found in Chapter 16: VAT.
- 4.6 **School Led Capital Projects**
- 4.6.1 Schemes which do not get included in the Schools Capital Programme may still be progressed by schools themselves. If schools are considering leading on their own schemes they are encouraged to seek out all available advice on the practicalities of doing so.
- 4.6.2 All Capital procurement must follow the requirements of the LMS Contract Procedure Rules (see Chapter 2). The following documents will be useful to schools managing their own projects:
- LMS Procedure Rules
 - LMS Contract Procedure Rules
- 4.6.2 Governors should be regularly updated as to progress on capital schemes.
- 4.7 **Notification of Proposed School Led Capital Work – Project Proposal Forms**
- 4.7.1 **Schools are required** to notify the LA of any proposed Capital Expenditure (regardless of the source of funding) by the submission of a Project Proposal Form to the Strategic Planning Team in Education and Skills.
- 4.7.2 It is recognised that, prior to consulting the LA, some expenditure may be necessary to establish the feasibility of the project.
- 4.7.3 A Project Proposal Form **must be submitted** to the Strategic Planning Team for consideration. The requested technical information must be supplied to and agreed by

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Property Services before new facilities can be included in the Council's Maintenance Schedule.

4.7.4 Further information can be found within Appendix 1 – 'Informing CYPS Strategic Planning of the School's intended use of DFC'.

4.8 **Funding of Capital Expenditure**

4.8.1 Capital schemes in schools are managed either centrally via the LA Schools Capital Programme or locally by the school itself.

4.8.2 The funding for these schemes comes from a number of sources.

4.8.2.1 On an annual basis the LA receives block allocations of grant to support its Schools Capital Programme in relation to Basic Need and School Condition. Occasionally, the DfE makes other block grant allocations available to LAs on a short term basis. In addition, the LA is able to bid for other specific grant funding from the DfE and other outside bodies when such opportunities present themselves. Other funding sources include direct revenue contributions from schools and other LA services where the work of that service crosscuts with that of schools such as the Catering Service, capital receipts from the sale of LA assets and, least attractive of all due to the additional costs of doing so, borrowing.

4.8.2.2 The funding sources available to schools leading on their own capital schemes include the annual Devolved Formula Capital (DFC) allocation (see Appendix 1 for more detailed information), grants from outside bodies, direct revenue contributions and donations. In certain circumstances, the Strategic Planning Team may consider making a contribution from the LA's block grant allocations to support a school in undertaking a scheme of work.

4.8.2.3 **If a school is considering bidding for funding from an outside body, it is important that this is discussed with the Strategic Planning Team, Education and Skills, before an application is made. Some grant awarding bodies apply strict guidance as to who can apply for funding and will not accept bids direct from schools but will from the LA on a school's behalf. It is also important that any grant award letter is passed to Legal Services prior to any acceptance to ensure that the terms and conditions of its award place no onerous obligations on either the school or the LA. Further information on grant procedures can be found in Chapter 15 Earmarked Funds.**

4.8.2.4 Schools are reminded of the funding options for capital projects including loans and licensed capital deficits. Further information can be requested of the Schools Finance Team.

4.9 **Financial Contributions from Schools towards Capital Schemes**

4.9.1 The requirement for a school to contribute towards a scheme included in either the Schools Capital Programme or its annual Capital Planned Maintenance Programme is confirmed in writing to the school in advance of the start of the scheme.

4.9.2 For Basic Need or School Condition schemes within the Schools Capital Programme, the contribution will be collected via journal charged to subjective **9655**, in agreement with the school, either:

- At the start of the project if the total funding is available; or
- In stages, if not fully available at the start such as where future years' DFC contributions are being used to fund a major capital scheme (the charges equal to that year's DFC allocation will be processed by journal on an annual basis).

4.9.3 All capital contributions from schools towards schemes in the annual Capital Planned Maintenance Programme are collected annually in the autumn term by journal using subjective **9654**.

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4.9.4 The collected amounts will include any additional works over and above the original scope of works in the programme.

4.9.5 Any underspends determined upon completion of the scheme will go back into the Capital Programme to support other schemes although, exceptionally, there may be agreement to refund a proportion of the school’s contribution.

4.10 **Capital Accounting**

4.10.1 As capital projects may be completed over a longer period of time, it is important to ensure that capital income and expenditure are coded correctly and shown separately from that of revenue. This will ensure that both revenue and capital balances are properly identified at the end of each financial year.

4.10.2 The Consistent Financial Reporting (CFR) code list gives the definitive list of accounting codes. These are summarised for capital below:

4.10.2.1 Capital Income codes

CI01 9601	Devolved Capital Allocation
CI01 9605	Other Capital Allocations
CI03 9610	Private Income Contribution towards Other Capital Schemes
CI04 9613	Direct Revenue Financing towards Other Capital Schemes – (income charged to this code must equal the value of the expenditure charged to revenue code E30 4905 see section 4.10.3.2 below)

4.10.2.2 Capital Expenditure codes

CE01 9634	Acquisition of Land and Buildings (Project 1)
CE02 9619	New Construction, Conversion, Renovation (Project 1)
CE02 9654	Capital Maintenance (recharge)
CE02-9655	NYCC Project (recharge)
CE03 9624	Vehicles, Plant Equipment and Machinery (Project 1)
CE04 9629	ICT (Project 1)

4.10.2.3 Capital Balances

B03 9095	Devolved Formula Capital balance
B05 9097	Other Capital Balances

4.10.3 Revenue Contributions to Capital Projects

4.10.3.1 Schools can use some of their revenue funding to help finance a capital project if the work is identified as a priority in the School Improvement Plan. However, in doing so, there are strict accounting procedures to follow in order to comply with Consistent Financial Reporting (CFR) requirements.

4.10.3.2 These accounting procedures require the ‘transfer’ of resources from revenue to capital by charging revenue **4905** and crediting capital **9613**. In doing so, the value of capital income increases to finance the capital expenditure.

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4.10.3.3 As the process cannot be reversed under CFR regulations, it is strongly recommended that the transfer of resources should only take place when the final amount required has been determined.

4.11 **Key Contacts**

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Finance Enquiry Service (schools e-form)	http://cyps.northyorks.gov.uk/finance-enquiry-service-fes	

4.12 **Other Useful References**

School Security & Fire Prevention (white) Pack.

- School Security and Fire Prevention guide; Fire safety documents and records

LMS Financial Procedure Rules

- Sets out best practice for the administration of financial matters within schools, ensuring high quality financial information so enabling better decision making.

LMS Contract Procedure Rules

- Relates to purchasing, tendering and other contract matters.

www.gov.uk/education/funding-for-school-buildings-and-land

- Includes up to date DfE guidance on all aspects of Capital Funding.

<http://cyps.northyorks.gov.uk/school-premises>

- LA information relating to school premises