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## 4.0 CAPITAL FUNDING AND EXPENDITURE

### 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 £5k or over must be charged to capital, even if they are fully funded from revenue. This process is achieved by transferring the payment to capital from the revenue code and 'paying' for it by transferring income from the revenue budget (debiting E30) to the capital budget (crediting CI04) which is known as **direct revenue financing**.

4.1.5 Any item, irrespective of value, can be charged to Devolved Capital providing it is part of a devolved capital project that has been approved by Strategic Planning, Prevention and Commissioning.

### 4.2 Asset Management Plans

4.2.1 All Community, Foundation and Voluntary Schools should have an Asset Management Plan (AMP). These will cover all significant capital and revenue spending on school premises including spending from budgets held centrally by Authorities as well as those managed by schools.

4.2.2 AMPs relate to all property within the curtilage of the site buildings whether permanent or temporary, owned or leased, educational or residential, including swimming pools, roads and paving and playing fields. They also include attached playing fields and other off-site facilities provided for schools. All premises related capital items should be covered including fittings and fixed furniture & cabling for ICT facilities.

4.2.3 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

4.2.4 AMPs will reflect the needs and priorities of individual schools and form part of their development plans. They must also be consistent with the strategic objectives of the Local Authority.

4.2.3 AMPs are needed:

- to provide an agreed basis for local decisions on spending priorities and to link with other Local Authority plans;

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- to help Governors and Headteachers in developing plans for individual schools by making fair & transparent the process of decision making on funding priorities across the authority;
- to help the development of partnership projects; and
- to provide assurance to stakeholders that capital projects are soundly based and good value for money.

4.2.4 The Local Authority has overall responsibility for preparing the AMP. It should be developed in partnership with Headteachers, Governors and Dioceses. The DfE undertakes periodic data collection particularly around building condition. The data supplied to the DfE is one of the drivers of capital allocations to the LA; so it is important that data is accurate and kept up to date to reflect building changes. This data is also used by the LA in determining priorities for the School Capital programme including capital maintenance priorities.

4.2.5 Condition Data

Jacobs UK undertake condition surveys via a 5 year rolling programme, copies of which are provided to each school. This is updated as works are undertaken and the Jacobs UK Maintenance Officer is the main point of contact in relation to updates and the interpretation of the data. In addition, DfE also collect and maintain data on the condition of school premises which they will use to determine how funding is allocated nationally.

4.2.6 Suitability Data

Suitability assessments are carried out by schools and guidance is issued by Strategic Planning to support this. Schools are asked to review their record after projects have been completed so that the data kept is the most up to date. DfE no longer collect this data but it is used by Strategic Planning staff to determine priorities for the LA School Capital Programme.

4.2.7 Sufficiency (Capacity) Data

The original record was established by officials sent to measure each school by the DfE. Again the records are updated after project completion by the schools themselves. Schools are also invited to carry out an annual check as the capacity data is a key component in the annual admission level exercise and is part of the annual return which LAs have to send to DfE (the Surplus Capacity and Places Return or SCAP).

4.2.8 Accessibility Strategy

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 **Capital Funding**

4.3.1 Funding for capital schemes is available from a number of sources, including Government grants, grants from outside bodies, donations and capital allocations to North Yorkshire County Council funded from borrowing. Details of the current Capital programme can be found on the County Council's website under *Education and Learning – Schools and Colleges – Schools for the Future*.

These may be managed in two ways: centrally via the County's Capital Plan or locally by the school.

4.4 **County Capital Plan – Community and Voluntary Controlled Schools**

4.4.1 Expenditure managed at County level includes schemes to provide new pupil places (allocated under the Basic Need Programme) and Capital Maintenance schemes. Schemes are worked up in conjunction with schools, as identified in the Asset Management Plan, relating to the condition, suitability or sufficiency of accommodation. In the majority of cases,

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schemes are managed centrally and therefore expenditure and income are also accounted for centrally.

### 4.4.2 The Capital Process

#### a) Start of Project

Initial estimates for schemes in the Capital plan are drafted up by CYPS Strategic Planning following advice from Jacobs North Yorkshire.

#### b) Pre Tender

The scheme, if approved by Members as part of the Capital Programme, is then worked up in more detail with the school developing a scheme brief, the architect being provided with a budget in order to produce sketch plans and Quantity Surveyors producing 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 Devolved Formula Capital (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 cut the scale of the scheme or for the school to make a further contribution to costs which would be subject to written agreement.

#### c) Tender

On receipt of tenders from contractors Jacobs produce and distribute a tender report detailing the costs and approved funding of the proposed scheme. Any school contribution would be the subject of a written agreement including who would be responsible for paying for any increases in costs.

#### d) Final Agreement of Funding

Increased costs may be identified at any of the stages outlined above. The options are:

1. To find scheme reductions to bring the costs back in line with the original funding
2. To vire funds from elsewhere in the Capital Programme
3. 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 authorise a 'change order' form provided by Jacobs North Yorkshire which will identify the schools' increased funding or, if the school had to fund 'overruns', they would be charged the additional cost separately. This will reflect the full additional cost of the work including additional preliminaries and design fees.

#### e) Collection of School Contribution

The school contribution will be collected either

- At the start of the project (if funding is available and agreed by the school)
- For larger contributions, in stages: part at the start of the project (generally equivalent to the Devolved and other capital funding available at the school)

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(balance brought forward plus the year's unspent balance)) with the final balance at a later stage (timing to be agreed with the school)

In exceptional circumstances alternative arrangements can be made. However, it is important in every case for the total school contribution to be confirmed by the school in advance of the start of the scheme. Any underspends on 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.

#### 4.5 **County Capital Plan – Voluntary Aided Schools**

- 4.5.1 The arrangements for Voluntary Aided schools works differently to that for Community and Voluntary Controlled schools and the DfE guidance can be found at <http://www.education.gov.uk/aboutDfE/executiveagencies/efa/schoolscapital/funding/voluntary-aidedschools>
- 4.5.2 Diocesan bodies are another essential source of advice. The VA Capital contact in Strategic Services is Paula McLean.
- 4.5.3 The Local Authority coordinates the Voluntary Aided Capital Programme for all VA schools in North Yorkshire.
- 4.5.4 The latest HMRC guidance in relation to VA schools can be found in Chapter 16: VAT.

#### 4.6 **School Capital Funding: Devolved Formula Capital (DFC)**

- 4.6.1 All maintained mainstream primary and secondary schools, special schools and Pupil Referral Units receive capital funding directly in the form of **Devolved Formula Capital**. Details of current allocations are available on the DfE website.
- 4.6.2 This is the main area of schools' capital expenditure. It can be used to fund any sort of capital expenditure although it is expected that priority will be given to investment in the condition of buildings and ensuring compliance with legislation and regulation.
- 4.6.3 **DFC Allocations**
- 4.6.3.1 DFC is capital funding that is calculated on a purely formulaic basis.
- 4.6.3.2 Capital Allocations are announced annually by the DfE and consist of two elements: a lump sum for each school and a per pupil element.
- 4.6.3.3 DFC is based on the Annual Schools Census (ASC) data set which is updated annually. The data used for the annual allocation is taken from the previous year's ASC.
- 4.6.3.4 Voluntary Aided schools receive only 90% of their allocation via the DfE as the remaining 10% has to be raised by the Governing Body of the school. However, as VA schools do not have access to any VAT refund scheme for their capital costs, the DFC allocated them includes an element of funding for VAT.
- 4.6.3.5 Although indicative allocations for future years DFC may also be given, it is important to note that these are based on the pupil census data used for the current year's allocations and will be updated when the final allocations are made to schools.
- 4.6.3.6 In effect, there is usually very little difference. The main changes tend to occur where schools have rapidly rising or falling pupil numbers.
- 4.6.4 **Payment to Schools**
- 4.6.4.1 DFC is received by the LA and is then paid over to schools in the same way as for other school funding, i.e. on a monthly basis.

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- 4.6.4.2 The DFC allocations for VA schools are paid directly to the school by the Education Funding Agency (EFA). Projects must be approved before money can be drawn down and the deadline for expenditure is March each year. The 'Blue Book' includes guidance on how to apply for funding for Capital work at VA schools and is available at: <http://www.education.gov.uk/schools/adminandfinance/schoolscapital/funding/voluntary-aidedschools/a0010939/blue-book-guidance-on-capital-funding-for-voluntary-aided-va-schools>  
Alternatively, contact Paula McLean (01609 532434).
- 4.6.5 Deadlines
- 4.6.5.1 The regulations state that schools may accumulate DFC over a maximum of three years in order to fund more substantial projects.
- 4.6.5.2 Non-VA schools have up to 3 years to spend their DFC (as the deadline for expenditure is 31 August, for example, 2010/11 DFC allocation needs to be spent by the 31<sup>st</sup> August 2013). Pooling arrangements are allowed (i.e. schools may get approval from the LA to spend DFC in advance and this expenditure can be balanced against schools with unspent balances). However, schools must liaise with Children & Young People's Service Finance if they wish to extend the deadline as any unspent balances which have not been agreed in this way may be clawed back.
- 4.6.6 Eligible Expenditure
- 4.6.6.1 Schools can use DFC to either fund small capital projects, to accumulate over three years in order to fund larger projects or to contribute towards larger LA projects at the school.
- 4.6.6.2 **The DfE consider that the priority use of Devolved Formula Capital should be for the condition needs of school buildings. North Yorkshire County Council manages a capital maintenance programme in collaboration with schools. It is expected that schools with pressing condition issues will contribute their DFC to schemes included in the Capital Maintenance Programme. Further details are given in paragraph 4.10.**
- 4.6.6.3 The DfE lay down conditions about the type of works that can be funded from DFC. DFC may be used for improvements to buildings and other facilities, including ICT, or capital repairs/refurbishment in accordance with priorities set by each school and in line with the local asset management plan. This may include:
- **Investment in buildings** (including school kitchens), grounds and ICT equipment. Social, recreational and staff areas are included as is extended school investment to bring wider community involvement, including childcare and sports provision.  
**NB:** Voluntary Aided schools cannot invest DFC in their playing fields or the buildings on them that are connected with their use as playing fields as they are the LA's responsibility.
  - **ICT** – including ICT **equipment** (see 4.6.6.5 for further information).
- 4.6.6.4 **Devolved Formula Capital must NOT be used for:**
- General routine (revenue) repairs, redecoration or maintenance and is distinct from any element of R&M delegated to schools through revenue budgets
  - Purchase of small value books or items of equipment or training materials/services
  - Operating leases (this counts as borrowing and is not approved by the DfE)
  - Hire of temporary accommodation (unless part of a larger scheme)
- 4.6.6.5 **ICT Infrastructure and Equipment** can be purchased using DFC. Purchase of interactive whiteboards, laptops, printers and digital video cameras is included as is operating and

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curriculum software. It **cannot**, however, be used to pay for leases, subscriptions or maintenance relating to equipment as these are classed as revenue items.

4.6.6.6 Internal Audit’s routine monitoring of Schools’ Finance will always examine the use of DFC.

**4.7 Capital Accounting**

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

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

**4.7.2.1 Capital Income codes**

CI01 9601	Devolved Capital Allocation
CI01 9605	Other Capital Allocations
CI03 9608 – 9610	Private Income
CI04 9611 – 9613	Direct Revenue Financing – (income charged to this code must be exactly equal to expenditure charged to revenue code E30 4449 see section 4.7.3 below).

**4.7.2.2 Capital Expenditure codes**

CE01 9614 – 9618	Acquisition of Land and Buildings (Project 1, 2, 3, 4, and 5)
CE01 9634 – 9638	Acquisition of Land and Buildings (Project 6, 7, 8, 9 and 10)
CE02 9619 – 9623	New Construction, Conversion, Renovation (Project 1, 2, 3, 4 and 5)
CE02 9639 – 9643	New Construction, Conversion, Renovation (Project 6, 7, 8, 9 and 10)
CE03 9624 – 9628	Vehicles, Plant Equipment and Machinery (Project 1, 2, 3, 4 and 5)
CE03 9644 – 9648	Vehicles, Plant Equipment and Machinery (Project 6, 7, 8, 9 and 10)
CE04 9629 – 9633	ICT (Project 1, 2, 3, 4 and 5)
CE04 9649 – 9653	ICT (Project 6, 7, 8, 9 and 10)

**4.7.2.3 Capital Balances**

B03 9095	Devolved Formula Capital balance
B05 9097	Other Capital Balances

**4.7.3 Revenue Contributions to Capital Projects**

4.7.3.1 It is possible for schools to use part of their revenue funding to help finance a capital project **if** this is seen as a priority in the School Improvement Plan. However, if a school decides to do this it must follow strict accounting procedures in order to comply with Consistent Financial Reporting (CFR) requirements.

4.7.3.2 These procedures involve ‘transferring’ resources from revenue to capital and this is achieved by charging the revenue code **4449** and crediting **9613**. This effectively enhances the capital income resources to finance the capital expenditure required.

4.7.3.3 It is strongly recommended that the transfer of resources should only take place when the amount required has been finalised. This is because reversing the process is not allowed under the CFR regulations.

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4.8 **Capital Monitoring**

4.8.1 Guidance on initiating and running a Capital Project are detailed in the following documents:

- Devolved Capital Building Projects (orange) pack
- Managing Property and Contractor Risk (red) pack
- LMS Procedure Rules
- Contract Procedure Rules

4.8.2 Once a Capital Scheme has been set up, it will be necessary to monitor contract price & actual expenditure against the Capital Budget throughout the life of the project. This exercise will involve:

- Monitoring actual income and expenditure throughout the period of the project against the estimate so that any problems can be identified at an early stage and allow for any necessary corrective action
- Regular meetings with the architect/project manager to discuss progress of the scheme
- Identifying any additional costs arising on the project
- Indicating where action has been taken either to cut costs or secure additional funding
- Providing information (on resources, etc) for future planning
- Ensuring the school's priorities are implemented as effectively as possible

Governors should also be regularly kept informed of progress on the schemes.

4.9 **Notification of Proposed Capital Work – Project Proposal Forms**

4.9.1 All Capital procurement must follow the requirements of the LMS Contract Procedure Rules (see Chapter 2).

4.9.2 Schools are required to notify the Council of any proposed Capital Expenditure (regardless of the source of funding). This is done via the Strategic Planning section in Prevention and Commissioning (who also consults the Corporate Property Management Unit).

4.9.3 It is recognised that, in some cases, prior to consulting the authority, minimal expenditure may be necessary to establish the feasibility of the project.

4.9.4 A Project Proposal form must be submitted to Strategic Planning for consideration. The requirements and further guidance is provided in the LMS rules in this Manual and the Devolved Capital Building Projects Pack which contains a copy of the Project Proposal Form. The requested technical information must be supplied to and agreed by Jacobs UK before new facilities can be included in the Council's Maintenance Schedule.

4.10 **Capital Maintenance Scheme**

4.10.1 In conjunction with Jacobs UK a capital maintenance programme is prepared on an annual basis. This is in line with the current annual capital allocations from DfE.

4.10.2 The programme is based on the careful ranking of priorities within available resources. Therefore those projects assessed as being of the highest priority will be undertaken within each annual programme.

4.10.3 The scheme is funded by means of:

- A block allocation of funding from the main School Capital Programme

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- An agreed contribution from Devolved Formula Capital from each school in the programme

4.10.4 Boiler replacements will be met entirely from the centrally funded element. However, toilet replacements are no longer included in the scheme therefore the cost must be met from schools' own Devolved Formula Capital or through an agreed scheme in the main capital programme. Schools should commission toilet replacement projects from Jacobs UK or their chosen property consultant. Alternatively, they should approach Strategic Planning for advice about inclusion in the main programme.

4.11 **School Devolved Formula Capital Contributions Towards Capital Schemes**

4.11.1 Capital contributions towards the capital maintenance schemes will be collected annually at the level agreed.

4.11.2 Subjective code **9654** has been created and your contribution will be charged here by journal entry. The cash will be collected through BAFS.

4.11.3 However, if the school requests additional works to be carried out over and above the original scope of works described in the capital maintenance schedule the school will be required to meet the extra cost. Jacobs would then complete a "change order" for the additional works, including fees, and forward it to CYPS Finance who will then charge the full amount via journal to the school.

4.11.4 Contributions to NYCC capital schemes will be collected prior to the project commencing on site via journal to subjective **9655**. If future years Devolved Capital contributions are being used to fund a major capital scheme the charges will be processed in the April of that year and the cash collected via monthly instalment through BAFS.

4.11.5 For further information please contact Glen Murray on telephone extension 01609 532937 or via e-mail [glenn.murray@northyorks.gov.uk](mailto:glenn.murray@northyorks.gov.uk).

4.12 **Key Contacts**

Glen Murray	<a href="mailto:glenn.murray@northyorks.gov.uk">glenn.murray@northyorks.gov.uk</a>	01609 532937
Children & Young People's Service Finance		
Suzanne Firth	<a href="mailto:suzanne.firth@northyorks.gov.uk">suzanne.firth@northyorks.gov.uk</a>	01609 533294
Strategic Planning (CYPS Capital Programme and Capital Strategy)		
Jon Holden	<a href="mailto:jon.holden@northyorks.gov.uk">jon.holden@northyorks.gov.uk</a>	01609 534076
Strategic Planning (Capital Maintenance Programme)		
Julia Temple	<a href="mailto:julia.temple@northyorks.gov.uk">julia.temple@northyorks.gov.uk</a>	01609 533242
Strategic Planning (DFC Guidance and Approval)		
Adrian Paul	<a href="mailto:adrian.paul@northyorks.gov.uk">adrian.paul@northyorks.gov.uk</a>	01609 785674
Building Design & Management (Capital Maintenance Programme)		

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4.13 **Other Useful References**

**Devolved Capital Building Projects (orange) Pack**

- Guidance on planning and managing devolved capital building projects: includes the project proposal form and a section on testing for asbestos.

**Managing Property and Contractor Risk (red) Pack**

- Head Teacher and Governor Guides to the management of contractors: includes contractor safety risk questionnaires, checklists and guidance.

**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.education.gov.uk](http://www.education.gov.uk)

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