

# The Mercian Trust

## Devolved Formula Capital Protocol November 2021

<b>Policy Owner</b>	<b>The Mercian Trust</b>
<b>Policy Author:</b>	<b>Howard Kay</b>
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## **1. Introduction**

The Devolved Formula Capital (DFC) grant gives schools direct funding for the priority capital needs of their property, which can be capital repair, remodelling or new build. Capital projects may include:

- Improvements to buildings or other facilities
- Purchasing ICT equipment
- Repairs and refurbishments to existing capital

## **2. Roll Forward**

Schools may accumulate DFC over a maximum of three years in total (i.e. entitlement in one year can be carried forward into the following year and/or the year thereafter) to fund more substantial projects. Any DFC in excess of this will be subject to claw-back as set out below.

School are not allowed to bring forward future years funding unless there are exceptional circumstances.

## **3. Claw-back**

Any DFC not used after three years will be clawed back by the DfE if it has not been committed to an approved scheme. The Trust will monitor those schools who have carried forward more than 2 years allocations and any further accumulated DFC at risk of claw-back. Where there is a risk of claw-back schools must agree in writing a confirmed commitment otherwise funding will be lost.

## **4. Use of Devolved Formula Capital**

In general, all capital funding should contribute to raising educational standards and invested in agreed priorities. These priorities should reflect, where appropriate, priorities included in the School Development/ Improvement Plan. The grant is for capital expenditure on buildings, and schools must ensure funding is prioritised for improvements in the building and to address condition items. DFC can only be used for investment in ICT equipment when there are no grounds or building condition items requiring prioritisation. The long-term maintenance and safety of the school buildings must be considered as a high priority when considering commitments for DFC.

Requests on the use of this grant should be made by schools annually as part of the wider estates strategy requests for SCA and revenue reserves put to the board. It is critical that schools have fully considered the condition priorities identified within the school building condition survey and that governors are assured that the prioritisation of DFC reflects these condition needs.

Devolved Formula Capital may not be spent on equipment other than ICT equipment, unless this is incidental to, and at the margins of, a larger building project. For example, a project to provide new classrooms, which requires directly associated fixtures and equipment. Expenditure on this equipment must not be a major part of the expenditure funded from this grant. Likewise, DFC cannot be used on decoration or other items deemed to be general repairs and maintenance.

Repairs (but not improvements), maintenance, insurance and general running costs, are classified as revenue expenditure and therefore cannot be capitalised. Schools must use their Revenue budget (PREM 01) for day-to-day repairs and maintenance of their building and site.

The priority use of Devolved Formula Capital should be for condition needs of school buildings. This includes appropriate sized projects with a £2500.00 minimum spend (this is the financial regulations minimum capitalisation threshold). Schools should consider potential as well as actual condition needs when considering best use of this funding. If the school have addressed all priority condition works, including those identified in the most recent condition survey, the school may use the funding for suitability needs targeted at raising educational standards.

Examples of Use:

DFC **can** be used:

- to fund small capital projects.
- for structural improvements to buildings.
- to purchase fixtures, fittings and equipment if incidental, and at the margins of, a larger capital project.
- for other long-term improvement to the school estate.
- to pay for more substantial projects through accumulation over periods of up to 3 years.
- as a contribution to a much larger project where other funding comes from another source, such as the School Condition Allocation (SCA), or authorised revenue reserves.
- procurement of assets where the asset can be capitalised, where there are no other priority condition needs requiring commitment of DFC and the school have provided supporting information.
- to purchase and install ICT equipment where there are no priority building condition items.

DFC **must not** be used for:

- routine repairs, redecoration or maintenance included in delegated schools budgets.
- the purchase of small-value books, training materials and services, etc.
- the purchase of ICT software/licences, servicing, warranties or consumables, such as paper or ink.
- training or subscriptions.
- the hire of accommodation (unless this can be legitimately capitalised as part of larger building redevelopment costs).
- any service contracts, which are revenue costs.
- operating leases where risk stays with the leasing company, e.g. a photocopier maintained by the leaser. The lessee, i.e. school, should recognise the rental payment as an expense. This expense cannot be funded from DFC, as it is not capital.
- hire of scaffolding, feasibility studies or survey inspection fees, where capital works are not subsequently carried out.

## **5. Capital or Revenue Items**

Capital expenditure is expenditure on assets that will produce benefits for several years. It is expenditure, which adds to and not merely maintains the value of an existing non-current asset. The principle issues in accounting for property plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

Improvement works and structural repairs should be capitalised, whereas expenditure to ensure that the fixed asset maintains its previously assessed standard of performance should be recognised in the revenue account as it is incurred.