

# GUIDANCE 2006-07 – DEVOLVED FORMULA CAPITAL

## DEVOLVED FORMULA CAPITAL GUIDANCE for 2006-07

This document provides guidance on devolved formula capital (DFC) from April 2006 to local authorities and to all categories of school which receive the grant. Currently, these include academy, community, foundation and voluntary controlled schools. This guidance is intended to set out the principles and parameters within which DFC shall operate, to be interpreted and applied by schools and others on a commonsense basis.

It can be accessed through the department's website via [www.teachernet.gov.uk/devolved](http://www.teachernet.gov.uk/devolved), along with details of budget allocations at LEA level. Where possible, guidance has been simplified to reflect schools' own responsibility for managing their capital funds.

Funding for 2008-09 and future years is expected to be known in the Autumn of 2007.

Although this guidance, in terms of general principles, refers to Voluntary Aided (VA) Schools, VA schools should comply with the detailed requirements set out in the "**Blue Book**". Availability of this book is publicised to all schools in *Spectrum*.

Further information is included in annexes:

- Annex A Notes to authorities
- Annex B Variations to allocation (all new, PFI and BSF schools)
- Annex C Sustainable Travel Grant
- Annex D Eligible expenditure and managing funds
- Annex E Procuring investment

### Purpose of devolved formula capital (DFC)

1. This capital grant is allocated, via local authorities, direct to schools. It is for schools' own use. Local authorities, and any agencies who act on their behalf, cannot withhold payment (except as allowed in guidance) without the voluntary agreement of the school. It can be combined with schools' other resources, also local authority funding.
2. Schools can, unless informed otherwise, use DFC for any **capital** purpose. Refer to Annex D for further details.
3. In prioritising need schools should consider their longer term responsibilities, and are urged to develop their own strategic asset management plan:
  - priorities should take account of national policies, and align with their local authority's asset management plans

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- in particular, schools and local authorities (using the different sources of funds) should consider how they can ensure that they provide at least one healthy hot meal a day on the premises, in reasonable comfort in suitable dining facilities
4. From 2006-07, DFC has been increased to include an allowance for investment in ICT equipment and the separate ICT capital grant ( known as grant 31) has been discontinued:
- it is entirely up to schools to decide what proportion of their DFC grant should be spent on ICT, and the Department does not calculate indicative figures
  - accumulated DFC from earlier years can be spent on ICT, in addition to the 2006-07 allocation
  - refer to Annex D regarding finance and operating leases

### **Rollover of DFC**

5. Schools may set aside their annual allocations for up to three years to enable larger projects to be funded:
- they can enter into voluntary arrangements to pool funds with other schools, advance funds to or from other schools, or combine DFC with funds from other sources, including their local authority
  - while it is expected that DFC will continue in future years, any anticipation of funding, for instance by drawing down future year allocations beyond what has been announced, is at the school or authority's risk
6. From 2006-07, where, exceptionally, a school wishes to accumulate DFC for more than three years to finance a specific large project, it may do so:
- this applies to cumulative funds unspent at 1 April 2006, as well as to future allocations.
  - in these circumstances, we expect the school to advance the excess funding temporarily available to its local authority to be spent on capital projects, with the right to reclaim the amount when the school needs the money
7. Refer to Annex D for more information on how rollover works, including the exceptional case detailed above.

### **Basis of allocation**

8. This grant is distributed to community, foundation and voluntary controlled schools, academies, and maintained special schools by the

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Department's Standards' Fund payments system, via local authorities. Separate guidance will be issued in respect of Voluntary Aided Schools. See Annex A for greater detail.

9. Subject to provisions in Annex B, allocations are calculated in accordance with the table below:

<i>Figures in £</i>	Per School	Per Primary Pupil	Per Secondary Pupil	Per SEN pupil or boarding pupil
2006-07	17,000	61.00	91.50	183.00
2007-08	18,500	63.00	94.50	189.00

10. Allocations at LA level were announced in December 2005:

- these reflect pupil numbers - FTE equivalents - updated from the (PLASC) school census data of January 2005
- particularly, where pupils are part-time in primary schools, they will be counted as half and added together scoring as full time equivalents
- sustainable Travel Grant is delivered as additional DFC. Details of this initiative are included in Annex C
- schools which wish to manage the procurement of their projects themselves should follow the guidance in Annex E, "Procuring Investment"

### **Contact details**

11. Schools are advised to talk first with their LA (excepting VA schools, which should refer to the separate guidance). Otherwise, schools and LAs should contact the schools capital enquiry service at Darlington. Telephone 01325 391716.

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### Annex A Basis of allocation

12. LAs must remit DFC to eligible schools as soon as they receive funding from the Department, on the basis of the national formula quoted above:

- schools should be notified of their exact allocations by the LA as soon as practicable, and at the same time LAs should transfer the funding into school bank accounts (unless a school agrees otherwise). LAs receive this grant quarterly, so schools should expect a quarterly onward payment

13. All pupils in special schools and PRUs will attract the higher per pupil rate. Pupils with special educational needs (SEN) in mainstream schools will only attract the higher per pupil rate if they are statemented.

14. Maintained nursery schools and PRUs should be treated in a similar manner to other schools:

- the LA should take into account the fact that allocations to nursery and special schools and PRUs exclude pupils who are registered both at these schools and at another school. In these cases, LEAs have flexibility in making allocations
- we suggest that the LA allocates funding to the establishment where pupils spend most of their time

15. Where current numbers differ from the PLASC numbers used to calculate DFC, e.g. due to reorganisation or changes in population, we rely on authorities to implement a commonsense and fair solution, including passing on funds to schools which become academies:

- the Department does not require repayment of small surpluses which may arise, e.g. from falling rolls

#### *Schools in federation*

16. Where schools join in a federation they are still separate schools and are allocated funding on this basis:

- decisions on prioritisation of investment will be made by the governing body of the federation but, over time, we would expect all schools in a federation to benefit from DFC

#### *Closing schools*

17. LAs should agree with schools due to close how much, if any, DFC should be provided:

- this should be limited to essential expenditure, e.g., remedying defects to achieve disposal. It is then up to the LA to decide how the surplus should be reallocated between schools

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## **Annex B Variations to allocation**

*Allocation to all-new schools (including Academies), PFI and Building Schools for the Future (BSF) schools*

### General

18. We do not allocate funding where building or ICT equipment need is already supported through another programme:

- the purpose of this is to avoid double funding, and to ensure that best value for money is achieved across the wider schools' capital programme
- this principle is applied across all major building programmes, and the procedures are set out below

### All-new schools

19. Schools (including academies) that open in, or move into, completely new buildings are not allocated DFC in the first three years (or one part and two full years, if opening other than at the start of a financial year):

- full entitlement should begin in the fourth year.
- but if, at that point, there are still no agreed capital needs, the grant should be rolled forward by the school until it is needed (subject to the normal three year maximum).
- for the purpose of DFC abatement, a completely refurbished school is treated the same as a completely new school

### Academies

20. Where an Academy is created in an old building, the start of abatement will be determined by the date the refurbishment or new build is complete. There may be some cases where refurbishment is only partial, in which case DFC will not be abated.

### PFI Schools

21. Schools which enter into a PFI programme should have no building or ICT equipment needs for several years. Schools which have a PFI contract which includes buildings maintenance should have no condition needs for the life of the contract.

22. DFC is withdrawn from a school entering into a PFI contract as follows:

- from the year following the contract signing
- it is resumed at 50% of the formulaic rate in the third year after the

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service is started (to avoid ambiguity, after one part and two full years, if the service is started other than at the beginning of a financial year). This is to allow for variations in the length of time of the building works

- withdrawal is irrespective of the amount of initial investment an individual school receives in a PFI project, which is decided in line with local priorities
- this resumption and 50% rate applies from 2004-05 to schools which already have PFI contracts which have had service for three years
- from 2006-07, the resumption rate will be 65% of the full rate. This applies both to schools which are already receiving the reduced rate and to newly eligible schools. The increase of 15% reflects the inclusion of direct funding for ICT equipment in the DFC grant
- See the table below, which demonstrates the application of the above rules:

Financial year contract signed	Financial year after contract signed, and any further years in construction	Financial year service commences, (e.g. Sept. 2006,2006-07)	Next financial year ( e.g. 2007-08)	Next financial year (e.g. 2008-09)
DFC	No DFC	No DFC	No DFC	DFC at lower rate

### BSF Projects

23. All-new schools and secondary schools renewed through the Building Schools for the Future (BSF) programme should have no building or ICT equipment needs for several years.

24. From 2006-07, the principle of avoiding double funding to schools has been extended to BSF projects. This includes all schools in pathfinder projects and waves one and two, and from 2007-08, schools in wave three projects.

25. To avoid the burden of tracking individual school progress in the programme, abatement is on a “block booking” system:

- that is, we exclude all schools in the project from the **year following that** in which the wave can first access funding and for the next three years, making four years in total
- this will be irrespective of when individual schools receive investment and the length of time it takes for their rebuilding or refurbishment

26. The delay of a year before abatement takes effect is to allow the LA to build up a funding buffer. This can then be used by the LA to finance essential capital work at particular schools (this is the only exception to the general rule

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that DFC is for schools' own priorities).

27. Where schools are renewed through a PFI contract which includes maintenance of the buildings over the life of the contract, DFC will be renewed after the fourth year at 65% of the full rate (this is in line with schools in other PFI projects). For other schools it will be renewed at the full rate.

28. Abatement is irrespective of the level of investment which the school receives:

- within the envelope of DFC funding which they receive, authorities will have flexibility as to how they allocate DFC to individual BSF schools as they enter and leave their projects, depending on need

29. We estimate that most authorities will, under the "block booking" system, be allocated more DFC funding than they strictly need. This is due to the length of time taken for individual projects.

30. Once the period of abatement is over, then normal DFC rules apply with each school having its absolute entitlement (subject to voluntary agreement ) to its share of DFC. See the table below for an illustration of how abatement works:

Wave 1, funding allocated 2005-06	DFC granted 2005-06	Next 4 years, 2006-07 to 2009-10, no DFC	2010-2011 DFC reinstated
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## **Annex C Sustainable Travel Grant**

### *Schools sustainable travel grant*

31. Additional capital funding is available for schools which have authorised travel plans in place. This additional one-off funding is aimed at supporting the investment needs of these plans, and will be delivered as additional devolved formula capital for 2006-07 for schools where the school travel plan:

- meets the criteria described on page 49 of Travelling to School – a good practice guide, and at <http://www.teachernet.gov.uk/docbank/index.cfm?id=8951>
- has been authorised by the local authority and transport authority at deputy director level or above, as well as by the chair of governors of the school. If other local bodies such as the police or bus operators have a significant role to play, they should be signatories too, to indicate that they are willing to support the actions identified in the plan
- and notified to your regional school travel adviser by 24 March 2006. For further information email [school.travel@dfes.gsi.gov.uk](mailto:school.travel@dfes.gsi.gov.uk).

32. The formula for this is that where travel plans are approved each primary school will receive an additional lump sum of £3,750 and each secondary school and each special school, whether primary or secondary, will receive £5,000 plus, in all cases, £5 for each pupil (for all types of pupils).

33. Delivery and conditions of this additional funding for these schools, including those in the VA sector, are exactly the same as for the rest of their DFC:

- authorities must pass on the funding to the designated schools on the national formula for this additional grant.
- however, the variation of devolved formula for all new schools, those with PFI contracts or those in the BSF programme, included in Annex B, does not apply to travel plan grant, which eligible schools will receive in full

34. Schools which receive this additional grant are urged to prioritise their sustainable travel plan needs, and to join up this funding with other sources, including the bulk of their DFC, where appropriate.

- capital projects which devolved formula capital can support include improvements to school bike sheds, road and pedestrian access on school grounds, improved storage and drying facilities for pupils' clothes and belongings

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## Annex D Eligible expenditure, and rollover

### Scope of Funding

35. Besides school buildings used directly for teaching, DFC can be used:

- to improve the social, recreational and staff areas
- to invest in assets which can, as well as for schools' use, be used outside normal hours and achieve a wider community benefit. E.g. childcare and sports provision. (VA schools may not invest in their playing fields or buildings on them connected with their use as playing fields, which are the responsibility of the local authority)

### Capital Expenditure

36. **DFC can only be used for capital expenditure.** The definition of capital in this context is based on the current *CIPFA Code of Practice on Local Authority Accounting in Great Britain: A Statement of Recommended Practice (SORP)*.

37. The definitive answer as to what is capital and can be funded by DFC, and what is revenue and cannot be funded by DFC, can only be obtained by interpreting these accounting rules (your local authority can help). But in general terms:

DFC can be used for:

- structural improvements to buildings, also fixtures and fittings
- the purchase of capital equipment, including ICT
- other long-term improvement to the school estate

### A special case

- Leases that transfer to the lessee substantially all the risks and rewards of ownership of the asset (finance leases), should be treated as capital assets. E.g. a long term car contract, with the car maintained by the lessee. But, the cost counts as borrowing, for which approval has to be obtained from the Secretary of State. As this scores against Departmental budgets, and budgets are generally fully committed, approval is seldom given

DFC cannot be used:

- for routine repairs, redecoration or maintenance included in delegated schools budgets
- for the purchase of small-value books, also training materials and services;

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- for the hire of accommodation ( unless this can be legitimately capitalized as part of building costs )
- to meet any periodic PFI charge, or service contracts, which are revenue costs.
- for operating leases where risk stays with the leasing company, e.g. a photocopier maintained by the lessor. The lessee, i.e. school, should simply recognise the rental payment as an expense. This expense cannot be funded from DFC, as it is not capital
- for expenditure on small value capital items where the amount falls below the LA's minimum capital spend threshold, and which therefore counts as recurrent expenditure. This tends to be around £2,000. (note, a number of items of the same class bought at the same time, e.g. computers, may be added together and, where the total value exceeds this threshold, count as capital).

### Rollover

38. Rollover defines the period in which a school may retain DFC.

- Any DFC unspent at the end of this period must be returned to the Department.
- As an example of how rollover works see the table below, which records the years in which an allocation can be retained. E.g. any 2005-06 allocations not spent by 31 August 2008, in line with reporting requirements for the Standards Fund, will need to be refunded.

Year of allocation	2005-06	2006-07	2007-08	2008-09
2004-05	Yes	Yes	To end August – but see exception below	
2005-06	Yes	Yes	Yes	To end August – but see exception below
2006-07			Yes	Yes

39. From 2006-07, where, exceptionally, a school wishes to accumulate DFC for more than three years to finance a specific large project, it may do so:

- this applies to cumulative funds unspent on 1 April 2006, as well as to future allocations

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- in these circumstances, we expect the school to advance the excess funding temporarily available, defined as being an amount greater than three years of DFC, to its local authority to be spent on capital projects, with the right to reclaim the amount when the school needs the money
- For example, if a school commenced saving for a project in 2004-05, then it can accumulate DFC up to the total allocation of DFC for 2004-05, 2005-06 and 2006-07. Any excess amount saved, in excess of this sum, should be advanced to the local authority so that the local authority can spend it on a capital project, to be returned to the school when needed.

40. If funding has been delivered to school bank accounts, LAs will claw back schools' unspent allocations (not spent within the allowed time period) from current or future years' allocations.

- LAs may allocate the cumulative under-spend of all their schools to support or accelerate other DFC projects
- this should be a fair allocation to specific priority projects which are ready to proceed, and not a general formulaic re-allocation. LAs may not incorporate under-spend of DFC into other general capital funding programmes

41. For VA schools, the reporting date for 2003-04 allocations is 31 March 2006 and they will, normally, not be able to carry forward any 2003-04 allocations unspent by then:

- See table below, regarding an example of the years in which allocations can be retained. VA schools may also, in the exceptional case detailed above, retain DFC for more than three years :

Year of allocation	2003-04	2004-05	2005-06	2006-07
2003-04	Yes	Yes	Yes	No – but see exception above
2004-05	-	Yes	Yes	Yes
2005-06	-	-	Yes	Yes
2006-07	-	-	-	Yes

### **Annex E Procuring investment - Management of capital projects**

42. Schools should ensure that the planned capital expenditure is eligible (i.e. capital) and in accordance with the school's asset management plan (which takes account of the LA's plans):

- the Department may monitor the use of this grant, and expects proper records to be maintained

43. Throughout the duration of the capital project, value for money considerations should apply:

- this includes the selection of professional advisers as well as the main cost of the project itself
- it will be essential to confirm that, before the school embarks on any building work, there is no potential for additional costs to arise which could not be funded from the school's own resources
- schools must be in no doubt that they cannot expect any additional funding from DfES or their LA if their original estimates are inaccurate

#### *Professional Advice*

44. A school may choose to manage its capital works itself (unless, exceptionally, a school is considered not to be capable of such management), or it may pass the practical responsibility to the LA.

45. It is essential that schools managing their own building projects:

- obtain appropriate advice from the LA, or appoint other professional advisers to ensure value for money. Information for a school managing its own project can be found in the RIBA publication "A Guide for School Governors: Developing School Buildings" on the RIBA website at <http://site.yahoo.net/client-forums/schoolclientf2.html>.
- ensure compliance with relevant health and safety regulations, Building Regulations, and other legislation
- take into account the professional's experience in the education sector, and ensure that contractors have professional indemnity insurance
- take steps to ensure that fees, and similar costs will be included in the total project costs, and do not exceed 15% of the total. The cost of VAT, where irrecoverable, also needs to be allowed for

46. Community schools' assets belong to the LA, while foundation, VA or voluntary controlled schools' generally belong to the governing body, trustees, and/or charitable foundation. Approval to seek professional advice should be obtained from one of these bodies as appropriate.