Capital Guidance for Schools

1. Introduction

1.1 The regulations governing accounting require revenue and capital expenditure to be reported in different ways. Capital expenditure can be funded from capital resources such as capital receipts[1] and capital grants[2].

1.2 All expenditure on the acquisition, creation or enhancement of fixed assets[3] must be accounted for on an accrual's basis[4] and capitalised[5], subject to a de-minimis limits of £2k (see sections 2 & 3). It is important that schools record eligible capital expenditure in their accounting systems and report it in the Interim and Year End Capital Returns. The data included in the Capital Returns is included within the Statement of Accounts which is a public document and audited by External Auditors. Auditors will test samples to ensure that capital and revenue expenditure has been correctly classified by undertaking a sample of the spend reported as capital.

2. Definitions of Capital and Revenue Expenditure

2.1 Capital expenditure is defined as:

"The purchase of an asset (tangible or intangible[6]), or expenditure which adds to/enhances and not merely maintains the value of an existing asset".

For expenditure to be treated as capital, the asset must:
- be used for more than one year
- be above the £2k de minimis
- Increase the useful life, performance or value of the asset

Distinguishing between expenditure on existing assets that maintains the use or value of that asset and expenditure that improves use or value can be difficult and judgement may be required. The following key words can be indicators of whether expenditure is more likely to the capital or revenue expenditure:

Capital expenditure	Revenue expenditure
Enhance	Repair
Upgrade	Maintain
Extend	Remediate

[1] Income received from the sale of a school asset, such as land, buildings, or equipment, which can be used to fund capital projects or improvements.

[2] Funding provided by a government body (e.g. Department of Education), or local authority, or other organisation to support the purchase, construction or improvement of school assets such as buildings

[3] A long-term asset owned by the school that is used in its operations and is not intended for sale, such as land, buildings, ICT equipment, furniture, vehicles, or major machinery.

[4] An accounting method where income and expenditure are recorded in the financial period to which they relate, regardless of when the cash is received or paid.

[5] Treated as a long-term asset rather than an immediate expense

[6] A long-term asset with value that does not have a physical form e.g. software licences

Improve	Renew
Construct	Service
Acquire	Retain

2.2 Revenue expenditure relates to the running costs of a school and these costs generally have a lifespan of less than one year. Expenditure incurred in relation to the repair and maintenance of existing capital assets or warranties/guarantees acquired on the purchase of assets, irrespective of the amount, are not capital expenditure and must be treated as revenue. This is because it is not enhancing the asset but is simply maintaining the asset. This includes IT equipment warranties, which are also classified as revenue expenditure as they cover maintenance and support rather than adding value to an asset. Examples of items that should be classed as revenue are revarnishing existing hall flooring, repainting playground line markings, pathway repairs and tree removal when not associated with a wider construction project.

2.3 Capital costs must be attributed to specific capital projects. It is therefore important to ensure that, when work is commissioned, the revenue and capital elements of the contractor's costs are separately identified. Where a contract has both capital and revenue elements within it, separately identified overheads associated within the contract can be apportioned to the capital expenditure in the same proportion as the capital expenditure to total costs.

2.4 For reasons of materiality, de minimis levels[7] are applied, below which expenditure is treated as revenue. The de minimis level is £2,000. This level should be applied at scheme/project level rather than on an invoice-by invoice basis, however items can be grouped together in order to exceed the deminimus level (e.g. several laptops). Any item, group of items or project that totals less than £2k should be treated as revenue in the schools' accounts.

3. Classification of Capital Expenditure

3.1 Schools must ensure they correctly classify assets when they submit their school capital returns to ensure that assets are correctly valued and depreciated in the accounts.

3.2 The main categories of assets are:

- Equipment
- ICT equipment
- Intangible assets (**assets which do not have a physical substance)**
- Land and Buildings
- Vehicles

3.3 Common assets/capital expenditure that fall into each of the categories are shown below:

[7] The minimum value at which an item is treated as a capital asset and recorded on the balance sheet. Items below this value are charged as expenditure in the year of purchase.

Land (CE01) and Buildings (CE02)

- Access ramps
- Air conditioning
- Alarm systems
- Artificial grass
- Barriers
- Blinds
- Boilers (incl TMVs)/Water Heaters
- Canopies
- Carpets
- Cladding
- Decking
- Drainage systems - New
- Doors
- Door entry system
- EV (Electric Vehicle) Charging Point, electric socket for swimming pool
- Extensions to school buildings and renovation work
- Finger Guards
- Fire alarm systems
- Fixed lighting
- Flooring
- Gas Detection Systems
- Gas Interchange
- Gazebos
- Internal and external doors (including fingerguards) & school gates
- Lightning rod
- MUGA Works
- Outdoor classrooms (Structures)
- Planning application fees (if the works go ahead)
- Playground Structures
- Resurfacing of Car parks
- Roof/windows enhancement works
- Purchase of School buildings and additional land
- Security entrance systems
- Security/perimeter Fencing
- Sheds/Outdoor Storage
- Signage
- Solar Panels
- Stage
- Swimming pool electrics
- Structural garden works
- Toilets/sinks
- Vape Detectors
- Water Softener units
- Wi-Fi Access points

Vehicles, Plant & Equipment (CE03)

- Audio Equipment

- Blinds/shutters
- CCTV cameras
- Classroom/office furniture
- Cupboards, shelving units, storage units
- Chairs/Desks/Tables
- Fire blankets/extinguishers/fire alarms
- Gardening machinery
- Hand Dryers
- Hoist Systems
- Laser projector
- Lockers
- Moveable kitchen equipment e.g. microwaves
- Non fixed light fittings
- Playground equipment
- Ponds
- Sports equipment
- Swimming pool equipment
- Telephone System
- Wall Art – for the first time only, any recovering is considered revenue
- Cars – Include Vehicle Registration and report individually
- Minibuses – Include Vehicle Registration and report individually

ICT Equipment (CE04A - CE04E)

CE04A – Connectivity
CE04B – Onsite Servers
CE04C – Administration, Software and Systems
CE04D – Laptops, Desktops & tablets
CE04E – Other Hardware

Tangible Assets:

- Cabling for IT systems
- Computers (laptops/chromebooks/desktops/iPads/tablets)
- ICT switches
- Interactive whiteboards/smartboards/touchscreens
- Printers/scanner/photocopiers
- Projector
- Rukus Switches
- Servers (Physical servers only, see below for Cloud servers)
- Telephone Systems
- VR Headsets
- Wireless Access points

Intangible Assets:

- Website development (for educational/learning purposes)
- Software Licenses (over one year)

Important Points

- Creation of websites are not able to be capitalised unless they are directly providing a service e.g. as a learning tool. Most school websites are established to share information and are therefore not able to be capitalised.

- For conversion to the cloud, only hardware and the installation of hardware can be capitalised. The transfer of data from existing servers to cloud servers, data cleansing, the costs of cloud data storage and any associated staff training cannot be capitalised. As per guidance received from CIPFA in November 2024, if a cloud computing arrangement does not provide the authority with a software license (classified as an intangible asset), then the right to access the underlying software in the cloud is generally a service contract and therefore deemed as revenue expenditure. This would include the cost of cloud data storage.

- Please ensure that categories of spend (e.g. Land and VPFE) are not merged in order to avoid additional information needing to be requested.
- The following items are classed as revenue expenditure

    - Redecoration/Painting
    - Pothole Repairs
    - Roof/Flooring/Groundworks patch repairs

4. School Reimbursements for Capital Expenditure

4.1 Where approval has been given for a school-managed capital project budget[8], or associated F&E[9]/ICT budget, it is now common for the school to be advanced the full amount, or a proportion of the amount, up front, rather than send in individual copies of invoices for reimbursement as in previous years.

- If your school is allocated an F&E budget for an expansion scheme, it is recommended that this is not advanced to the school until the year that the school plans to purchase the equipment.
- School Planning and/or the Property Team will contact Capital Finance with the authorisation to release funds. Therefore, any queries with the release of funds should be directed to the relevant contact(s) in these teams in the first instance.
- The F&E payment will be made via the biscuit. The Biscuit run is made once a month, with system deadlines that are outside Capital Finance's control. Schools should consider their cash flow if making purchases before the payment via the Biscuit has been made.
- All F&E allocations and other Capital reimbursements should be posted to the school accounts with the effect of reducing the school's expenditure. Reimbursements should be posted as expenditure corrections and must NOT be posted as income. Spend on items funded by the F&E allocations

[8] Funds allocated to a capital project that are managed directly by the school to deliver works such as building improvements, refurbishments, or major equipment purchases.

[9] Furniture and Equipment

should be coded to revenue, as HCC will capitalise the funding within the corporate accounts.

- If the school has a large, unused sum of F&E allocation at year end, please email Capital.Finance@hertfordshire.gov.uk and csf.sfu@hertfordshire.gov.uk with this information. An accrual will be required in order not to overstate the school's, and HCC's accounts.

4.2 Reimbursement claims for window walling, roofing, boilers, etc., where schemes have been approved for funding should be sought from the Design and Capital Delivery team at DCDrequests@hertfordshire.gov.uk.

5. Schools Capital Returns

5.1 The purpose of the capital return[10] is to capture capital expenditure incurred in schools so that this can be accurately reflected in HCC's accounts. Capital returns also record expenditure against Devolved Formula Capital[11] which is required by HCC to meet its responsibilities in reporting spend against this grant to the Department for Education (see section 6 for more detail).

5.2 Schools are required to:

- complete and submit the Interim and Year End Capital Returns by the prescribed deadlines.
- ensure they spend their Devolved Formula Capital by the deadline otherwise clawbacks may apply.
- ensure they are not double accounting for HCC reimbursements by posting reimbursements as minus or negative expenditure and not posting reimbursements as income.
- ensure the capital expenditure meets the definition of capital and that the type of asset the capital expenditure is creating is correctly classified as per the section 3.
- keep copies of their Interim and Year End Capital Returns for eight years. (7 years plus the current financial year).
- ensure the opening balances of funding brought forward from the previous financial year on their Capital Return agrees with the closing balances from the previous financial year's Capital Return.

5.3 HCC schools' plant, furniture and equipment capital expenditure are depreciated[12] over 3 years, commencing in the year after the capital expenditure has been incurred. Vehicles are depreciated over 5 years. All school assets in this class will be depreciated in line with this policy. Schools must email HCC Capital Finance Team if this classification of asset has a significantly different useful life.

---

[10] The annual return submitted by a school to report its capital expenditure, capital funding, and movements in capital assets during the financial year

[11] Government funding provided directly to schools for capital projects and asset improvements

[12] The reduction in the value of a fixed asset over time to reflect wear and tear, usage, age, or obsolescence.

6. Asset Registers

6.1 The Authority, including schools maintained by HCC, owns a significant amount of assets including equipment and vehicles which must be recorded for operational and insurance purposes, in accordance with Finance regulations. HCC is also required to demonstrate that it has accurate records of these major resources and their value.

6.2 Schools maintained by HCC are therefore required to maintain an asset register. The requirements are detailed below.

6.2.1 Asset records

- HCC schools must keep a register of all the school's capital fittings, furniture, equipment, ICT hardware, ICT software and vehicles. This must include any HCC funded purchases.
- Items identified on capital return submissions should be recorded appropriately in the schools Asset Register. The Asset Register must also include assets where the funding has been received from HCC.
- The Asset Register should include the location of the asset, type of asset, description of asset (including serial numbers if relevant), purchase price and date of purchase.
- For older assets where record on purchase no longer exists, use estimates.
- The Asset Register must include information on when the asset was disposed of.
- Note that the asset register held centrally by HCC will not include detail of any capital spend relating to Vehicles, Plant and Equipment once this has been fully depreciated in line with the policy (usually 3 years). Therefore, it is the responsibility of the school to maintain full records of assets held.

6.2.2 Asset Disposals / Asset Transfers

- Community and Voluntary Controlled Schools must notify the Capital Finance Team by email to Capital.Finance@hertfordshire.gov.uk when any asset is disposed of, lost, written off, damaged, taken out of operational use or donated/transferred to any other organisation including another school, particularly if the asset is less than 3 years old.
- Disposal/transfer/other change notification to the Capital Finance Team should include the estimated purchase price of the asset, year of purchase and description of the asset.
- The school held Asset Register must be updated for asset changes including the date of the disposal/transfer/write off.

6.2.3 Asset Verification and External Audit Queries

- The Schools Financial Value Standard (SFVS)[13] requires Governing Bodies to ensure and record that they have reviewed the asset register annually.
- In addition, the HCC Capital Finance Team will also carry out testing to verify asset existence as required by HCC external auditors.
- HCC schools must respond to all asset verification requests by the given deadline.
- HCC schools must respond to all external audit requests to take photographs of assets and to provide invoices demonstrating capital spend within a week of receiving the request.

7. Receipt of Capital Grants

7.1 All capital grants received from public sources should be classified as CI01 in the capital return. Schools must ensure that capital grants are spent as per the terms and conditions attached to the grant. HCC finance is responsible for completing a return relating to all DfE allocated grants to ensure that grants have been spent on the correct projects and for the purpose provided, also within the time limits.

7.2 Devolved Formula Capital Grant (DFC): Schools must ensure they spend all their Devolved Formula Capital (DFC) by the deadline (within 3 financial years, with year one being the year payment is received). If the school has any remaining balances from this period at the point of submitting their capital return, it is requested that they include details of the project these balances are being held for, to avoid additional queries requiring to be made. There is a risk that any carried forward balances will be subject to claw back from DfE, therefore schools are not encouraged to hold onto high balances. The Capital team will periodically contact schools with high DFC balances to request assurance that projects have been reported accurately within their capital return and that future capital works are planned to ensure balances are utilised.

7.3 Priority Schools Building Programme Grant (PSBP/PSBP2): If schools receive this grant, HCC Finance will be required to contact the school to populate the grant return. If the school has any carried forward balances, the school will be asked for a written description to explain why the grant has not been spent, and when it is expected to be spent.

7.4 With particular grants, there is the possibility that grants may be clawed back, after the submission of the return, therefore it is requested that prompt, detailed explanation is provided if requested by HCC finance.

Guidance for Condition Grants can be found on www.gov.uk.

---

[13] An annual self-assessment process issued by the Department for Education used by maintained schools to confirm that appropriate financial management and resource controls are in place

8. FAQs – Frequently Asked Questions

Q. Cloud Migration – Can I capitalise costs of migration to the Cloud?

A. <u>Part</u> – in general only the purchase and installation of hardware (e.g. Servers) can be capitalised, however, if in doubt, please email a copy of any quotes / invoices to capital.finance@hertfordshire.gov.uk for advice.

Q. Capital Shuffles – Can I move revenue to capital if I still have a Capital balance?

A. <u>No</u> – Capital shuffles must only be made once Devolved Formula Capital (DFC) Income has been fully spent. However, if specific funding has been received which in part is funding a capital spend then this would be considered an exception, in this instance please contact the school finance team at csf.sfu@hertfordshire.gov.uk for verification

Q. Do VA and Academy schools complete the return?

A. <u>No</u> - VA and Academy schools do not need to complete the return, unless they have converted during the current financial year. They must complete the return up to the date they converted.

Q. A school had a major capital project completed in the previous financial year. In the current year there has been additional spend on the same project which is under £2k, can this be capitalised?

A. Yes – The school must state in the capital expenditure section that it relates to the project in the previous financial year. If the current years spend is under £2k but there will be further spend in the next year on the same project this can also be capitalised.

Q. A school project has spent under £2k at the interim return, but the total spend by year end will be over £2k. Do they include the details in the capital expenditure section?

A. Yes – We can check when the final return has been completed to check that the total exceeds £2k.

Q. How do I know if it's ok to tick the "disposals" box (often in the case of new admins).

A. – In this case Capital Finance can supply a list of assets held on the Corporate Asset Register. Capital Finance are only interested in the disposal of these assets for this purpose.

Q. – Why am I unable to submit the return?

A. – Check that the document is saved before submitting. There should be an error message, stating why the return cannot be submitted. Commonly, school haven't entered the correct figures and a total negative figure shows. Negative figures cannot be submitted. If a school has spent more on a project than the value of the DFC allocation, then the difference must be made up from a revenue contribution/private contribution or 'other'.

Q. – Should Capital Receipts related to a disposal of a capital asset be treated as capital income?

A. – In line with HCC guidelines any receipt over £10k should be classed as capital income. For further guidance please contact the Capital & Treasury team using the details below.

9. Contacts

The quickest way to receive support on any capital query is via email to:

Capital.Finance@hertfordshire.gov.uk

Contact numbers of the capital team:

- Andrew Hill, Accountancy Officer (01992 555498)
- Amy Ridsdale (Finance Graduate Trainee) (01438 844461)
- Suzanne Swain, Finance Manager (01992 555677)

For other financial queries please contact:

csf.sfu@hertfordshire.gov.uk

For advice on the recording and reporting of capital expenditure in your school's accounting software and the completion of your Interim or Year End Capital Return, please contact the Financial Services for Schools team:

FMS6	01992 555753
Arbor Finance	01992 555713