



Southwark Council

Schools Financial Procedures Manual

Schools Finance 2025

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Introduction

This guidance manual has been written to help all those involved with schools' finance to understand and manage their financial responsibilities.

Producing such a document also provides the following benefits:

- Allows continuity and consistency in the absence of or changes to key financial personnel.
- Documents the financial procedures and internal controls within those procedures.
- Documents decisions received from the governing body.
- Reduces audit time in testing systems, procedures, and controls because they are properly recorded.
- Allows an opportunity to consider whether existing systems meet schools' financial control objectives, and whether the procedures are being implemented in the way intended.

There are a number of statutory instruments that regulate the key requirements of school financial management as well as best practice from national organisations such as OFSTED. In particular these are Southwark Council's (the council):

- [Scheme for Financing Schools](#)
- [Financial Standing Orders](#)
- [Contract Standing Orders](#)

This manual takes the requirements and principles set out in the above documents and applies them to the various financial management activities which schools will engage in. It also sets out the correct controls and procedures for the running of schools so that financial processes are implemented accurately and consistently.

All staff with duties involving financial administration should be aware of the contents of this manual and have access to it.

The Schools Financial Procedures Manual is available electronically on the council's Schools Finance website and will be updated as and when necessary. You are strongly advised to use the electronic version, printing off sections or model proformas as and when necessary.

General enquiries on the contents of the manual should be addressed to Schools Finance on 0207 525 3888 or by e-mail at schoolsfinance@southwark.gov.uk.

Schools Finance Team
September 2025

Financial Standards

1.1 Nolan principles

All staff, governors and authorised officers of the school are expected to maintain the highest financial standards when dealing with public funds

In May 1996 the Nolan Committee published a report on standards in public life as applicable to local public spending bodies. The report identified [Seven Principles of Public Life](#). These are:

Selflessness - Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.

Integrity - Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

Objectivity - In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability - Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness - Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Honesty - Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership - Holders of public office should promote and support these principles by leadership and example

It is important that governors and school staff not only act impartially but are also seen to act impartially when dealing with the school's business affairs.

The school's Scheme of Delegation is an important starting point in establishing good ethics by providing a clear framework of responsibilities and accountabilities for action. It is also important for governors to recognise that they hold the ultimate responsibility and first opportunity to promote good decision making and ethical practice. By promoting good practice, governors and staff protect the resources and reputation of the school and themselves.

Governance

2.1 Governing body

The governing body is collectively responsible for the overall direction of the school and its strategic management and has three core strategic roles:

- Ensuring clarity of vision, ethos and strategic direction;
- Holding executive leaders to account for the educational performance of the organisation and its pupils, and the effective and efficient performance management of staff; and
- Overseeing the financial performance of the organisation and making sure its money is well spent

This involves determining the guiding principles within which the school operates and then making decisions about, for example, how to spend the school's budget. Effective governance results in clear public accountability for the performance of the school.

The school's governing body has overall responsibility for the financial management and control of the school's budget, in compliance with the council's Financial Regulations. However, in order for the governing body and school to function effectively, it is vital that decisions are taken by the appropriate people or bodies, and that those people and bodies are given the appropriate authority.

2.2 Delegation of authority

The governing bodies of schools with fully delegated powers under the local management scheme are responsible for ensuring that the council's Financial Regulations and the Standing Orders relating to contracts are adhered to.

In practice many of the governing bodies' responsibilities will need to be delegated to a committee of the governing body and/or to the headteacher. To ensure that sound financial control is maintained, it is essential that the extent of the delegation be clearly specified in writing in the school's Scheme of Delegation.

Where delegation is given to a committee, the governing board must ensure they have included this in the 'Terms of Reference' for that committee. Delegated authority to the headteacher must be recorded in the 'Scheme of Delegation'.

A common finding in maintained schools' internal audits is the irregular review of the schools' Scheme of Delegation.

Any governing body's committee's terms of reference and the school's Scheme of Delegation should be reviewed and approved annually by governors.

The Scheme of Delegation must cover:

- What authority has been delegated;
- To whom it is delegated (named committee, governor, headteacher or other responsible officer);
- What the limits of authority are (values, timescales or specific areas); and
- What reporting arrangements are required.

It should be noted that the Scheme of Delegation complements the council's Financial Regulations and Standing Orders and should be operated in conjunction with those documents.

Schools are referred to the Model Scheme of Delegation (**Appendix A**), an accompanying document containing an outline of the authority and responsibilities for Governing Bodies, Finance (Resources /Business) Committees, Headteachers, and School Business Managers.

2.3 Recommended delegated authorities

The following tables summarise the recommended levels of financial authorities delegated by the governing board.

Phase	Delegated Authority	Budget Transfer	Enter into contract	Write off debt*
Primary/Other	Governing Body	£20,000+	£20,000-£60,000	Up to £1,000
Primary/Other	Finance Committee	Up to £20,000	Up to £20,000	Up to £500
Primary/Other	Headteacher	Up to £10,000	Up to £10,000	Up to £100
Primary/Other	SBM	Up to £5,000	N/A	N/A
Secondary	Governing Body	£20,000+	£25,000-£60,000	Up to £1,000

Phase	Delegated Authority	Budget Transfer	Enter into contract	Write off debt*
Secondary	Finance Committee	Up to £20,000	Up to £25,000	Up to £500
Secondary	Headteacher	Up to £10,000	Up to £10,000	Up to £100
Secondary	SBM	Up to £5,000	N/A	N/A

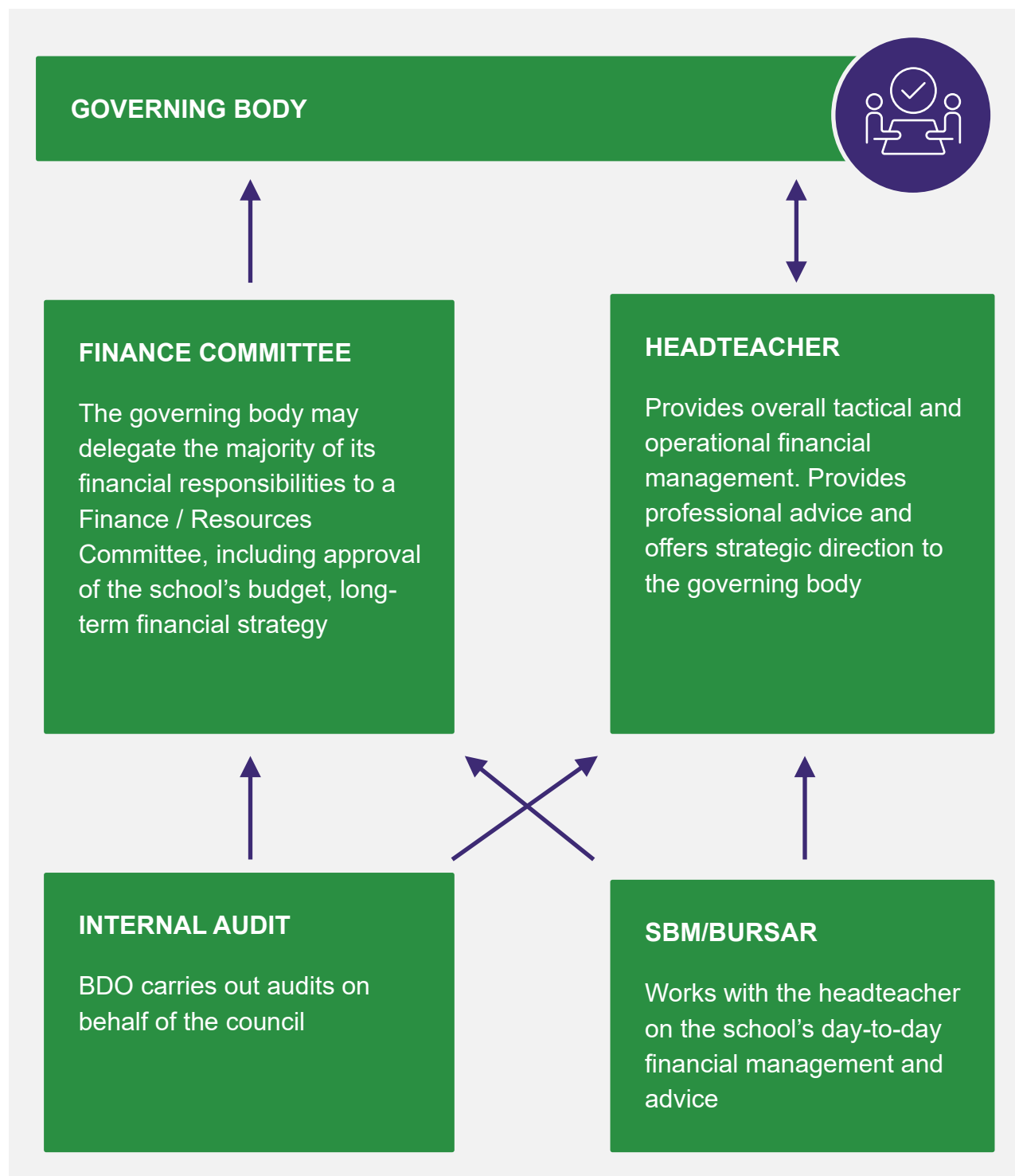
*Debts over £1,000 can only be written off with approval of the Director of Children's Services.

The governing body may authorise up to £1,000 for special payments in the form of compensation payments to provide redress for loss or injury, for example personal injuries, traffic accidents or damage to property. Payments in excess of £1,000 may only be made with the approval of the Director of Children's Services. The Full Governing Body should keep a record of all payments.

- Ex gratia payments beyond statutory or contractual cover, or administrative rules, for example payments to meet hardship caused by official failure or delay, and to avoid legal action due to official inadequacy must always be referred to the Director of Children's Services for approval.

2.4 Organisational structure of a school

The chart below shows a typical organisational structure of a school, with the arrows representing the general lines of reporting:



2.5 Roles and responsibilities

Whilst delegation of authority may vary from school to school, the council recommends the following as good practice:

The Governing Body will:

- Give strategic direction to the annual budget
- Approve the annual budget
- Approve the school staffing structure
- Approve budget virements (transfers) of £20,000 and above
- Approve the school's charging policy for lettings and other income
- Authorise the disposal of assets where the value of the assets is in excess of £1,000 (with Senior Finance Manager, Education agreement for assets valued in excess of £2,500)
- Ensure that there is a regularly updated Register of Business Interests
- Authorise contracts in excess of £25,000 (secondary) or £20,000 (primary) but less than £60,000
- Ensure that the school's Asset Register is kept up-to-date and is reviewed at least once a year
- Ensure that there are adequate internal financial controls in operation at the school
- Have a good understanding of how the finances work in a school

The Finance Committee will:

- Consider the annual budget and make budget recommendations to the governing board
- Consider the school (staffing structure) and make recommendations to the governing board. (see school pay policy)
- Approve significant budget transfers up to £20,000
- Monitor and control the budget; receive audit reports and ensure action plans are implemented
- Consider the charging policy for lettings and other income
- Authorise the disposal of assets with value between £250 to £1,000
- Ensure that there are adequate internal financial controls
- Authorise contracts up to £25,000 (secondary schools) and £20,000 (primary)
- Review of schools finance procedures and policies on annual basis

- Schools are referred to the Finance (Resources/Business) Committee Terms of Reference (**Appendix B**).

The Headteacher will:

- Prepare the annual budget and reports to the governing board and resources committee for consideration and approval, including termly financial monitoring reports to the committee
- Prepare the proposed school staffing structure
- Approve budget transfers of no more than £10,000
- Ensure spending remains within approved budget limits and budgeted income is received
- Receive audit reports and develop action plan to implement recommendations
- Develop/review charging policy for lettings and other income
- Authorise contracts up to £10,000
- Ensure that there are adequate internal financial controls in operation and that they are documented
- Authorise the disposal of assets up to a value of £250. The school governing body may choose to set these limits at a lower level if it so chooses

The School Business Manager (SBM) / Bursar will, under the direction of the headteacher:

- Update /maintain the school's financial system
- Monitor spending against budget and report variances
- Prepare budget virement (transfer) requests for resources committee or full governing board consideration
- Produce financial reports as requested for the headteacher and Local Authority (LA)
- Ensure adequate cash flow
- Ensure Construction Industry Scheme (CIS), Value Added Taxation (VAT) and payroll legislation is adhered to.
- Ensure robust financial process is followed and contain relevant documents for audit purposes

2.6 Schools' controls

The governing body must ensure that there are adequate internal controls in place. There are a number of controls that should be applied by the governing body (in practice through the headteacher) to ensure that the risks of fraudulent activity are prevented and minimised:

- Staff expertise

- Segregation of duties
- Documentation
- Register of business interests
- Financial accounting records
- Cheques / approvals of payments must always be signed / documented by two authorised signatories.

Schools must have in place documented financial procedures, which should be based on those in this manual.

The Schools Financial Value Standard (SFVS) is a tool designed to assist schools in managing their finances and gives assurance that they have secure financial management in place. Governing bodies have formal responsibility for the financial management of their schools.

The governing body must demonstrate compliance with the SFVS and complete the assessment forms, which must be signed by the Chair of Governors and submitted before 31 January annually. The SFVS assessment form must include a summary of remedial actions with a clear timetable ensuring that each action has specified deadline and agreed owner.

See: DfE's [Schools Financial Value Standard](#) documentation, updated November 2024.

2.7 Meeting minutes

Minutes should be taken of all meetings of the governing body and its committees and should include all decisions and by whom action is to be taken. The minutes should be signed and dated as a true record of the meeting by the chair of the respective committee.

The minutes of the governing body meetings and committees must be retained indefinitely; they are to be kept within the school for a minimum of six years and subsequently may be archived.

2.8 Register of business interests (pecuniary and non-pecuniary)

Both the governing body and school staff have a responsibility to avoid any conflict between their business and personal interests and affairs and the interests of the school.

Every governing body must establish a register of governors' business interests (Scheme for Financing Schools, section 2.9). This means that governors and headteachers must register and declare any business interests that they or any member of their immediate family have.

The register ensures that a system exists for governors to declare and register interests to ensure that decisions are always taken in the best interests of the school and the public funds that finance it.

Both members of the governing body and headteachers are required to declare all business interests and any significant personal interests. In addition, members of staff who become aware of any such existing or potential interest, whether direct or indirect, should notify the headteacher in writing in order for them to be included in the register.

An interest (both business and personal) is anything that might influence a governor/member of staff to take into account some factor other than the interests of the schools and can be divided into pecuniary and non-pecuniary.

Pecuniary interests are those where an item under discussion may have a financial benefit to the individual governor/staff member or their spouse, partner or close family member.

Non-pecuniary interests can be defined as any factor that would cause an intelligent observer to think that the judgement of a governor/member of staff is biased.

A business interest would exist if the governor/member of staff, or their partner or close friend is employed by, owns (including ownership by means of shares or partnership), or is a major supplier or sub-contractor of a potential supplier to the school. However, it would not be necessary to declare interests where the business interest is remote; for example, if the school spent small amounts at a supermarket chain and a governor's partner was a part time employee for that supermarket.

From 1 September 2015, governance roles in other educational institutions must be declared.

A common finding in maintained schools' internal audits is the irregular review and update of the schools' Register of Business Interests. **New governors/staff are required to complete the registers on joining the school; existing governors/staff should be asked to complete the registers annually, or when a new business interest arose.** The registers must be freely available for inspection by governors, staff, parents and LA officers and shall be circulated at all meetings of the governing body and Finance Committee to enable any interest to be declared.

An annual reminder that all governors are required to register their 'Business Interests' should be included as a regular agenda item for full governing board meetings and a new entry must be completed at the beginning of each financial or academic year. New governors or members of staff who influence financial decisions should be asked to complete register when joining.

2.9 Publishing the register

All declaration registers must be published on the school's website "in a readily accessible form" (without the need to download or open a separate document), along with the same information about the interests of any associate members. The register must also be made available at the

school to persons wishing to inspect it. Governing bodies are also advised to make it clear in their code of conduct and any governor recruitment materials that this information will be published.

Any governor failing to provide information to enable the governing body to fulfil its responsibilities may be in breach of the code of conduct and as a result be bringing the governing body into disrepute. In such cases the governing body should consider suspending the governor.

2.10 Declaration of interests

If a governor has an interest in any matter being considered by the governing body then they should declare that interest at the relevant time, withdraw from any meeting at which the matter is being discussed and not vote on the matter.

This applies whether the governor stands to lose or gain from the decision and/or if the interest is direct or indirect. The law relating to the declaration of interests, withdrawal from meetings and not voting on those matters are set out in the [The School Governance \(Roles, Procedures and Allowances\) \(England\) Regulations 2013](#) and accompanying [DfE Advice](#).

These declarations must be formally recorded in the minutes.

2.11 Register of gifts and hospitality

The school must maintain a Register of Gifts and Hospitality.

It is an offence for any governor, headteacher, or school staff to solicit or accept any gift, loan, fee reward or advantage as an inducement for doing or withholding any act or showing favour in any way in relation to the school's business.

Governors, headteachers and school staff should avoid accepting excessive hospitality, gifts, entertainment, or other services from existing or prospective suppliers since it could compromise or be seen to compromise impartiality. Minor gifts such as calendars and stationery will normally be acceptable.

Minor items of stationery such as calendars, pens and the like do not need to be recorded on the register.

2.12 Governors' allowances

The law allows governing bodies in maintained schools with a delegated budget to choose whether to pay allowances or expenses to members of the governing body to cover any costs, such as travel or childcare, which they have incurred because of serving on a governing body.

Where they choose to do so, it must be in accordance with a policy or scheme. Payments can only be paid for expenditure necessarily incurred to enable the person to perform any governance duty. This does not include payments to cover loss of earnings for attending meetings.

Travel expenses must not exceed the HM Revenue and Customs (HMRC) approved mileage rates, which are changed annually and are on the HMRC website. Other expenses should be paid on provision of a receipt (at a rate set out in the scheme) and be limited to the amount shown on the receipt.

Members of “The Key” or the National Governance Association can download a model policy from their websites.

2.13 Warning notices

The council may issue a warning notice to the governing body of any school it maintains where the school fails to comply with any provision of the council’s Scheme for Financing Schools.

Some examples of where a notice of concern may be issued are given below:

- Evidence of poor financial management and oversight, such as through consistent overspending the school’s budget beyond agreed thresholds
- Absence of suitably qualified staff to address identified weaknesses in financial management of school budget
- Inadequate financial oversight of expenditure by the Resources Committee
- Failing to take appropriate action to manage the school’s expenditure when the school is in deficit.

Failure to comply with a notice of concern could in some circumstances result in the council suspending delegation from the school or using its statutory powers of intervention.

2.14 Goods and services for private use

The governing body, headteacher and school staff should not obtain the supply of goods and services, which may include an element of private use for governors or school staff.

Schools Funding

3.1 Dedicated schools grant

The schools budget is funded by the government through the Dedicated Schools Grant (DSG), which is a ring-fenced grant that support the LA's schools budget. The DSG is the core funding given to LAs and is then distributed on to maintained schools and early years providers in the local area by the LA.

The Department for Education (DfE) manages all annual funding to support state-provided education for children aged three to 16, and young people aged 16 to 19. Schools maintained by the council receive this funding from the council and academies receive their funding from the DfE.

Both academies and maintained schools are currently funded by a local funding formula in anticipation of moving to a National Funding Formula – possibly by 2027-28 when all individual schools' funding allocations will be set by the national formula, rather than a local formula.

Funding for Post 16 is calculated by the DfE. The DfE notifies each school of their allocation but the funding is passported through the LA. Schools need to be aware that Post 16 funding traditionally works on an academic year basis (August to July) and therefore the amount a school will be notified at the start of the financial year will be different as it corresponds to the LA financial year i.e. April to March.

DSG funding is split into four separate blocks:

- Central schools service block: funds centrally managed expenditure which support front line and support service functions
- Schools block: funds individual school budgets for five to 16 year olds
- Early years block: funds pre-school education in all settings
- High needs block: funds special schools, all non-mainstream education functions and provides additional funding for high needs pupils in a mainstream setting.

3.2 Local authority funding for schools

The current local funding formula distributes funding using a list of approved factors set down by the government in regulations. Each maintained school receives their budget electronically broken down over four sections as follows:-

Section A: Pupil Led Factors

- Basic Per Pupil Entitlement - Age Weighted Pupil Unit (AWPU)

- Deprivation based on Free School Meal eligibility, Free School Meal eligibility over the last six years & six IDACI bands
- Prior Attainment
- English as an Additional Language (EAL)
- Mobility

Section B: Other Factors

- Lump Sums
- Split Site
- PFI Funding
- Business Rates (National Non-Domestic Rates - NNDR)
- Minimum Funding Guarantee
- Notional Special Education Needs (SEN)

Section C: Funding and Comparison to Previous Financial Year

Section D: De-delegation, as agreed by the Schools Forum

3.3 Centrally retained and de-delegated

The DfE sets out in regulations items of expenditure that can be centrally retained with the approval of the Schools Forum, for example, a growth fund to support schools required to provide extra places.

Also, with the agreement of the Schools Forum, LAs can hold back, or 'de-delegate', schools block funding for approved activities provided to maintained mainstream primary and secondary schools. For example, free school meals eligibility checking and behavioural support services.

Similarly to de-delegated items Schools Forum can also approve certain services to be funded centrally.

3.4 High needs block funding

Schools are required to contribute the first £6,000 of the cost of additional SEN support arrangements, as identified in a pupil's Education Health and Care Plan (EHCP), from their delegated budget share. Additional 'Top-up' funding from the High Needs block is available if a child's assessed need in the EHCP costs more than £6,000.

Special schools and Pupil Referral Units receive all their Schools Budget Share funding from the High Needs Block.

3.5 Early years block funding

Nursery schools, schools with nursery classes and private and voluntary sector nurseries receive funding from the early years block to support nursery age and pre-school children. The Early Years National Funding Formula (EYNFF) is made up of two elements namely a base rate and deprivation supplement with minimum requirements of a universal base rate for all EY providers and minimum central retention of funding for central expenditure of five per cent.

Nursery schools get an additional lump sum to cover the unavoidable additional costs maintained nurseries must meet and maintained nursery schools currently receive supplementary funding to help them implement the EYNFF and become more financially sustainable.

3.6 Pupil premium

The Pupil Premium is additional funding for schools and EY providers to support disadvantaged pupils. Pupils from age three to Year 11 are included within the Pupil Premium calculations. Eligibility is based upon Ever6 criteria, which is those who have met the free school meal eligibility criteria within the past six years. Looked after children, previously looked after children and children of forces personnel are also eligible for this funding, but at different rates.

The amount of EY pupil premium allocated for each school is calculated by looking at the number of pupils entitled to the EYPP funding according to the census and the hours of state funded education that these children take up. EYPP is no longer calculated by looking at FSM and there is a separate column in the census which needs to be filled in to show whether each child has EYPP entitlement. As the amount of funding which the council receives from the government to pass onto schools is based on the census, it is essential that it is filled in correctly.

Although the funding is not specifically ring-fenced, schools are expected to report to parents annually on the use of the pupil premium in raising the attainment of disadvantaged children on their website.

3.7 Capital funding

Capital funding is additional funding, separate from that which is allocated through the DSG. The funding is called devolved capital and is calculated based on a lump sum and an additional per pupil amount. This funding is ring-fenced to spend on items of a capital nature only and therefore any spend should be coded to the designated ring-fenced codes. Community and foundation schools will receive their devolved formula capital funding from the LA, voluntary aided schools from the Diocese.

3.8 Role of the Schools Forum

Schools Forums were established to give schools greater involvement in the distribution of funding within their LA and to provide a consultative and advisory role in relation to schools' funding. There are clear regulations that set out the functions of Schools Forums.

Schools Forums are composed mainly of headteachers and governors from different types of schools and educational establishments within the LA area.

LAs must consult and seek the agreement of the Schools Forums on the local funding formula that distributes the annual individual school budget shares. The timetable for the budget process is shown in the table below.

Date	Action
October	Schools complete census and enter into DfE portal
December	DfE issue initial DSG allocation for following financial year
	Schools Forum approve centrally retained budgets
January	Schools Forum consulted and agree local funding formula for school budgets
	Council approves the formula and submits school budget to DfE
End of February	Schools notified of budget share

Financial Planning

Financial planning is an essential part of good financial management. It provides a school with a clear view of how it intends to use its resources. It has two interlaced elements: the School Development Plan and the school budget.

4.1 The School's Development Plan

The School's Development Plan (SDP) forms a major building block for constructing the budget. It identifies the school's educational priorities and usually has a strong focus on raising standards (or maintaining high standards). It is important, therefore, that the SDP indicates the resource implications of each priority to guide decisions on the school's budget. The SDP should also show the cost-effectiveness of each initiative considered and should contain an evaluation framework to assess its progress and success. A summary of the school's ongoing spending should be included within the SDP to ensure that the school's priorities and expenditure are in sync.

4.2 The budget

The budget is equally important in effective financial management. It sets out how resources are allocated and provides a mechanism for monitoring expenditure through the year. It provides a clear and concrete framework, setting out exactly how the school is going to spend its money in order to achieve the objectives of its development plan.

Schools will spend their funds on revenue type activities, e.g. staffing, materials, utilities etc as well as occasionally on capital projects, e.g. major building works. It should be remembered that schools must ensure that revenue and capital funds and expenditure, are accounted for separately. This is easily done using the school's local accounting system that must be based on the government's [Consistent Financial Reporting](#) coding structure.

4.3 Timetable

A formal timetable and procedure should be drawn up for constructing the SDP and associated budget to ensure that governors have time to consider all relevant factors. This timetable should cover the whole planning process, including the School Development Plan, Asset Management Plan, ICT Plan and the budget. The timetable should ensure that the governors are provided with timely information needed to evaluate the options and agree initially on a draft budget leading to a final budget being approved and signed by 31 May.

Draft budgets are typically considered during the spring term when funding levels are announced for the coming year, although schools may start this process as early as the autumn term once

staffing and pupil numbers are established for the new academic year. Indicative budget shares for the following financial year are issued to schools at the end of February.

4.4 School resource management

Schools must seek to achieve effective management of resources and value for money, to optimise the use of their resources and to invest in teaching and learning, taking into account the LA's purchasing, tendering and contracting requirements.

It is for headteachers and governors to determine, at school level, how to optimise the use of resources and maximise value for money. There are significant variations in the effective management of resources between similar schools, and so it is important for schools to review their current expenditure, compare it to other schools and think about how to make improvements.

Headteachers and governors may consider using [Integrated Curriculum and Financial Planning \(ICFP\)](#) to help plan the best curriculum for their pupils with the funding they have available and can be used for any phase or type of school.

The role of governors is set out in the DFE's [Maintained schools governance guide](#).

4.5 Setting a budget

In budgeting, the governing body should bear in mind that

- final income and expenditure figures may be either higher or lower than earlier figures
- appropriate action may need to be taken during the year to deal with variations between actual and budgeted income and expenditure.

The budget should therefore be based on a hierarchy of assumptions and priorities, to facilitate changes of plan in reaction to changes of circumstances.

Due to the uncertainty of financial projections and the likelihood that changes to the budget will be necessary throughout the year, it is good practice to include a contingency in the budget. The contingency can more readily be controlled where it is shown as a single explicit figure, usually in the form of an estimated surplus carry forward balance, rather than being spread across a number of budgets. The level of this contingency should be kept to a minimum and can be determined by reference to known possible elements, such as teachers' pay awards, and by experience gained over previous years. This experience will be gained from the process of reviewing actual expenditure against budgets on a regular basis.

The process of setting the school budget will involve the balancing of expenditure against income. The initial estimates may require re-allocation of income or alterations in expenditure in order to obtain a budget which is either balanced or has a surplus carry forward balance which is not excessive.

Within this context the principal steps involved in budgeting are:

- to ensure everyone involved in the process is aware of the assumptions, constraints and targets determined by reference to financial objectives
- to estimate the costs of each element in the overall plan, preferably over at least a three year period. The second and third year costs need not be in as much detail as the first year. However, costings over this number of years can be helpful to identify core commitments and areas of discretionary expenditure where contingencies can be included
- to estimate future delegated budgets. Uncertainty about future pupil numbers is inevitable and assumptions need to be made about the future level of funding the school will receive based on the various factors which could influence it
- comparison of net expenditure and funding to identify the potential surplus or shortfall in funding required to meet the financial objectives in the strategic plan
- identification of savings in expenditure in order to prepare a budget which delivers the strategic plan if a shortfall is identified
- revision of the strategic plan once priorities have been identified to enable the preparation of a budget with reduced expenditure to match the expected budget
- allocation of any surplus identified to areas of need highlighted in the strategic plan
- to present the budget to the governing body for approval
- to inform those members of staff with financial responsibilities what their budgets are, together with any constraints imposed
- to inform all school staff of the financial aims of the school.

The steps involved in arriving at an approved budget may require a number of draft budgets for review before a final position is arrived at.

4.6 Setting a balanced budget

The major items of the annual budget are set out below.

Over 80% of the budget of a school is usually spent on staffing. Therefore, decisions on the required levels of staff needed to deliver the curriculum in accordance with class sizes are the most important. Under or over costing in this area may significantly distort the budget plan.

In addition to the school budget share allocation, the school will receive other funding, for example SEN top-up funding, early years funding for nursery classes, pupil premium, Universal Infant Free School Meal funding.

Rather than simply carrying forward a budget from one year to the next, the major budget headings should be periodically reviewed to ensure that historic spending patterns are not unhelpfully

perpetuated. Building up a budget from a zero base challenges existing patterns of expenditure, which may have become obsolete over time. This will help the school to evidence the 'challenge' aspect of effective resource management.

Considerable caution is needed where under-spends are used to meet a budget shortfall. These can only be used once and must be regarded as giving the school a breathing space to plan reduced expenditure in future years.

4.7 Deficit budgets

The governing body is not allowed to set a deficit budget unless the school has applied for and has been granted a licensed deficit. Under the Scheme for Financing Schools, if a school moves into or predicts a budget deficit the LA cannot write off the deficit balance. If the deficit is unable to be repaid within the following financial year (which is the usual expectation), schools may apply for and be granted a licensed deficit.

Additional financial support may be available to the school in the form of two alternate funding streams: falling rolls fund and schools in financial difficulty fund, after or as part of the approval process of the licensed deficit or, in extenuating circumstances, a cash advance.

Unless approved by the council, schools should ensure that the total planned expenditure for the financial year does not exceed the budget share, adjusted by the amounts brought forward from the previous financial year. A licensed deficit, granted in exceptional circumstances, will only be given in respect of the following:

- significant fallings rolls
- financial mismanagement
- schools in special measures or serious weaknesses
- other circumstances agreed by the LA as reasonable.

From 2022-23, in addition to strengthening the governance arrangements for the approval of licensed deficits agreements within the Scheme for Financing Schools, a Licensed Deficit Framework has been developed that enshrines the schools' and LA's responsibilities and input into the process from first identifying the need to set a deficit budget to approval, monitoring and elimination of the deficit.

Schools are referred to the Licensed Deficit Framework (**Appendix C**), an accompanying document containing an outline of the process to be followed as soon as a potential deficit budget is identified, either at the start of the year when setting the budget or during the year through monitoring. The first stage being immediate contact with the Schools Finance Team.

Please note, all applications for licensed deficits must be in writing from the Chair of Governors to the Director of Children's Services who will make a recommendation, with support from the

council's Professional Finance Service, to the Strategic Directors (Resources & Children's and Adults' Services) for a decision.

The application will need to show that the strategy of seeking a licensed deficit for the school is a minuted decision of the Full Governing Body and be accompanied by a completed Licensed Deficit Template (which is available from the Schools Finance Team).

4.8 Income and expenditure

The different categories of income and expenditure are recorded separately under specific ledger (detail) codes. For a complete guide to the ledger codes and what income and expenditure to include and exclude under each code, please refer to the [Consistent Financial Reporting](#) framework.

4.9 Income

Income received by schools does not increase the School Budget Share. It must be shown as a credit against an income line. It cannot be coded to an expenditure code to offset expenditure unless it is a direct refund for an overpayment i.e electricity. If this income was not anticipated when completing your budget plan, it is necessary to create a virement in order to increase the income budget line and increase the relevant expenditure line(s). These increases in income and expenditure must balance. If no decision has been made on the use of the income, the increase in expenditure should go in the reserves line (B02).

4.10 Expenditure

A record must be made and kept of all spending and commitments, as they occur. Most schools have a financial system which can be used to record commitments, net expenditure and budgets. Expenditure should be broken down into categories using best estimates for pay rises and other known incremental increases. The impact of inflation also needs to be carefully considered when estimating income and expenditure. The budget share from the LA will be based upon certain assumptions e.g. regarding inclusion of funding for staff pay awards to be implemented during the year. The expenditure budget should be calculated on the same assumptions in order to ensure consistency.

Comparison of income and expenditure will identify any potential in-year surplus or shortfall. If shortfalls are identified, opportunities to increase income should be explored and expenditure headings will need to be reviewed for areas where savings can be made. This may entail prioritising tasks and deferring payment until more funding is available.

4.11 Reconciliation

Schools must reconcile their own school records to the ledger on a monthly basis. Transaction prints must be checked to ensure that all transactions charged to the school are correct and match school records. Any incorrect entries should be queried. The headteacher, or a senior manager who has not undertaken the reconciliation exercise, should sign the reconciliation.

4.12 Budgetary control

Regular monitoring of income and expenditure against the agreed budget is central to effective financial management. It allows governors, the headteacher and staff to maintain financial control by reviewing the current position and taking any remedial action necessary. Budgets are not set in stone. The original budget may need regular updating, following consultation with governors, to take account of in-year developments.

4.13 Budget monitoring

To maintain good budget management and control, the school budget should be reviewed at regular intervals throughout the financial year in order to identify variations to budget provision, and to establish the underlying factors which have caused the variation.

Every month schools should prepare a Budget Monitoring Report Summary, comparing the current position on spending and anticipated or projected expenditure for the year. Large variances will need to be investigated and discussed with governors. Corrective action should be taken if necessary.

It is good practice to send the Chair of the Finance Committee or another nominated governor a copy of the Budget Monitoring Report on a monthly basis. Budget monitoring should be a regular item on the Finance Committee agenda and the minutes of the meeting should demonstrate that the Budget Monitoring Report has been discussed and what action needs to be taken if any.

Reports to the Finance Committee / governing body should, at a minimum, be based on the headings used for Consistent Financial Reporting. However, the Finance Committee / governing body may request additional information to also be provided such as pupil premium, departmental budgets etc.

If a budget appears to be over or underspent a management decision is required as to decide how this is to be corrected. Budget monitoring needs to be reinforced with plans of action to tackle any significant budget variance as early as possible. The plan should specify how any overspend is to be addressed, within what timeframe and who is responsible. Procedures for authorising budget virements should be stated together with delegated authority to transfer funding.

Quarterly returns must be provided to the Finance Committee and/or the governing body at the end of each quarter. These must detail any significant variances against the budget with explanatory notes, and where necessary, remedial action plans including virements.

The quarterly return should be considered a minimum level of reporting and schools should consider providing additional information to the finance committee and governing body which includes commitments to date, anticipated further commitments and explanations of the reasons for variances between the budget and forecasted outturn.

4.14 Departmental budgets

Where budget elements have been devolved within the school, such budget holders should receive and review regular reports comparing the amount spent or committed to date against their budgets. The headteacher should monitor these reports and take action where necessary, in consultation with the budget holders.

4.15 Profiled budget and cash flow

The headteacher should profile the budget and forecast cash flow to take account of likely spending patterns. For example, it is likely that the energy budget would be profiled to account for higher energy consumption in the winter months.

Profiling allows more effective budget monitoring: a budget deficit in a particular month may be the product of a one-off expenditure item. Conversely a surplus may merely reflect a clustering of expenditure in future months.

A cash flow forecast will assist the school to identify whether the budget as currently profiled is likely to be covered by funds available in any given month.

4.16 Virements

A virement is deemed as any change of budget allocation where the budget will be used for a different purpose. In order to maintain budget control between governing body meetings, the headteacher will need delegated power to authorise virements of budgets up to a set limit as determined by the governing body. Such virements should be presented to the governing body with their reason as part of the next financial report.

Where an expenditure budget is likely to overspend, or income is unlikely to be achieved by the end of the financial year, the appropriate course of action will be:

- Where the overspend is within the levels delegated to the headteacher, the Headteacher or Finance Committee may approve financing of the excess expenditure, or income shortfall,

by virement of an equivalent sum from an identified revenue budget saving or unallocated reserves.

- Where the amount is over the delegation limit, the governing body must agree the virement before spending takes place. A written record of agreed virements must be kept. The local accounting system should be updated to show the latest approved budget.

4.17 Budget reporting - reports for the LA

The Scheme for Financing Schools requires that the school provide the LA with financial reports throughout the year in a format predetermined by the LA.

In order to keep an overview of schools' finances, the Schools Finance Team will request local accounting system monitoring reports from schools reflecting the spend as at 30 June, 30 September, 31 December and 31 March.

A school that is identified as having financial difficulties will also be requested to provide additional financial information, often at a monthly interval, in order for the Schools Finance Team to oversee and support the financial recovery of the school.

4.18 Year end closing

Year-end procedures are required:

- (a) to ensure that spending is recorded in the financial year in which it was incurred. This allows proper comparisons of spending between financial years.
- (b) to avoid any misinterpretation between under and overspending. Failure to adhere to year-end procedures could result in apparent under/overspending.
- (c) to report accurately and consistently to Budget Holders, Governors, Council Tax payers, elected Members, central government, etc.

All payments made after 1 April will be shown in the new financial year, other than items accrued for. Payments for goods and services received before 1 April should be charged to the old year.

During March of each year, guidance notes will be issued by the Schools Finance Team to each school. The full details of the procedures required and deadlines to be met will be specified. The areas covered will include:

- Purchase order
- External invoices
- Goods and services received but where the invoice has not yet been issued
- Payments made in advance

- Supplies invoices
- Cash income
- Debtors' accounts
- Outstanding income
- Creditor & debtor accruals.
- Income received in advance
- Accrual forms can be completed for:
 - goods and services received prior to 31 March where invoices have not yet been received
 - overtime and lettings claims for March.
 - income due but not received
 - income received in advance

4.19 Surplus balances

Governors must be informed about the intended use of all monies held as balances (often termed as reserves). Balances should be clearly linked to the School Development Plan and broken down into items such as redecoration, repairs and replacements, large purchases, capital projects, provisions for roll fluctuations etc. It is advised that Non-specific surpluses (contingency) should not exceed the relevant percentage of the gross school budget share.

The LA will contact schools each year to seek the reasons for balances that exceed the 11% for all schools over a four year period in accordance with the Scheme for Financing Schools.

Cash Flow Management

Schools should prepare cash flow forecasts to ensure that they will have sufficient funds available to pay for their operations from day to day, month to month, and year to year.

5.1 Cash flow forecasts

Schools should make use of all the information available to them to profile their cash requirements in order to maximise the investment potential of any cash surplus. The governing body should regularly monitor actual results against forecasts and receive updated future forecasts with any new information as it becomes available.

5.2 Standard profile

The profiling of delegated budgets is a valuable tool in the management of cash flows. The LA provides advances to schools on the basis of a standard profile:-

- 1/9th April
- 1/12th May to February
- 1/18th March

Top up payments for high needs pupils will be adjusted on a termly in arrears basis.

5.3 Monthly profile

As delegated budgets and spending plans become clear, it should be possible to profile budgeted income on a month on month basis for the year.

A useful forecasting technique in identifying spending patterns is to make use of previous years' financial information. By measuring one year against another, schools can determine spending patterns, this can be done on an annual basis to determine total spending or on a month by month basis to ascertain more accurately the spending pattern within the year (e.g. weighting the fuel bills to the winter months).

5.4 Other Income

Schools should attempt to determine the nature of any other income and the possible patterns of its receipt by the school. Identification of income sources may assist in determining the profiling of receipts. The nature of expected income will also assist in the formulation of budget forecasts.

5.5 Other expenditure

When considering the month by month cash profiles schools should consider the effects of periodic peaks and troughs in spending in areas other than salaries and wages, in particular the effects of utilities, educational supplies and services, and other supplies and services:

- utilities are normally paid on a quarterly basis (although this can be changed to a monthly basis by contacting the supplier if the school considers it more appropriate) and costs for heating and lighting will be weighted more to the winter months
- educational supplies and services are often required earlier in the academic year and therefore arrangements should be made to cater for this profile
- similarly other supplies and services, such as catering, do not accrue evenly throughout the year (e.g. there will be no requirement for catering whilst the school is closed through the summer and reduced costs during other holiday periods), and therefore cash requirements will not flow evenly.

5.6 Code of payment

Schools should make use of normal credit terms offered by the supplier. Often 30 days are allowed before payment is required. Making use of this normal credit period is considered good practice and is not regarded as borrowing. It may be possible for schools to negotiate longer credit terms with some suppliers. However deferred payment terms, particularly if there is a finance charge implicit in the agreement, may constitute borrowing. If in doubt, schools should contact the Schools Finance Team.

Discounts may be offered for prompt payment. Schools should be aware of the possible benefits of early payment discount and take advantage should this provide better value for money.

Late payments to creditors may be an indicator of solvency problems and/or poor cash management. In keeping with the Nolan principles of openness and accountability, schools should aim to comply with the [CBI Better Payment Practice Code](#). In most schools this seeks to formalise existing good practice. Schools are recommended to introduce a payment code and disclose their payment policies in their Annual Report.

The [Late Payment of Commercial Debts \(Interest\) Act 1998](#) applies to contracts between a LA (including schools) and a small business supplier (one with 50 or fewer employees). The Act provides for interest to be chargeable by the small business supplier in the event of late payment. Any interest cost incurred will normally be met by the school.

Ordering and Purchasing

6.1 Effective procurement and value for money

Schools must strive to achieve efficiencies and value for money in the goods and services they procure. By doing this it ensures they optimise the use of their resources to invest in teaching and learning. Schools are obliged to retain records to show that they have sought to achieve value for money and efficiencies when procuring goods or services for the school.

The day to day management of purchasing is usually delegated to the headteacher, who should establish an effective control system. It is for headteachers and governors to determine at school level how to secure optimum value for money. If there are significant variations in efficiency between similar schools, the schools should review their current expenditure, compare it to other schools and consider and implement ways to improve efficiency.

A system should be established to ensure that goods and services being ordered are necessary for the school to achieve its aims and objectives, that the items requested are the best value for money available, and that items of a similar type/standard are not already available within the school.

Quality is the most critical element of any procurement, ensuring that all schools purchases of goods or service are fit for purpose. For higher value purchases / procurements (i.e. over £1,000) the school should draw up a specification that outlines exactly what is needed.

It is important to consult widely, taking comments from all those who may be affected by the procurement, as what you think is needed or what has been purchased before may not still be what is required. Ensure that the item or service procured is of 'sufficient' quality to meet the school's needs.

Schools must adhere to the following key principles when procuring any goods or services:

- **Be open and transparent** – allow bidders to understand what you are going to do and how you are going to do it
- **Be objective and ensure equal and fair treatment of those making tenders** – allow all bidders a fair and equal chance of winning the contract
- **Be consistent** – do what you said you were going to do
- **Be accurate in record keeping** - use a unique procurement number order system to record all non-payroll purchases (except rates, rent, utilities and petty cash).

6.2 Division of duty

It is essential when establishing the purchasing system that an effective division of duty is put in place. The division of duty (allocation of key responsibilities) should enforce an appropriate level of internal control whilst allowing the process to function effectively.

A common finding in maintained schools' internal audits is that often clear segregation of duties was not always evident between the raising of purchase orders and the receipt of goods/services.

As a minimum, the key responsibilities of authorising an order, receiving goods/services, and authorising payment should be separated, with the authorising responsibilities allocated to members of the senior management team. Smaller schools may have difficulty where there are less staff employed to follow each task. Where this is the case, an alternative system with compensatory controls should be put in place.

Under no circumstances should this include the sharing of passwords. Such systems will differ depending on individual circumstances – you should contact the Schools Finance Team if you wish to discuss any issues regarding division of duty.

6.3 Expenditure limits

Schools should obtain prior approval from the governing body for all expenditure above the delegated authority given to the headteacher or Finance Committee.

A common finding in maintained schools' internal audits is that, for higher level spend, (in particular in appointing payroll and IT service providers) the appropriate number of quotes were not obtained in accordance with the table below.

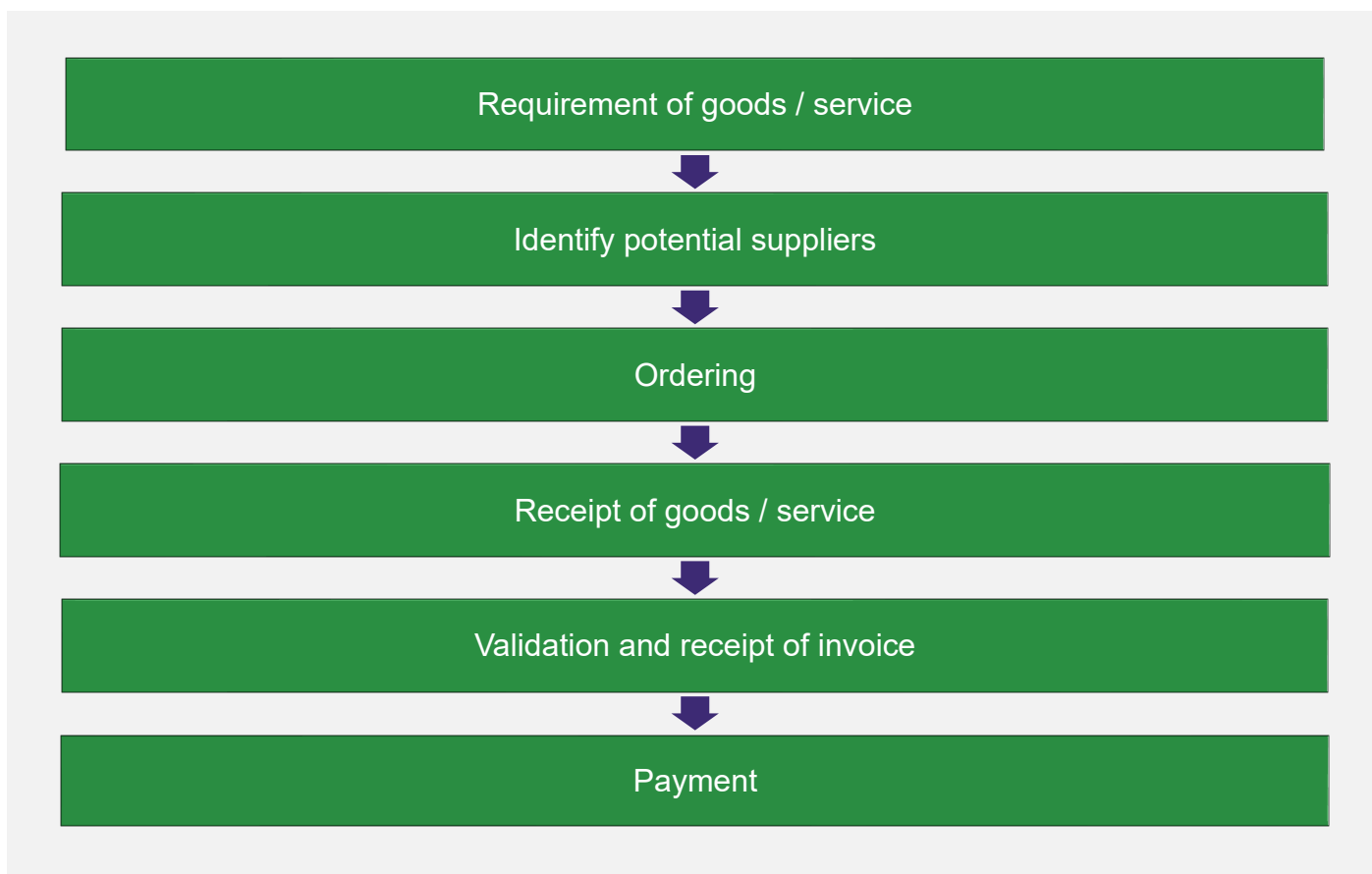
The following limits apply:

Contract Value	Procedure	Who can approve?
£0 < £100	School can purchase with a PO	SBM
£100 < £500	School should obtain at least three telephone / catalogue / website quotes	SBM
£500 < £10,000	School should obtain at least three written quotes	Headteacher

Contract Value	Procedure	Who can approve?
£10,000 < £20,000 (primary) £10,000 < £25,000 (secondary)	School should obtain at least three written quotes	Resources/finance committee or governing body
£20,000 < £60,000 (primary) £25,000 < £60,000 (secondary)	School should obtain at least three written quotes, including one from a local supplier, and contract need to be signed by LA	LA and governing body
£60,000 > £100,000	School should seek advice from the LA in first instance. Obtain at least three written quotes, including one from a local supplier, and contract need to be signed by LA	LA and governing body
More than £100,000	School must seek advice from the LA	LA

6.4 Purchasing

A purchasing system can be broken down into a number of key elements, each having a significant impact upon the overall process, and each requiring effective internal control procedures to ensure effectiveness and accountability.



When raising orders – the key components of the process should include:

- An internal requisition should be raised and signed by the individual member of staff requiring the goods/service
- **The requisition should be passed to the budget holder for review and approval.** The review should include verifying that the items/service is required, relevant for the school, there is sufficient budget to pay for the item, the selected supplier is appropriate and gives value for money
- Once approved, the budget holder should sign the requisition and pass to the relevant officer to raise an official order. An official order should be raised for all items purchased so that the expenditure is committed on the financial management system.
- The order should be produced and then returned to the budget holder/identified signatory. The budget holder/identified signatory should review the paperwork once again to assure themselves that the goods and services being ordered are appropriate and needed, that there is adequate budgetary provision and that, where required, the correct quotations/tendering procedures have been complied with. Once satisfied, the paperwork should be signed and a commitment raised on the financial management system. The paperwork should be passed back to the relevant officer for filing, and for the order to be issued.

A common finding in maintained schools' internal audits is that often purchase orders were not always raised for all appropriate purchases and authorised in accordance with the above.

Key areas to be reviewed in the ordering process to ensure there is transparency and compliance within the school are:

- Verbal orders must not be used except in exceptional circumstances, normally in emergency situations. Where this does happen, a commitment must be raised on the system via the raising of an official order as soon as it is practically possible (ideally within 24 hours)
- Purchases should not be deliberately split so that individual values fall below delegated or authorised financial limits
- Purchases made through the school should be for school purposes only – no purchases should be made for personal benefit of an individual.

The school should ensure it complies with the requirements of its financial framework in terms of obtaining appropriate approvals to incur expenditure.

6.5 Internet purchasing

In the current financial landscape for schools, it is important that schools utilise their resources to acquire maximum value for the school. Many purchases within the school can be purchased at best value via the internet and therefore it is appropriate to compare internet costs to other procurement routes.

The controls in place for using the internet should be as robust and follow the same process as all purchasing within the school. There should be a requisition detailing the requirements, review by the budget holder, approval by the budget holder/identified signatory and a commitment raised on the financial management system.

There should never be a circumstance where a purchaser has simply seen something on the internet and ordered it! Internet ordering should not be seen as an alternative to ordering via the financial management system, but an additional avenue for procurement in exceptional circumstances.

Internet ordering or purchasing must be restricted to those goods or services that cannot be acquired through the normal ordering procedures (i.e. by the financial management system) or where there are significant financial savings that can be made by the school (e.g. an on-line discount).

It is recommended that internet orders are placed only with reputable companies, ideally with those whom the school has dealt with in the past.

Where goods or services are to be purchased via the internet it is recommended that schools check supplier details before an order is placed, for example:

- The internet website should make reference to the supplier's name and address. A 'UK' internet address does not always mean the firm is UK based. A supplier's website will include information on that company's terms and conditions of trading. This information should be checked by schools beforehand
- It is recommended that transactions take place under UK jurisdiction where normal forms of redress are available to solve problems or disputes regarding faulty goods or non-delivery of goods
- A full description of the goods or services that are to be purchased is made available
- The prices including taxes
- Delivery costs and arrangements are clear
- How long the price will stay valid
- How to make payment
- Whether the school has the right to cancel an order
- If it is a service being procured, how long is the school committed for
- That the contract in law is between the school/LA and the supplier, and not between the individual and the supplier.

Once you are happy with the details and the terms and conditions of the supplier then an order can be placed via the internet.

The risks of internet ordering are:

- That it can by-pass normal order authorisation procedures (i.e. expenditure can be incurred without the prior approval of the budget holder)
- Expenditure can be committed without any check to ensure that there is sufficient budget provision.

Ensuring effective controls are in place within the school's purchasing process safeguards that all areas of school's expenditure is captured for effective budget management. The following points should be controls the school has in place to safeguard process:

- Any officer authorised to place orders using the internet should be aware of the guidelines and certify their understanding of them and agreement to abide by them
- An official order will be raised at the time of placing the internet order; however, as a minimum requirement, a confirmation order should be raised within 24 hours of placing the internet order
- Where an internet order is placed, a copy of the order should be printed off and retained by the school. This should be signed by an authorised officer independent of the ordering
- The internet order and official confirmation order should be cross referenced appropriately

- The officer placing the order should not be responsible for receiving the goods or authorising payment.
- The order should be raised in the name of the school, and not in the name of an individual. Internet orders should clearly state that the purchase is being made by an individual on behalf of (acting as an agent of) the school
- A copy of the internet order should be printed off and attached to the financial management system order.
- The conditions of purchase should be notified to the supplier for all orders placed.
- Internet orders should not be placed for personal use.

6.6 Receipt of goods

A common finding in maintained schools' internal audits is that there is often a lack of documentary evidence that the goods received were checked for accuracy and that delivery documentation was appropriately annotated.

All goods should be checked on receipt for quality, quantity, and completeness of order, and a 'goods received note' should be signed to confirm that all have been verified. All services received should be reviewed to ensure that they meet the level of service delivery required and any service delivery confirmation should be signed and dated for verification. Where a 'goods received note' or service delivery confirmation is not provided the original order should be signed and dated to confirm delivery.

Any shortages, rejected items or inadequate service delivery should be noted on the 'goods received note', service delivery confirmation or original order. The supplier should be informed immediately.

The verification of items/service should not be undertaken by the officer authorising the order. Where a delivery note is not available the individual receiving and checking the goods, or confirming receipt of services, should sign the order to confirm delivery.

6.7 Payment of invoices

When reviewing and processing invoices for payment it is important to follow the key duties highlighted below:

- The invoice matches the supporting purchase order
- The invoice is addressed to the school
- The invoice is an original document and not a copy or a statement of account
- The invoice has not previously been paid

- The goods or services detailed on the invoice have been accurately described and match the goods or services delivered
- The quantity/quality of the goods or services detailed on the invoice match the goods or services delivered
- The price is correct and agreed discounts have been deducted
- VAT has been correctly charged
- The invoice bears the VAT registration of the supplier where VAT is charged
- The invoice is arithmetically correct

Where the invoice is found to be inaccurate in any way, the invoice should not be amended. The supplier should be contacted, the discrepancy explained, and a request for a new, accurate invoice should be made. The supplier should be informed that payment will be delayed until a correct invoice is provided.

In some instances, and where the error makes it appropriate, the supplier will want to send a credit note. In such cases the invoice should be held until the credit note is received, the two documents should be kept together, and the correct amount authorised for payment. A credit note cannot be processed unless a commitment/order has been raised on the financial management system.

If a copy invoice is received it should be subject to a thorough check before being authorised for payment. No copy invoices should be passed for payment unless investigations clearly identify that the invoice is still outstanding. Where this is the case a note should be made on the invoice, (and corresponding order) confirming that the invoice has not previously been paid. This should be signed and dated.

Once the budget holder is satisfied that the invoice is accurate it should be sent to the authorising officer to review, and if everything is satisfactory, to authorise payment. The authoriser should both print and sign their name and note the date of approval (this may take form as part of electronic sign off via email).

A common finding in maintained schools' internal audits is that some invoice payments were more than 30 days overdue, and some purchases were not supported by a valid invoice.

Payment should be made within the terms of supply (e.g. within 10 / 30 days) to avoid any late payment charge and always be supported by a valid invoice.

6.8 Use of direct debits

Schools can make payments by direct debit and standing orders and the following procedures apply:

- The governing body (or Finance Committee if delegated) should approve every direct debit being set up

- The governing body (or Finance Committee if delegated) should give annual approval to all direct debits
- Only authorised officers (those identified on the bank mandate) should be able to sign direct debit request forms.
- A copy of the direct debit request form should be held by the school
- Direct debits should be set up at the start of the year, or for the remaining part of the year, depending when payments start, as a “blanket order” so that a “full” years’ commitment is put on the system
- Persons authorised to sign direct debit requests should not be responsible for clearing suspense/monitoring bank statements.

6.9 Oyster card

The Oyster card is an electronic ticket used on public transport in Greater London in the United Kingdom. The use of the Oyster card is encouraged as it offers substantially cheaper fares than with cash and the acceptance of cash is almost entirely phased out. This method of transport is far cheaper than taxi or other private hire, depending on the circumstances.

Where a school has registered Oyster cards for essential school travel on an auto top- up system they should follow the following audit steps:

- Signing out and in of oyster card – record of which staff have used card and for which journey
- Monthly reconciliation of journey route against costs downloaded from the Transport for London website
- Reconciled against bank auto top up amounts for month.

6.10 Exemptions

In the event that there appears to be exceptional circumstances which mean that the usual procedures cannot be followed, written approval from the LA must be obtained in advance. A business case, setting out the exceptional circumstances and explaining why the usual procedures cannot be followed, must be submitted and approved by the governing body and forwarded to the Senior Finance Manager, Education. Proposed alternative courses of action must still comply with remaining relevant statutory and corporate requirements as set out the Contract Standing Orders (CSO).

The Senior Finance Manager, Education will ensure that the application for an exemption goes through the appropriate council approval process as set out in the CSO.

Examples of circumstances which might amount to an exceptional reason for not following the usual procedures include but are not limited to:

- (a) the nature of the market has been investigated and is such that a departure from the CSO requirements is justified
- (b) the circumstances of the proposed contract are covered by legislative exemptions.

The nature of the market may indicate an exemption is required if:

- specialist expertise or product is required and is only available from one supplier
- The goods/services to be provided consist of parts for/repairs to existing proprietary equipment, where such parts/repairs are specific to that equipment
- Works, supplies or services are urgently needed for the immediate protection of life or property or to maintain the immediate functioning of the school
- The service is essential to complete a project and arises as a consequence of a recently completed contract/assignment, where engaging a different supplier for the additional service would be inappropriate/not cost effective
- The funding/grant provider has specifically stipulated that a particular supplier or procurement procedure be complied with the goods and services that are procured.

6.11 Contract agreements

A contract agreement is an umbrella agreement that sets out the terms (particularly relating to quality and price) under which individual contracts (call-offs) can be made throughout the period of the agreement.

Frameworks are essentially contracts procured by other organisations, such as LAs, central government departments or public buying organisations that schools and other public sector organisations can call off from.

Frameworks can offer the following benefits to school:

- Saves time as the competitive tendering procurement has already been carried out
- Suppliers on the framework will have been evaluated to ensure that they have the capacity, technical and professional ability and economic stability to provide the goods or services
- Lower prices resulting from the aggregated buying power of the wider public sector
- Balanced contract terms should have been negotiated that protect the interests of the school
- Contract management support is often provided by the organisation that awarded the framework agreement.

For more information see [Crown Commercial Services](#)

To buy from a framework, depending on how the contract agreement has been structured, you may be able to go directly to a preferred supplier (school may also nominate suppliers for inclusion on lists of approved suppliers) or you may need to carry out a 'mini-competition' among the relevant suppliers on the framework. This is a much quicker and simpler process than procuring a new contract yourself.

(Note: schools are not under obligation to accept contracts arranged by the LA)

Any financial agreement with capital implications should be linked to the priorities set out in the school's Asset Management Plan.

6.12 Public contracts regulations thresholds

Strict rules apply to all public bodies (including schools) spending more than the Public Contracts Regulations (PCR) Thresholds. From January 2024, the threshold for supplies and services was £214,904. Capital works have a higher threshold of £5,372,609. The threshold applies to the total contract value over the life of the contract, not the annual value of the contract and is inclusive of VAT. Therefore, a four year contract with an annual value of £60,000 would be subject to the regulations.

Thresholds are updated annually with the latest guidance located @ [Procurement Policy Note 11/23 – New Thresholds](#).

The regulations apply in their entirety to services such as telecoms and computers, cleaning and maintenance, vehicles and transport, consultancy and professional fees.

Educational-specific services and school catering services are subject to the new EU 'Light Touch Regime' which has a higher threshold of £663,540.

As the value of any contracts above this threshold will be greater than £100,000, under the expenditure limits outlined in section 6.3, schools **must** seek advice from the council before any procurement activity commences.

6.13 Procurement Act 2023

The [Procurement Act 2023](#), effective from 24 February 2025, brings substantial changes to make public sector procurement across England, Wales and Northern Ireland more efficient, transparent and flexible by unifying various procurement regimes under a single framework, encompassing public contracts, utilities, concessions, and defence and security procurement.

The overarching principle of the Act is to ensure 'contracting authorities' (which includes maintained schools) deliver value for money, maximise public benefit, act with integrity throughout a procurement exercise and continue to ensure equal treatment of bidders.

Outlining the strategic priorities for public procurement, the [National Procurement Policy Statement](#) aims to support the government's missions and deliver value for money.

Schools must have regard to the new procurement regime when considering purchases of goods, works and services.

6.14 Leasing and hire purchase

The introduction of [International Financial Reporting Standard 16](#) (IFRS16) for LAs from 1 April 2024 ended the distinction between operating and finance leases at maintained schools and in effect, from that date, all leases will be classified as finance leases for accounting purposes.

Schools must obtain approval from the Director of Children's Services before entering into any lease agreement. This should be done irrespective of any advice given by the leasing company on the nature of the lease. Please send a request for approval along with the details of the proposed lease to the Schools Finance Team where it will be assessed by the council's internal lawyers who will advise the Director of Children's Services as to whether to give approval to the lease.

In assessing the proposed lease, the council will take into account Schedule 1, paragraph 3(4) of the [Education Act 2002](#) which states that all leases are now classed as borrowing and require the Secretary of State for Education's consent.

However, the Secretary of State has agreed to provide blanket consent to a range of the most common leasing activities, as set out in the [IFRS16 Maintained Schools Finance Lease Class Consent 2024](#).

Leases not included in this Order will still require the written consent of the Secretary of State, and it remains the general position that schools will only be granted permission for other types of borrowing in exceptional circumstances. From time to time, however, the Secretary of State may introduce limited schemes to meet broader policy objectives.

In summary, consent may be given for borrowing of a particular class and the Secretary of State for Education has granted consent, from 1 April 2024, for borrowing comprised in a lease entered into by or for one or more maintained schools where the lease is of a description specified in the following Schedule:

1. All existing leases in place on 1 April 2024 for items included in this list
2. Leases related to IT equipment (for example laptops, tablets, desktop computers, printers, photocopiers, servers, door entry security systems, CCTV Systems, whiteboards and touch screen boards)
3. Leases related to telephony (for example mobile phones, landline phones and telephone systems)

4. Leases related to catering and cleaning equipment (for example tills, water coolers, vending machines, dishwashers, washing machines, ovens, fridges, freezers, water boilers, small kitchen appliances, crockery and cutlery)
5. Leases related to furniture (for example desks, tables and chairs)
6. Leases related to bathroom and sanitary items (for example hand dryers, towel dispensers, sanitary bins)
7. Leases related to gym equipment (for example treadmills, free weights and weight machines, rowing machines and exercise bikes)
8. Leases related to groundskeeping equipment (for example lawn mowers, string trimmers, leaf blowers and salt spreaders)
9. Leases related to LED lighting system (for example lightbulbs, control mechanisms and control panels) - consent is granted where the product has been sourced with support from the DfE through Get help buying for schools or from a recommended route on our Find a framework website
10. Leases related to minibuses and other vehicles for the use of the school
11. Leases related to temporary classrooms and equivalent structures (but not land leases they sit on, which may require separate consent – see school land transactions guidance)

Purchase Cards

The use of a purchase or procurement card gives schools more flexibility for payment and further opportunities to obtain value for money. With flexibility comes the need to implement an effective control framework covering application, management, the use and monitoring of the card(s).

Schools can use the purchase card for payment of ad hoc, low value purchases for an authorised school activity. The purchase card must be used for client related services and not for business-to-business transactions.

Natwest, the council's bank, can supply the purchase cards to the school. The cards are issued in the individual officer's name in order for the officer to undertake financial transactions on behalf of the school. Each cardholder will sign an employee agreement and is issued with a Purchase Card User Manual. Natwest also provides indemnity insurance to cover against lost and stolen cards and supplier fraud.

Please contact the Schools Finance Team for advice and application form, if you wish to apply for a purchase card.

7.1 Schools purchase card policy

Schools are required to develop a suitable policy regarding the use and management of the purchase card within the school environment and this should include the following:

- An ATM should only be used to change the PIN of the card. Schools must not attempt to withdraw cash unless a business case for this facility to be opened has been completed by the school and approved by governing body
- Purchase cards are not for personal use. If a purchase card is used in error for private use the card holder must immediately write a cheque or arrange a bank transfer to cover the reimbursement to the school and inform the headteacher, in writing, of their actions
- A card holder must have the nominated budget holders approval before goods and services can be purchased using the purchase card
- Any gift vouchers and gift items that are purchased using the purchase card must be supported by additional authority from the Headteacher and Chair of Governors.
- The purchase card must be stored securely with the named individual and details of the card number kept secure at all times
- The purchase card must not be shared with other staff
- The purchase card policy must indicate the consequences of misuse i.e. disciplinary action.

7.2 Purchase card agreement

The new cardholder will be expected to sign an employee agreement which ensure that they agree to comply with the rules and regulations covering use of the purchase card. The rules include:

- Agree to comply with terms and conditions
- Keeping receipts of all purchases
- Clearing transactions in a timely manner
- Ensuring security of card at all times
- Only using approved and preferred suppliers
- Ensure that all purchases made with the card are for school purposes only and not for personal use.

Schools are not permitted to have **CREDIT CARDS** as they are a form of borrowing and are therefore prohibited. Schools are not allowed to incur interest on the purchase card, expenses should be cleared and reconciled to the ledger balance as soon as possible.

Each purchase card held within the school is assigned to an individual cardholder who has personal responsibility for its proper operation, in accordance with this guidance and the school's purchase card policy. The purchase card can also be used for contactless payment with the same operation and guidance applying.

There should be an audit trail for all purchases by card, and a security process in place for all cardholders. There should also be monitoring procedures in place to ensure there is no misuse or fraudulent activity on the purchase card. If this is identified by the bank, LA or the school disciplinary or police action may occur.

7.3 Purchase card approval and authorisation

Approval of the use of purchase card within the school should be obtained from the school's governing body and this includes the following:

- The ratification of procedures for the use of the cards, including the verification of the expenditure by a separate officer from the card holder
- Names of officers who are to be given a card
- The transaction limit and monthly spending limits for each cardholder as agreed by the governing body
- The merchant categories (for example books, periodical, stationery, equipment and supplies) of the areas / types of businesses where cardholders can use the cards. Please note that some merchant categories will not be open to any cardholder, for example

'restaurant & bars', 'cash', 'leisure activities', 'computer equipment', 'staff temporary recruitment'

- Maintenance of segregation controls between cardholder, officers recording financial transactions and authorising payment for goods/services.

If a cardholder plans to go on long term leave, to prevent the card from being deactivated or closed, the cardholder should:

- Notify the bank
- The cardholder transaction log must be updated and reconciled
- The purchase card approver should ensure all transaction have been reviewed and transaction logs signed off before leaving.

Before any cardholder leaves the school, all outstanding transactions must be cleared and approved by the headteacher and recorded accurately.

The headteacher is to notify the bank, of any changes to the purchase card holders and ensure any cards are cancelled with the bank for staff who have left the school.

The headteacher is responsible for ensuring that all staff assigned a purchase card are operating in line with the following procedures:

- Cards are safeguarded from theft and misuse
- Expenditure incurred through the use of procurement cards is bona-fide, lawful and in accordance with the requirements of the service.
- Expenditure is within budget limits and schools manage their cash flow to ensure that they have sufficient funds available to pay off the monthly balance via direct debit.
- There is a clear audit trail of approval and monthly reconciliation of all expenditure
- The purchase card must operate by having a monthly direct debt set up to the school's local bank account to recover the full balance on the account. This will ensure that there are no outstanding amounts on the card at month end.

7.4 Transaction log

Details of the transactions on the card are accessed on-line via the Natwest website. Details of the registration/enrolment process are given in the user guide, which is sent via e-mail once the card is issued.

It is an audit requirement that the headteacher (or delegated officer) approves and checks the transactions on the bank statement on a monthly basis. This can then be used to reconcile the transactions with the monthly bank statements and should follow the following points:

- The transaction log must be reconciled with the monthly bank statement and receipts/invoices
- The monthly transaction log should be signed by the cardholder / headteacher (or deputy) as certification that the required checks have been carried out and that the costs incurred are correct and approved
- The monthly log should be sequentially numbered and passed to the School Business Manager / Bursar with all supporting records for accounting system update and reconciliation with the direct debit and statement
- On receipt of the statement, check that the details of each transaction correspond to the supporting documentation, i.e. requisition, order, delivery or receipts etc. - attach these to the statement, to maintain an audit trail.
- If the transaction log is completed by school finance staff, receipts and details of transactions should be passed to School Business Manager / Bursar on the next working day, after transaction is completed, to facilitate an accurate recording of the school's expenditure.
- The purchase card reconciliation should be reviewed by an independent member of the Finance Committee or the governing body to ensure adequate oversight of the expenditure.

7.5 Purchase card compliance

Cardholders may not use personal loyalty cards (e.g. Nectar, Club-card etc.) in conjunction with the card. If any such use is made, it will give rise to a taxable benefit in kind (P11D) which the individual will be liable for.

Should the school obtain a loyalty card (if applicable), the points accrued should be used solely for the benefit of the school and not the card holder.

Schools should note that using the school's financial resources inappropriately can lead to significant reputational damage to the school.

Where schools misuse their financial resources, they will have less to spend on children's education and in serious cases this may lead to loss of delegated powers and / or disciplinary action being taken against individuals and school.

Petty Cash

8.1 Use of imprest/petty cash accounts

Imprest / petty cash accounts are, in general, intended for purchasing low value, urgent items. Payments can also be made when a supplier requires immediate payment although this should be discouraged. In no circumstances should the imprest account be used to replace the official ordering and payments system.

Cash, chequebooks and receipts held in relation to the account should be kept separate from all other cash such as school funds, amenity funds or other sales.

The imprest monies should never become mixed with personal monies or be used to cash personal cheques or fund I.O.U's. The account should never be used to pay salaries/wages or travel and subsistence of persons employed by the council.

8.2 Deposits

A maximum cash balance of £250 is suggested. In smaller schools or schools preferring to restrict petty cash transactions the cash balance should be lower and a limit set in relation to the expected expenditure (four to six times the average weekly payments).

The only deposits to petty cash should be from cheques cashed specifically for the purpose. The receipt should be recorded in the petty cash system with the date, amount and a reference, normally the cheque number, relating to the payment. All other cash receipts for whatever reason should be paid directly into the bank.

8.3 Payments and withdrawals

Petty cash should be held on an imprest system with reimbursement against properly authorised vouchers in accordance with the system of delegated authority approved by the governors.

In the interests of security, petty cash payments should be under £25 in value. The precise limit should be approved by the governors. Higher value payments should be made via payroll.

A receipt should support all purchases. If the expenditure is subject to VAT, a VAT receipt, such as a till receipt, must be obtained. The VAT receipt must show the following details to enable the VAT to be reclaimed:

- name, address and VAT registration number of the supplier
- date of supply;

- amount payable including VAT
- the rate of VAT
- the description of goods and services.

All expenditure should be coded to a valid expenditure code from, which there must be authorisation to spend.

The following are examples of items that can be purchased out of petty cash:

- Postage
- Pupil bus fares
- Pupil taxi fares
- Pupil subsistence and meal allowances.
- Stationery
- Subscriptions
- Governors' expenses

The following should not be paid out of Petty Cash:

- Goods and services which can be ordered through the normal ordering process
- Claims for disturbance allowance or relocation expenses
- Salaries
- Mileage allowances; car parking fees, bus fares and taxi fares
- Travelling expenses incurred going to and from home to the normal place of work, unless by taxi on an irregular basis after 9.00 pm
- The cashing of personal cheques
- Salary payments to individuals

8.4 Administration

All transactions should be entered into the petty cash records on a regular basis and monthly reconciliations undertaken to ensure that the imprest system remains in balance.

There should be independent checks on petty cash holdings and records. This should be carried out without notice with reconciliations reviewed by an independent person who is not involved in recording petty cash transactions.

8.5 Record keeping

The headteacher is responsible for nominating a float-holder and deputising officer for managing petty cash. The headteacher is also responsible for informing the School Leadership Team or Finance Committee of any changes to the float-holders, record of delegation and changes kept for audit purposes.

For business continuity, the deputising officer will cover the duties of the float-holder during holidays, sickness, training etc and can also present or collect the float reimbursement at any time.

A petty cash float is advanced to a nominated float-holder, who is responsible for ensuring that the procedures are followed:

- The petty cash float does not exceed the value approved by the governors
- The cash holding limits, are not exceeded
- The petty cash float must be kept in a secure location where the room can be locked and in a safe or a lockable cupboard
- Arrangements for access to the money should be set down in the scheme of delegation and should ensure that adequate segregation of duties exists.
- Petty cash must be replenished through the correct bank account and not through income collected at the school - all cash and cheques received on behalf of the school must be banked intact
- All payments from petty cash must be supported by documentation, voucher invoices or receipts
- If VAT is being paid, the vouchers must meet the VAT requirements. If they do not, the VAT cannot be reclaimed, so the whole amount should be charged to the school
- If a receipt is not available, a signed explanatory voucher must be completed, agreed and countersigned by the headteacher, before any reimbursement can be made
- The claimant should complete a petty cash reimbursement form, attaching the receipts and obtaining the approval of an authorised signatory - the claim should be reimbursed by the float-holder only after it has been approved
- The float-holder must ensure that records are kept to show the nature of the expenditure for which petty cash has been used.

8.6 Petty cash reconciliation

The total of cash remaining (plus receipts and/or vouchers for reimbursements) must be equal to the total float at all times. Any discrepancies should be investigated and corrected. If this is not possible, the headteacher needs to be informed in writing.

When replenishing the float, the amount requested must equal the total of the receipts and vouchers, this should bring the float back to its full total.

Petty cash floats must be monitored and replenished regularly, to maintain the level of the float that the school requires.

All petty cash float reimbursements must be reconciled before the float can be replenished. Supporting documents, with claim forms and receipts, must be attached to the control sheet and filed.

It is the duty of the float-holder or deputising officer to present and collect the reimbursement. The float reimbursement will be issued only to one of the authorised officers. A letter of authorisation should be given to the member of staff presenting the reimbursement cheque at the bank which should be signed by an authorised signatory, as per the school's bank mandate.

The Headteacher and School Business Manager/Finance Officer are responsible for ensuring that the float is checked and reconciled monthly, at the end of term and that such checks are documented

8.7 Security

All cash, stamps and cheque books should be kept in a safe or strong room. If there is no safe or strong room available they must be kept in a locked drawer or cabinet in accordance with insurance requirements.

If the officer responsible for the imprest account changes, the new responsible officer should ensure they are fully conversant with the requirements of maintaining imprest account records and for submitting reimbursement claims.

If any of the signatories change on the bank account mandate (all banks) the Schools Finance Team must be informed. A new bank mandate for NatWest Accounts will be sent to an existing signatory on the account for completion.

Income and Collection

9.1 School income

Income may be generated by schools subject to sections 449-462 of the [Education Act 1996](#) which sets out the law on charging for school activities in schools maintained by LAs in England. The main sources of income for schools is typically:

- School dinner sales
- Bank account interest
- School trip contributions
- Lettings / car parking
- Fund raising activities
- Sale of assets
- Sale of school uniforms
- Consultancy, training and examination fees.

Schools retain all income they generate unless it relates to:

- The sale of certain assets (such as land and buildings owned by the council, or assets funded by bodies who may impose conditions, e.g. charitable concerns, lottery funding); or
- Income from a Public/Private Partnership (PPP) or Private Finance Initiative (PFI), which are subject to a specific agreement.

Schools should maintain a brief summary of the administrative procedures in place that govern the authorisation and generation of invoices and collection of income. This summary should form part of the school's documentation for audit inspections.

The summary should cover the following:

- Procedures for authorisation and generation of a sales invoice/credit note
- Credit control and debt recovery procedures
- Entry of income on the school's accounting records

9.2 Charging policy

Under the charging provisions set out in legislation, governing bodies may choose to charge for certain defined activities, but only if they have first drawn up charging and remissions policies. This

policy should be made available to parents on request, must be published on the school's website and must include details of:

- the activities or cases where the school will charge pupils' parents
- the circumstances where the school will make an exception on a payment that would normally be expected to receive under a charging policy

Schools (and LAs) can charge for:

- any materials, books, instruments, or equipment, where the child's parent wishes him/her to own them
- "optional extras" – see DfE guidance for details
- music and vocal tuition, in limited circumstances
- certain early years provision
- community facilities.

Each school must have a written charging and remissions policy, which should be reviewed regularly. The policy must take into account each type of activity charged for (including lettings) and provide an explanation of the charges made.

The charging and remissions policy will make clear which types of activity can be charged for and explain when charges will be made. Schools should present the charging and remissions policy annually to governors for approval. It is recommend that the charging and remissions policy be submitted for governor's approval, along with the school's first budget plan for the year and best value statement, at the beginning of each summer term.

DfE guidance to help governing bodies set out their policies on charging and remission for school activities and school visits is available at [DfE Guidance - Charging for school activities](#).

9.3 Hire of premises

Hiring of school premises or facilities (both sport and non-sport facilities) must be in accordance with the school's terms of letting and building regulations at the rates approved by the governing body.

Schools should have up to date Public Liability Insurance cover (the policy covers the buildings and outbuildings of the school) for health and safety reasons. The following should be considered when letting out premises:

- Income from letting should not be paid into the voluntary or private funds held by the school
- Income must be reviewed annually and ensure that income is sufficient to cover costs
- Alcohol should not be allowed in the school premises or inside the hall.

9.4 Raising invoices

The school should set up its own invoicing procedures, taking into account the following:

- Invoices should be issued for all income generation services provided to customers
- A unique debtor account should be set up for each customer and all payments received from customers must be allocated to the correct debtor account
- Schools must ensure that there is segregation of duties between staff responsible for issuing (or amending) invoices and those responsible for the subsequent income collection and input to the school financial system.

All invoices sent out by schools must be sequentially numbered. They should also include the following details:

- Invoice number
- Date of issue
- School name and address
- For VAT purposes, quote 'London Borough of Southwark, together with the Authority's VAT registration number: (GB 235 8294 44)

For VAT purposes, schools fall under the council's VAT registration. See Chapter 11 for detailed guidance on VAT.

VAT Invoices should include the following information:

- Name and address of customer (debtor)
- Details of goods/services being supplied, so that it is clear to both parties what is being paid for
- The amount due, including gross, net and, where applicable, VAT amounts charged for goods/services supplied
- The settlement period (i.e. when payment is required by). This should normally be 30 days
- A contact name and telephone number, so that customers can contact the school to resolve any queries
- Details of how to pay the invoice (e.g. cheque or BACS). If BACS is required, the invoice should include bank details.

It is important that original invoices and documents are logically filed and can be easily cross-referenced to the school's financial management system records.

9.5 Amending invoices

Any spoiled invoices must be marked as 'Spoiled' and retained for audit / VAT purposes.

Amendments should be authorised by an appropriate school officer and implemented by raising a credit note and, if necessary, creating a new invoice.

Amendments should be recorded on the accounting system as a credit and, where relevant, a new invoice generated. The original transaction should not be changed.

Where a school's accounting system cannot record invoices raised and credit notes issued, a manual record must be maintained. This must record all invoices raised, payments received, and credit notes issued.

9.6 Collection administration

Schools should ensure that income due to the school bank account is collected at the time of supply by cash or by cheque. In cases where payment cannot be collected, e.g. where income is due from remote bodies, schools must maintain their own debtors' accounts. Where schools hold card reader machines or Apps these can also be used to collect payment.

Schools must record income on the school's financial system as soon as possible after it is received.

Income must be coded to an income code, even if it is planned to offset specific expenditure items. Segregation of duties must be applied to invoicing and income receipts.

9.7 Retaining income

Schools may retain income from lettings of the school premises and car park. However, school premises owned by the council must adhere to the council's directions on how those premises can be used.

Although income from the sale of assets purchased with delegated funds can usually be retained by the school, it may only be spent for purpose of the school. Income from fund raising activities are allowed to be retained by school.

9.8 Collecting cash

Collecting cash, although sometimes necessary, carries higher risk and should thus be handled with care. Schools should adhere to the following guidelines:

- Never take cash home

- Never ask or encourage payers to send cash through the post
- Have effective arrangement for holding cash in a secure place before it is banked, bearing in mind the cash holding limits of the safe and of the school's insurance policy
- Bank cash as soon as physically possible or on a regular basis to reduce the risk of theft
- If cash holdings are likely to be substantial, schools must ensure they have adequate insurance cover.

For more information contact the Insurance and Risk Management on 020 7525 7534 and see Chapter 13.

9.9 Collecting cheques

Keep a record for each cheque showing the name of the payer, the nature of the income, and the amount.

The most significant risk related to cheque payments is that cheques can be dishonoured or may bounce. If possible, ensure that cheques are cleared before providing goods/service. If a cheque does not clear for payment, schools should reflect this in the general ledger to show that payment has not been received and then pursue the debtor for immediate payment.

Take all practical precautions to prevent cheques from bouncing, e.g.:

- Ensure that the information on the cheque is correct, i.e. that the words and figures agree, the signature is valid, the cheque is for the correct amount and that the correct date is recorded
- Make the cheque easier to trace if it bounces by writing on the back of the cheque: the invoice number, receipt number, name of child (if applicable) and the bank account number into which it will be paid
- Never accept post-dated cheques.

9.10 Card readers / parent pay

Many schools now use web-based systems to collect income such as electronic readers or parent pay suppliers. These systems hold electronic record of income and link directly to the school's main bank account.

Where a school is using these methods, they should include the process of reconciling transaction and application of income to the financial management system as part of their charging and remission policy.

In addition, some of these processes charge a fee on transaction which the school should additionally account for when budgeting for income collection.

9.11 Authorising and issuing income receipts

All cash transactions should be properly documented and receipted, including payment to members of staff. Receipts should only be issued by authorised officers. When not in use, receipt books should be securely held with controlled access.

Receipts should be sequentially numbered and contain the following information:

- School's name
- Amount received (gross, net and, where applicable, VAT)
- Description of the income
- Unique reference number
- The LA's VAT registration number (i.e. the council's VAT number - GB 235 8294 44)

Keep copies of all receipts for an audit trail.

9.12 Banking collected income

Cash received should be banked in accordance with the guidance concerning income as soon as possible after it has been received, to reduce the risk of theft.

Pay cash income into your bank account intact, i.e. do not hold back money for petty cash or other expenses. Ensure secure arrangements are in place for taking cash to the bank. If necessary, consider using security services.

For security reasons, schools need to record all income and deposits at the bank. For cheques, this includes recording all details of the cheque itself, such as the cheque number, the amount and payee's name.

Income records must then be reconciled with the bank statement or deposit records on a monthly basis. Any discrepancies should be recorded and immediately investigated.

9.13 Debt management

The governing body must have a policy for the collection of any monies due to the school. Debt collection is the responsibility of schools and they must act promptly in recovering debt and a firm debt collection policy in place. This should include:

- Credit checking and arrangements to collect monies in advance if deemed necessary
- The normal settlement period of 30 days and how it is communicated

- The escalation actions to be taken, and by whom, to chase unpaid amounts due once the settlement period has passed
- Other actions to be taken, e.g. removing credit facilities or the use of facilities whilst debt remain unpaid.
- Pursuing claims in the small claims court
- Whether an individual or committee is delegated authority to exercise discretion on specific debts, and what the limits of the discretion are
- A process of debt write off should be in accordance with council regulations
- Schools should implement debt collection processes as soon as the settlement period given on an invoice has passed.

9.14 Debtor control account

Schools should operate a debtors' control account in order to record all accounts issued and monies received. Schools should regularly review outstanding debts and ensure that debt recovery is being actively pursued and reported.

If an account remains unpaid after a reminder has been issued, further action may be required, depending on whether the debt originates from an internal or external source.

If the debt is from an internal source, say between schools within the borough or within the council itself, legal proceedings will not be instigated; instead, schools must inform the Schools Finance Team of the outstanding debt so that they may advise on resolving the matter.

If the debt is from an external source, it may be pursued by taking legal action if sufficient reminders have not resulted in payment. In such cases, schools should seek legal advice, at the school's cost, on how to proceed.

Banking

10.1 Banking requirements

Each maintained school is required to operate a bank account. The framework under which school bank accounts must operate is set out in the Scheme for Financing Schools.

In operating their own bank account, schools are responsible for:

- Timely payment of all invoices and charges properly payable from the school bank account
- Production of payment advice notes to accompany cheques, so that creditors can determine for which particular goods, services or invoice the cheque represents payment
- Answering creditor queries on payments
- Reconciling the school bank account to their general ledger records regularly
- Completing monthly income and expenditure returns for Schools Finance Team
- Retaining all original invoices and other payment documentation safely and for the minimum required period
- Monitoring and maintaining adequate cash flow in order to generate maximum interest receipts and prevent overdrawn balances.
- Ensuring any breach of banking terms is reported immediately by the Headteacher to the Senior Finance Manager, Education.

10.2 Choosing a bank/building society

The choice of bank or building society must be made and the opening of that account authorised by the governing body of the school. The authorisation shall set out, in a formal memorandum, the arrangements covering the operation of accounts, including any transfers between accounts and cheque signing arrangements.

Schools should consider aspects such as cost (bank charges), type of accounts available, interest, information provided to the school and the cost of this provision when selecting their bank or building society. Schools may wish to consider services such as on-line computer banking including balance updates and automatic transfer of funds to high interest accounts.

Schools are restricted to the banks listed below and in section 3.7 of the Scheme for Financing Schools:

HSBC plc	Bank of Scotland/HBOS plc
National Westminster	Lloyds Bank plc

Those maintained schools that bank with NatWest and are part of the pooled arrangements may benefit from some corporate facilities and any charges are made directly to school accounts.

Where a school would like to open a new bank account or change banking providers, the school must inform the Schools Finance Team at least two months prior to the written notice of intention to change.

Schools may need to open both a current and deposit account – this needs to be identified with reasons in the notification to the Schools Finance Team e.g. better rate of interest on current account option linked to deposit account. To prevent risk to investments, balances may be held in current and deposit accounts only.

Schools must not themselves offer any form of security to the bank.

If a school did not previously have a bank account and then opens one the council will (if the school desires) transfer within five days, of the request from the school, to the account the estimated surplus balance held by the council in respect of the school's budget share. Both the school and the council must agree the estimated surplus balance on the basis that subsequent corrections can be made when the schools' accounts are closed.

10.3 Operating school bank accounts and signatories

All schools bank accounts must be in impersonal names and take the following form: LBS RE [School Name].

The bank mandate must include at least three and the most five authorised signatories and require all cheques to be signed by two authorised members of staff, as approved by the governing body. Authorised signatories must see all supporting documentation before signing the cheque. The chosen bank mandate signatories must be in accordance with the school's Scheme of Delegation.

Authorised signatories on the school cheque accounts should be:

- Headteacher
- Deputy headteacher
- Senior leadership team members

- Staff with responsibility of ordering and processing invoices

A school must have a minimum of two and a maximum of five cheque signatories, of which two will be the Headteacher and the Deputy Headteacher.

The School Business Manager or Bursar would not usually be made a cheque signatory as this is unlikely to result in an adequate segregation of duties. However, if the School Business Manager or Bursar is not involved in payment processing and accounting and provided that an adequate level of internal control is maintained, they may be a signatory.

Schools must ensure signatories are updated as soon as staff responsibilities change or staff leave post. Failure to do this in a timely fashion can result in a security risk or lead to delays in writing cheques and withdrawing cash.

Governors should not normally be authorised signatories to the account for these reasons:

- They would not be able to carry out their role of ensuring that there is a sound system of internal financial controls in place if they themselves are operating some of the controls
- The insurance for fiduciary duties may not include cover for the actions of governor.

Temporary staff can be a cheque signatory especially if it is part of their job description. For instance, a temporary Headteacher, Deputy Headteacher, School Business Manager or Bursar employed to cover sick or annual leave will need access to the school financial system to approve payments.

If any queries relating to signatories – please contact the Schools Finance Team.

A monthly bank statement must be obtained detailing transactions up to and including the last working day of each month.

Schools must reconcile their local cheque account records and other local records to the bank statement each month **which must be signed by both the officer completing reconciliation and the officer reviewing the reconciliation.**

A common finding in maintained schools' internal audits is that often the bank reconciliation has not been signed by both the officer completing the reconciliation and the individual conducting the independent review to evidence segregation of duties.

VAT paid by schools will be repaid by the LA into the schools' bank accounts by BACS. The repayment of VAT will be based on the net amount of VAT shown on the schools system generated monthly claim. Payment will be made to the school the following month.

All income generated from LA activities must be deposited in the account.

All documentation relating to payments from the account(s) must be retained in school. HMRC require that invoices be retained for the current financial year and six previous financial years.

Schools may authorise standing orders and direct debits to be made from these accounts.

The use of cash dispensers and debit cards is not permitted. However, schools may use charge cards where the balance must be paid in full each month.

The school will be responsible for any penalties or amounts payable to HMRC that are incurred by the council as a result of the school failing to comply with the statutory requirements.

10.4 Bank interest and charges

Schools will be liable for all charges relating to their bank and building society accounts. Schools may keep any interest credited to their accounts by their banks or building societies and use it to enhance their formula funded allocation. This interest should be accounted for in the account and not placed in any non-public fund account such as school funds etc. Schools with Natwest accounts will receive interest to their accounts each quarter.

10.5 Cheque security

Schools should ensure all bank stationary including cheque books and paying in slips are kept in a locked secure location within the school. Schools are responsible for ordering their own cheques direct from the bank. In the case of lost or stolen cheque books the school are required to report to bank immediately and additionally notify the Schools Finance Team.

Blank cheques must not be pre-signed under any circumstances. All cheques should be crossed “account payee only”.

Cheques that are spoiled during issue or drawn in error and not issued, must be clearly marked ‘cancelled’ and retained with their counterfoil, for audit purposes.

If a cheque, it should be marked as ‘cancelled’ and kept in the cheque book

Schools must process all cheques, including cancelled and returned cheques, through their financial management systems

10.6 Cheque preparation and signature

When an invoice is received it should be checked against the order and the record of goods received to ensure the invoice is correct. The calculations on the invoice must also be checked to ensure they are accurate.

Cheques for payment should be written out and presented to the signatories along with the supporting documentation. There is a need to separate as far as possible the duties of ordering, receiving goods, checking invoices and signing cheques.

Please note that this control does not prevent a school representative on the panel of cheque signatories from also being an authorising officer. The key point is that they should not sign a

cheque relating to goods or services for which they have also authorised the expenditure. It does not affect the ability to sign cheques for expenditure authorised by others or to authorise expenditure where others sign the related cheque.

When cheques are signed the signatories should write "Paid" on the invoice and initial it to avoid duplicate payment.

10.7 Cheque payments

At least three employees should be authorised to sign cheques and any cheque will require two of those signatories. Cheques should only be signed when they are ready for issue and in no circumstances should blank cheques be pre-signed.

Bank accounts must not be allowed to become overdrawn and payment should not be made unless there are sufficient funds in the account.

If a cheque is more than six months old and has not been cashed by the payee, it is out of date (is no longer valid and could not be cashed). The cheque should be written back in to the account.

10.8 Charge card withdrawals

Many banks, financial institutions and retail stores produce cards which can be used for purchasing. The use of these cards is not considered to infringe the borrowing restrictions imposed on schools as long as the balance on the account is cleared in full at the end of each month. It should be possible to arrange for payment by direct debit which would satisfy this condition.

The governing body should authorise any cards to be used having considered the potential risk over and above that of the purchase order system and appropriate controls over usage. They should approve the written instructions on the scope and use of the cards. The following procedures should be helpful when considering the use of these cards:

- The card should not be used for any form of personal transaction
- A list of authorised users and any restrictions on the use of the card (spending limits, types of purchase etc) should be maintained
- Documentary proof of any goods purchased with the charge or credit card including details of the nature and cost of those goods, should be returned to the person responsible for recording charge card transactions as soon after each purchase as is reasonably practical
- Transactions should be reconciled to statements by someone other than a card signatory and the statement signed as evidence of the checks performed.
- All expenditure should be recorded in the enabling account when the statement is paid, including any VAT, on the appropriate codes.

10.9 Direct debt mandates

There should be robust controls over all ways in which funds may be drawn from accounts, including such operations as standing orders, direct debit mandates, BACS payments and salary payments.

A common finding in maintained schools' internal audits is that often direct debit mandates are not signed and retained, were only signed by one signatory, or were signed by non-current staff.

Direct debit payments must be checked and certified by appropriately nominated staff as with any other form of payment. It is recommended that a control sheet be maintained, for each supplier, which lists and certifies each individual payment identified and recorded on the bank statement.

10.10 Online banking

To ensure that school funds are sufficiently protected from erroneous and fraudulent transactions, schools wishing to manage their bank accounts using internet or BACS banking facilities must notify the Schools Finance Team.

All schools are allowed to operate an online banking process. Online banking offers the facility to complete various banking functions via the website such as:

- Checking accounts balances
- Transferring money between school accounts
- Setting up direct debit payments to suppliers.

Payments through internet banking software are effectively just another form of payment and as such, any payments must still be authorised by two officers. A single authoriser of payments via internet banking software is a clear breach of the guidance governing the payment of accounts by schools.

As reminder the internal controls that need to be considered include:

- proper authorisation and approval of both the initial setting up of account details and any subsequent transactions against the account(s)
- multi person on-line authorisation
- completeness and accuracy of details so they can be verified by a responsible officer
- security and confidentiality of data at all times
- reconciliation of the account by staff not involved in the transaction
- retention of documentation to support transactions

- purchase orders
- payment vouchers
- payroll listings
- screen prints of payee(s) details
- screen prints of transaction(s)
- confirmation details
- cash limits on individual transactions and total transactions in a set period
- the appropriate segregation of duties to ensure and maintain the accuracy and legitimacy of accounts and transactions.

10.11 Management of overdrawn accounts

Schools must not plan to overdraw their accounts or make arrangements for loans or any other forms of credit or deferred purchases without the written permission of the Secretary of State for Education. This restriction does not apply to Licensed Budget Deficits and the Loan Scheme operated by the council in accordance with the Scheme for Financing Schools.

Where a school has cashflow difficulties that may lead to account becoming overdrawn they must notify the Schools Finance Team immediately in regard to advancement of monthly cash payments to avoid bank charges.

The council may pursue the charging of interest to the school where the bank account has become overdrawn.

Applications from schools for early release of part of their next advance will be considered sympathetically by the Senior Finance Manager, Education. Schools must provide sufficient assurance and supporting details to confirm:

- that the need for cash flow assistance is a temporary expedient
- robust cash flow planning is in place
- forecast outturn showing expected increase in cumulative surplus position

All schools with cash flow issues are advised to notify the Schools Finance Team to help resolve any issues that may arise with creditors as soon as possible. If a school becomes overdrawn and the bank notifies the LA prior to the school notifying the Schools Finance Team, it will be referred to the Director of Children's Services to ensure the school has a financial budget and process review.

10.12 Funding and income paid into the bank account

The school bank account can be used for all income and expenditure included in delegated budgets except items related to unofficial funds, e.g. private or voluntary school funds. Funding and income that may be paid into school bank accounts includes:

- Advances made by the council of the school's delegated budget share
- Schools grant income
- VAT reimbursement sent by the council.
- Any income generated by activities funded from school's delegated budgets and extended school activities funded from other sources such as:
 - Income from lettings
 - Miscellaneous sales eg school uniform
 - Contributions towards school expenditure received from the private School Fund or Parents Teacher Association (PTA).

10.13 Income procedures

School income, either cash or cheque, should be kept in a secure place until it is deposited into the school bank account as soon as practicably possible. It is recommended that income is not held for more than a week before banking and that large sums are banked on the day of receipt if possible. The level of insurance cover for individual and locked cabinets will be a key factor as to how much is held.

A receipt must be issued for all income over the specified limit. Copies of receipts must be retained for audit and accounting purposes.

It is essential that non-public money (e.g. school funds, PTA funds) is kept separate from authority money. Schools must devise systems to ensure that this happens.

Income should be recorded, in receipt number sequence, in the school's local record of income and expenditure immediately on receipt

The local record of income must be checked against the bank statement each month as part of the reconciliation process.

10.14 Income from delegated budget share

The amount to be advanced to schools is the total budget share for each particular school, comprising of the delegated budget shares and other grants. Funds will be transferred into a nominated account by credit transfer through the BACS system.

Details of frequency of instalments, proportions of budget share payable at each instalment, instalment dates are provided by the end of February of each year.

Schools will receive their monthly budget share payment of schools block and high needs block as follows:-

- 1/9th April
- 1/12th May to February
- 1/18th March

Top up payments for high needs pupils will be adjusted on a termly in arrears basis.

10.15 Discontinuing/closing a school's bank account

If a school fails to comply with any requirements of the Schools Financial Procedures Manual, and this gives rise to any financial liability falling on the council, this amount will be deducted from a future advance.

The LA have the right to withdraw a school's separate bank account or discontinue a school representative from being a cheque signatory if, in their opinion, proper financial control is not being exercised, or there had been substantial or persistent failure to comply with the requirements of the Scheme for Financing Schools.

In such circumstances, the Assistant Director of Finance – Children's & Adults' Services will be kept fully informed of the reasons leading to this decision.

This facility can be restored if the school demonstrates its capability to manage a bank account in a manner considered acceptable by the Assistant Director of Finance – Children's & Adults' Services.

11.1 Introduction

Even though the responsibility for the day to day management of a school's financial affairs has been essentially devolved to the school itself, it remains a part of the council from a Value Added Tax (VAT) point of view. Each school is not required to register for VAT in its own right and there is no requirement to account for VAT on any transactions between schools and the council.

However, what each school will have to do is record its own VAT. It will have to decide when to charge VAT on income, it will record that VAT and issue VAT invoices if necessary; it will have to decide what VAT can be recovered on its expenditure, record it and ensure that proper invoices are retained to support that recovery.

VAT is a complex area, and subject to constant legislative and case law changes. This guide will hopefully help you to understand VAT and give you guidance on the treatment of common activities within schools.

Where further clarification is required, schools should seek day-to-day advice from the Schools Finance Team and refer more complex queries to the council's VAT Accountant.

Schools must comply with the council's Financial Regulation 5 and liaise with the council's VAT Accountant on any capital proposals (including bids for external funding), thereby ensuring the VAT implications for the authority and the school are fully appraised before the project goes ahead.

Schools may also get visits from the local VAT inspector to check that the VAT declared on the council's VAT return is correct. Schools are reminded that failure to comply with the requirements of HMRC can lead to significant financial penalties, and these will normally be met from the school's delegated budget.

11.2 Overview on VAT

VAT is administered by HMRC and is a tax on the supply of goods and services. VAT can only be charged by organisations that are registered with HMRC.

Every organisation that is registered for VAT has a distinctive registration number, the registration number for all the council's maintained schools is **235 8294 44.**

VAT is paid on purchases (goods/services in – input tax) and received on sales/services supplied (goods/ services out - output tax). At the end of each month a return is completed showing the totals of the input tax paid and the output tax received. The balance of these totals is then either paid over to HMRC or a refund is received.

11.3 Schools VAT reclaim process

Each school must fill in a monthly or quarterly return and attach to it a VAT analysis report produced by the school's financial management system. The income and expenditure on this report should reconcile with the entries on the monthly VAT template return. The monthly return should be signed by the School Business Manager / Bursar / School Administrative Officer and one of the school's authorised officers.

Once the return is completed it should be submitted to the Schools Finance Team, as soon as possible but not later than 10 days after the end of each monthly accounting period.

On receipt, all of the school returns are collated by the Schools Finance Team, and the total VAT collected and paid by schools is incorporated within the council's monthly VAT return to HMRC, showing the totals of the input tax paid (VAT on goods/services in) and the output tax received (VAT on goods/services out). The balance of these totals is then either paid over to HMRC or a refund is received. Any refunds of VAT due to the school are then paid via BACS transfer after the income has been received from HMRC.

Reimbursement claims submitted by schools form part of LA's legal declaration to HMRC. It is essential that, in accordance with the council's Financial Regulations, reimbursement claims are accurate, certified by an authorised signatory and submitted to the Schools Finance Team each month.

Failure to submit accurate and timely returns may result in an assessment being made by HMRC, which could be costly to the council. However, the advantage of submitting timely returns is it enables schools to be reimbursed efficiently to reduce the risks of any problems with cash flow.

It is therefore imperative that accounting for VAT is given appropriate priority.

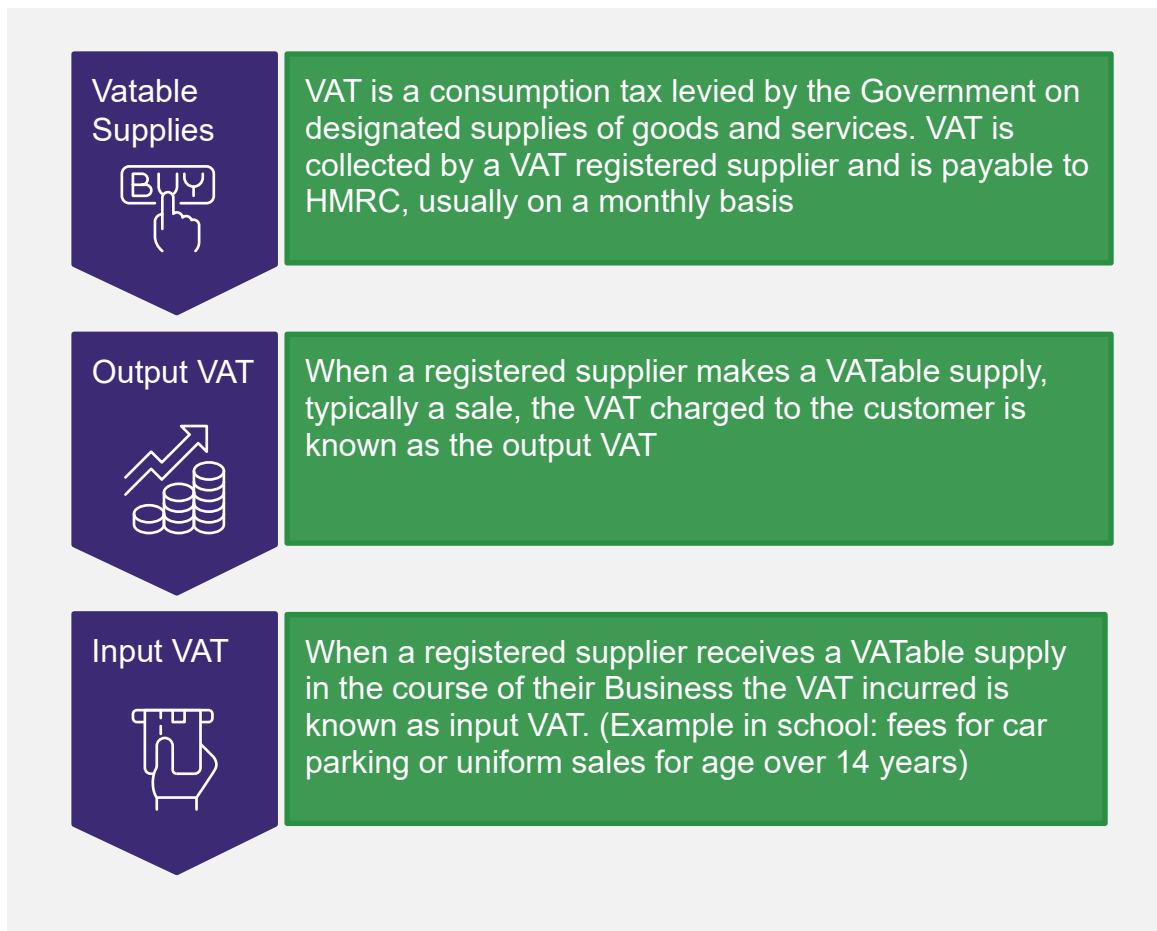
Schools will be monitored, and audit will review how timely VAT claims are completed. Claims more than two years old will not be able to be processed and therefore loses valuable funds for the schools.

It is vital that staff members who deal with income and/or expenditure are aware of the VAT rules and are able to recognise when VAT implications may arise across school activities. VAT must be processed correctly, as penalties may be incurred if errors are made, and schools are financially liable for any penalties incurred by their actions. Schools should ensure that they complete a monthly VAT reconciliation for the VAT input/output balances shown on their balance sheet.

Schools are advised to contact the Schools Finance Team at the earliest opportunity to obtain the necessary information or clarification where there is some doubt or concern regarding VAT.

11.4 VAT terminology

VAT is a complex area and is subject to constant changes in legislation and case law. The advice contained in this manual reflects current practice and there will be the need to issue updates and additional guidance in the form of briefing notes as circumstance change.



The purpose of VAT is to, in effect, charge a tax on the ultimate consumer. For the LA and its schools input tax is normally greater than output tax, and HMRC repay the difference to the LA which is then distributed to schools.

[Government guidance on VAT rates on different goods and services](#)

11.5 VAT activities

The VAT system makes a distinction in the purposes for which the expenditure has been incurred. Transactions not carried out in the course of a business activity, are non-business and are outside the scope of VAT.

As a general rule of thumb, a non-business activity for the LA is one where:

- LA has a statutory obligation to undertake the transaction, and a monopoly over that activity

- LA has a statutory duty through UK legislation to provide it, or where a statutory fee is charged.

A business activity is one in which the supply is comparable with or potentially in competition with a supply made by a private sector body.

Typical examples of business and non-business activities in a school are:

- School lettings
- Car parking
- Sale of clothing/sale of uniforms
- Sale of meals to staff & visitors

Since many of the activities undertaken by the LA and schools are part of its statutory functions and funded from taxation and central government grants, they are regarded as non-business activities. Under normal VAT regulations, the VAT incurred in providing these services would be irrecoverable. However, LAs have been given a special status (often referred to as 'Section 33 Status' because the provision is contained in section 33 of the [Value Added Tax Act 1994](#)) which allows it to reclaim the VAT incurred on activities which are non-business and, therefore, outside the scope of VAT.

A non-business activity is essentially situations where only the LA can undertake such activities. Revenue & Customs stipulate that to satisfy such a test, the LA must have a 'statutory monopoly' over such supplies i.e. they must have a statutory obligation to undertake the transactions and also a monopoly over the activity.

Examples of non-business activities are:

- Primary and secondary education
- Educational school visits
- Careers service
- Meals supplied to own pupils
- Most of the sales and services supplied by schools are non-business activities as they are provided under statute and **for no charge**.

11.6 VAT categories

As a VAT registered body, the council must charge the appropriate rate of VAT on its supplies of goods and services, and as consumers pay the appropriate rate of VAT on the goods and services purchased.

The current rates of VAT are:

Rate	% and what the rate applies to
Standard Rate	20 % - most goods and services
Reduced Rate	5% - this applies to qualifying use of fuel and power, and certain women's sanitary protection products
Zero- Rated	Taxable supplies for which Parliament has decided that the rate of VAT is 0%.
VAT Exempt	Supplies of goods and services which are not taxable (education and training, fund raising event for charity).
Outside Scope of VAT	Non-business, including supplies made by LA to its schools and by the schools to LA

The council has a special concession whereby VAT on supplies purchased for exempt activities may be reclaimed, as long as the total of this VAT does not exceed 5% of the total input VAT on all purchases in any given year. This is known as the partial exemption calculation.

The council's position under these regulations is monitored corporately and, as a general rule, there are no particular issues regarding this matter with which schools need to be concerned, provided they follow the guidance in this section.

It would be prudent however, if schools could identify their exempt income, as this figure will be required when undertaking the annual partial exemption calculation.

11.7 VAT penalties, interest and documentation

HMRC may impose a penalty if you send a return or other document that contains an inaccuracy that:

- results in tax being unpaid, understated or overclaimed
- careless, deliberate or deliberate and concealed.

These penalties are on top of correcting the original error and can be between 10% and 30% of the amount accounted for incorrectly plus default interest calculated from when the error was made. These penalties will fall on the budget of the school, which has made the error. There is no central provision for VAT penalties.

The penalties can be costly to a school's budget. If there is any doubt over the VAT treatment of a transaction, seek advice from the Schools Finance Team in the first instance. **Please do not contact HRMC direct.**

All invoices for purchases and supplies, and any supporting documentation such as cash records, must be kept for at least six years.

HMRC has the right to see details of your financial transactions to check that the correct VAT has been recorded and declared. It is a legal requirement that records, and accounts be maintained of all taxable goods and services, which are received and given by the school. Records may be stored on paper, digitally or through your computerised accounting systems provided that these records can be accessed during inspections and audits

11.8 Recoverability of VAT

There are four requirements from maintained schools to follow in regard to claiming VAT:

1. Account for the schools VAT correctly
2. Ensure monthly reconciliation of the school's VAT account (taking into account any reimbursements received by the Schools Finance Team) - any variance or discrepancies must be investigated and corrected immediately.
3. Complete a monthly VAT return (VAT submittal report and detailed) and send it to the Schools Finance Team with school's other monthly returns.
4. Keep all appropriate records for the required period (at least six years).

11.9 VAT invoices

Input VAT is related to some of the school's expenditure and is payable on goods and services required by a school to carry out its business. If this is accounted for correctly, the VAT paid by the school is reclaimable. Where goods and services have been provided or ordered, an original VAT invoice must be obtained. A VAT invoice must show the following:

- Name and address of the supplier.
- Name and address of purchaser (name of school).
- VAT registration number of the supplier.
- Invoice number
- Date of invoice and VAT point (usually the same).
- The goods, services or work done itemised with quantity, price, cost and VAT category or percentage.

- Unit price of goods or services, where appropriate
- Total net cost without VAT.
- Total VAT in each category or percentage separately.
- Total to be paid on the invoice.

Some points for a school to note when receiving invoices for expenditure are:

Discounts: If a discount is offered on condition that the customer pays within a specified time, the tax value is based on the discounted amount, even if the customer does not take up the offer. If the terms allow the customer to pay by instalments the tax value is based on the amount actually paid.

Alteration of invoices: If an invoice received from a supplier is incorrect for any reason and needs alteration, a new invoice must be obtained from the supplier. HMRC will not accept manual alterations or photocopy invoices. The advice would be to get the incorrect invoice cancelled (the supplier issues a credit note) and a new invoice issued.

Registered supplier: A supplier not registered for VAT or not showing a VAT registration number on their invoices, is not entitled to charge VAT.

In exceptional cases where VAT invoices are not provided prior to payment and a proforma invoice cannot be obtained, a VAT receipt must be obtained and filed with the payment document.

Contract works: Where contract works or orders are paid by instalment and recorded in a contract register, a VAT receipt must be obtained before paying the next instalment.

Pre-payments: Certain types of payment (e.g. attendance at training courses) which require payment with a booking form and do not provide an invoice can be paid. A VAT receipt must be obtained at the earliest opportunity and filed with the payment record.

Third party funds: VAT is also recoverable if the payment is made from funds donated to the council by a third party. For example, the council may recover VAT on goods and services purchased for LA schools or social services establishments paid for from PTA donations or Amenity Funds. However, the purchase must not be for the benefit of the donor or another third party, it must be freely given where the donor receives nothing in return.

Private fund accounts: The council cannot reclaim VAT on any purchases relating to the private fund accounts of schools.

Petty cash: Controllers of petty cash payments quite often get just a till roll receipt, thereby making determination for VAT purposes difficult. Most suppliers will give a more detailed receipt on request which may help in determination of VAT.

11.10 VAT on income

Schools may be involved in other activities beyond the provision of education which may constitute the supply of goods or services in the course or furtherance of business. In which case VAT is chargeable on the supply of these goods or services.

The first decision to be made is whether the charge relates to a business or non-business activity. If the charge relates to a non-business activity, the transaction is outside the scope of VAT, so VAT is not applicable. If the income relates to a business activity it is necessary to determine the VAT liability of the supply (standard, reduced, zero or exempt).

It is essential that the correct liability is established, and the right amount of VAT is declared. Determining the VAT liability for each supply and charging output tax is the responsibility of the person making the supply - referred to as the 'taxable person'.

Schools are obliged to issue a VAT invoice in accordance with [the VAT Regulations 1995](#), which state that a VAT registered person making a supply must issue a VAT invoice. Issuing invoices is also important as this ensures that your transactions are accounted on the school's accounting system and the associated VAT is not missed for VAT reporting purposes.

The person making the supply must ensure that when raising the sales invoice, the details of the transaction are sufficient and accurately recorded to support the VAT treatment. Vague descriptions are unhelpful during an audit or tax enquiry.

All cash income (including cheques, bank transfers, etc.) follow the same VAT rules. If an amount of income is received and the goods or services are standard rated, then the correct amount of VAT must be extracted and accounted for.

Output VAT must be charged on some goods and services provided by schools. Examples of where a school will be accounting for output VAT are:

- Sales of school uniforms for age 14 and above (generally, garments will only be zero rated if they do not exceed the body sizes of an "average" thirteen-year-old)
- Sports facilities -letting facilities designed or adapted for playing sport or for physical recreation is normally subject to VAT at the standard rate
- Rental of parking spaces to general public

All school activities should be reviewed and if in doubt seek advice from the Schools Finance Team. Services that are provided by the private sector as well as LAs often require VAT to be added.

Note : It is essential to recognise that VAT is NOT chargeable on transactions between maintained schools and the council. These are internal transactions within the organisation and doesn't give rise to a VAT liability.

Donations: Where a school receives a donation, which is freely given, it is outside the scope of VAT provided that the school does not provide anything in return. When there is a condition attached to a donation that gives a donor some kind of benefit, for example, free tickets or preferential booking to a school show or concert, advertising in some form or other etc., then the donation is subject to VAT. A simple acknowledgement of the donation is permitted, for example, a name plaque.

Grants: are outside the scope, where no goods or services are provided in return. This doesn't stop the grant provider attaching conditions simply to ensure that the funds are spent for the purpose originally intended. VAT is not reclaimable on grant income.

Sponsorships: may be treated as donations provided the support is freely given and secures nothing in return. A taxable supply will not arise by a simple acknowledgement of support.

11.11 VAT accounting for capital

Where the LA has a statutory duty to contribute all expenses of maintaining a school, for example, community schools, then any VAT incurred on purchases made by it in connection with these schools is recoverable.

However, in the case of voluntary aided schools the governing body retains statutory responsibility for certain capital expenditure, including when made from the school's delegated budget. Therefore, in respect of any supplies which fall within the prescribed definition of such expenditure, the supply will be made to the governing body, even where the expenditure is met from the school's delegated budget, and VAT incurred may not be recovered by the LA.

Governing bodies in England receive funding from the DfE of up to 90 per cent of the cost of meeting these responsibilities.

Capital expenditure for which the governing body of a voluntary aided school is responsible is defined by DfE as expenditure relating to:

- the existing buildings (internal and external)
- those buildings previously known as 'excepted' (kitchens, dining areas, medical/dental rooms, swimming pools, caretakers' dwelling houses)
- perimeter walls and fences, even if around the playing fields
- playgrounds
- furniture, fixtures and fittings – including ICT infrastructure and equipment
- other capital items (which can include capital work to boilers or other services)
- a LA is allowed to contribute funding to a governing body to help it meet the cost of its responsibilities. LAs can recover the VAT incurred on expenditure which is the responsibility of the governing bodies but which the authority funds.

11.12 VAT queries

VAT is a complex area and the implications for schools and the LA of getting it wrong are potentially substantial. If you need any guidance on a VAT matter, please seek day-to-day advice from the Schools Finance Team.

School Funds

12.1 Voluntary funds held by the school

The guidance in this section deals with Voluntary Funds held by the school. Other funds held by bodies who maybe closely associated to the school but not part of the school, such as PTA and Private Funds are excluded from this guidance and should be held completely separate from any school funds.

It is strongly recommended that governing bodies of all maintained schools formally adopt these guidelines so that staff handling these types of funds understand their responsibilities in operating them and do so to the highest standards of financial integrity and public accountability. Any subsequent breach of these guidelines, may, in itself, warrant disciplinary action.

Unofficial funds, for schools' purposes, are defined as funds, operated wholly, or in part, by any employee of the school, because of their employment, for which the LA does not have a statutory requirement to provide the resources for which the fund is being used.

Examples of such funds include:

- School funds
- Vending machines
- Tuck shop

The governing body and the headteacher are responsible for monitoring these funds. The headteacher must inform the Senior Finance Manager, Education of the existence of any official fund, the name(s) of the person(s) responsible for its operation and the bank account details. There are no specific forms to be completed; a letter giving the details will suffice.

The governing body will retain overall responsibility for these funds; however, they will normally nominate a member of the school staff to be responsible for the day-to-day operation of any unofficial fund. The governing body will require annual, audited financial statements of all unofficial funds to be prepared and submitted to them (or a Finance Committee if set up with the necessary delegated responsibility) for approval. The governing body is also responsible for the appointment of an auditor(s) to carry out the audit of all unofficial funds maintained by the school. Schools cannot audit their own school fund or other unofficial funds.

The governing body or Finance Committee should review the systems, procedures and accounting records on a regular basis to ensure that internal controls are satisfactory. The governing body should approve any changes to the systems or accounting records, or the setting up of any new funds, before being implemented.

12.2 Internal controls

The governing body, usually through the headteacher, should establish and take responsibility for the internal controls arrangements for unofficial funds. The minimum requirements are:

- No one person is responsible for maintaining the records for and operation of an unofficial fund
- There is a proper segregation of duties between the receiving, recording and banking of cash.
- There is proper segregation of duties between the ordering and receiving of goods/services, the certification of invoices and the raising and signing of cheques.
- That independent stock takes, and reconciliations of cash floats or bank accounts are carried out. Any member of staff who is not normally involved in controlling stocks or cash/bank reconciliations would be defined as independent for the purposes of these guidelines.

It is strongly recommended that guidelines be established, by governing bodies, to identify the type of expenditure to be met from unofficial funds. Expenditure limits should be set, above which decisions to spend school fund should be taken by a nominated Committee or the governors (e.g. individual expenditure items in excess of say £50).

In setting out the guidelines on the types of expenditure to be met from unofficial funds, governing bodies and headteachers should be aware that, in the opinion of the LA, parents provide money for school funds in the belief that it will be spent for the direct benefit of the pupils. It is our view that, however well intentioned the thought may be, school funds should not be used for buying gifts for staff or other people who may assist the school in a voluntary capacity or for providing hospitality, meals etc. for staff or visitors.

Governing bodies should make sure that all staff at the school are aware of the guidelines so that expenditure incurred is appropriate and reasonable.

12.3 Financial record keeping

Clear, comprehensive, up to date and accurate accounting records must be maintained at all times. All transactions should be recorded within 24 hours of them taking place.

The form of the accounting records, which are maintained, will depend on the size, complexity and volume of transactions to be recorded. In the majority of cases, it is recommended that an analysed cash book is maintained.

The LA is entitled to recover VAT incurred by schools where either the governing body is acting as an agent for the LA in respect of school official funds or where unofficial funds are donated to the LA and the conditions set out below are all met.

When unofficial funds are donated the LA must:

- Place the order
- Make the purchase itself
- Receive the supply
- Receive a tax invoice addressed to it
- Make payment
- Use the goods and services for the educational purposes of the school
- Retain ownership and adequate records

If the above conditions are not all met, for example if the governing body places the order or the LA does not retain ownership, the VAT is not recoverable from the LA and example of this is purchases of school sweatshirts, t-shirts, photographs etc cannot become LA property and must not be accounted for through LA VAT claims.

It should be noted that premised related capital works at voluntary aided schools are excluded from the VAT recovery scheme

12.4 Audit of voluntary and private funds

Accounts for each fund should be prepared annually and as soon as is practicable after the fund's year end.

Once prepared, the governing body should appoint a person who is independent of the school to audit the accounts. Advice received from the DfE, is that there is no reason why a parent cannot audit an unofficial fund. The only exception would be if the parent is related to a member of the governing body or has any other obvious connection with the school fund e.g. is a governor or a member of staff. Any charge for the auditing of accounts must be paid by the fund and never from the schools delegated budget.

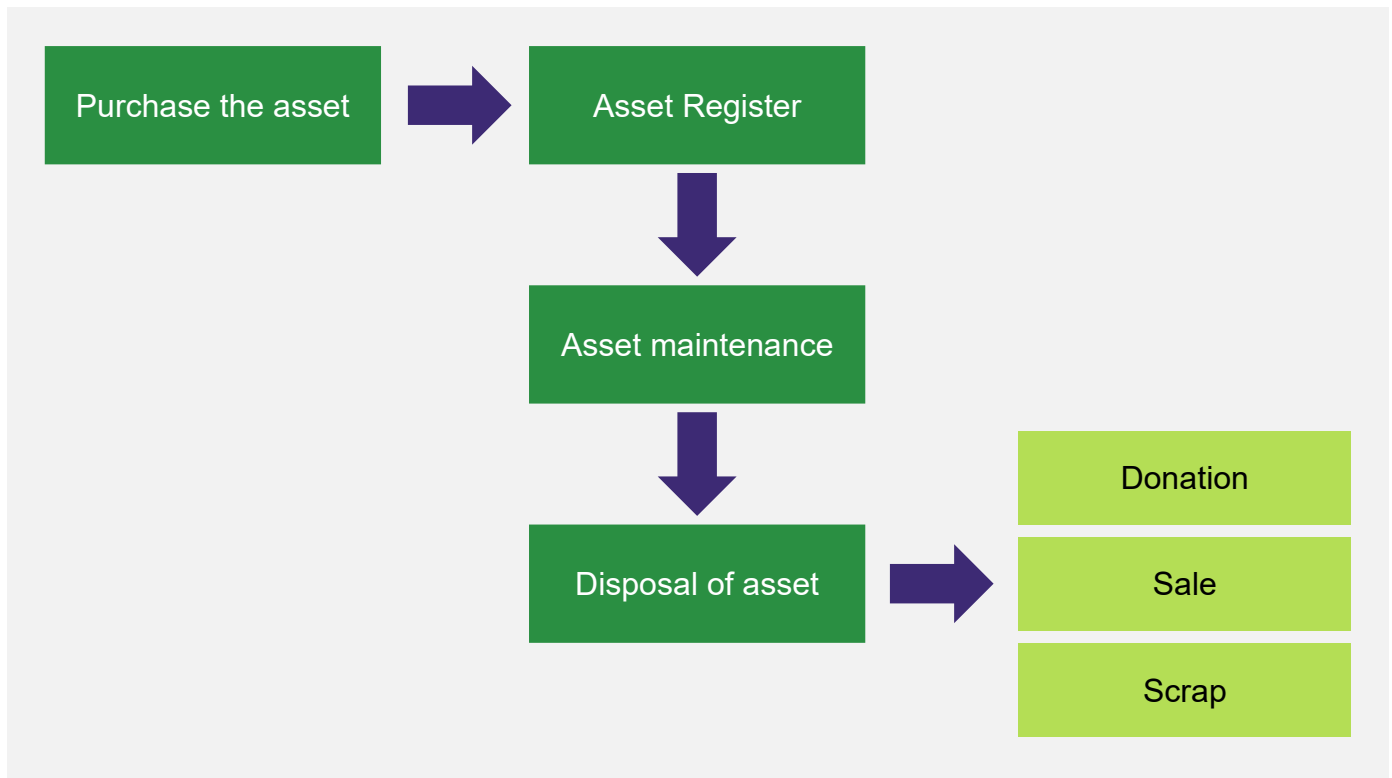
The audited accounts should be approved by the nominated Committee (where authority has been delegated) or the headteacher and presented to the governing body during the term after the fund year end. Governing bodies should approve the accounts and ensure that this is minuted.

Schools must be able to provide audit certificates to the Schools Finance Team in respect of any voluntary or private funds held, and for the accounts of any trading organisations controlled by the school. Certificates must be available to the council for the year ending 31 March each year within six months of the year end, i.e. by 30 September.

Asset Management

Successful management of assets demands proper stewardship. This includes security, insurance, maintenance and disposal.

13.1 Asset management system



All physical assets or sets of physical assets that are recorded on the Balance Sheet as Fixed Assets are referred to as capital assets (e.g. capitalised in that they are not expended through the income & expenditure account but their value is reduced through depreciation).

All physical assets or sets of physical assets that are not capitalised are referred to as revenue assets (e.g. charged directly to the income and expenditure account).

The governing body should set a purchasing and disposal policy for its school that should inform staff members on various issues such as who needs to authorise the acquisition of a capital asset.

13.3 Asset register

All schools are required to keep an up-to-date Asset Register. All assets purchased should be entered in an Asset Register if the cost is over a specified value which is up to the governing body's

discretion. In deciding the threshold value the governing body should take the following into account:

- Materiality of the purchase in relation to the school's finances
- Requirements of the school's insurers.

An inventory of the school's equipment and furniture must be kept. This should be updated as soon as new items are purchased.

The inventory or register must include all capital assets (whether inherited or purchased), as well as all significant equipment and furniture. The school's inventory needs to be checked periodically to ensure everything is included. Failure to do so may result in loss of equipment and may result in the failure of an insurance claim.

Physical checks should be undertaken on an annual basis by someone other than the person maintaining the register (separation of duties). This will ensure that all assets have been accurately recorded and that the register is up to date.

Any discrepancies discovered during the check should be recorded in writing with supporting explanations, investigated promptly and where significant, reported to the governing body.

The Asset Register should include the following information:

- Date of acquisition of asset
- Description of asset including a unique identification mark such as a serial number
- Cost of the asset purchased
- Source of funding
- Location of the asset
- Details of the disposal of the asset whether scrapped, sold or donated • Date of disposal
- Details of the revaluation of an asset
- Items used by the school but owned by others supported by a note of ownership

Back-up copies of the asset register must be maintained and kept in a safe place. All acquisitions and disposals are to be recorded within the month in which they occur and are to be reported to the governing body. This is particularly important for insurance reasons. Registers should be reconciled annually with the records of the school's Insurance provider.

All working equipment is to be maintained in accordance with Health and Safety legislation. All assets should be properly cared for and maintained in accordance with the manufacturer's instructions.

13.4 Security of assets

It is important to consider the security of your assets – especially the easily portable and saleable items (mobile phones, tablets, televisions, computers/ laptops, cameras, digital projectors etc.). These must be kept securely locked away when not in use and particularly overnight. They should also be security marked. Keep a separate record (in the Asset Register) of any model or other number unique to your machines.

The governing body is responsible for the security of the school's assets. Even so, the security of the school's assets should be the concern of all staff members.

Appropriate arrangements are to be put in place for the security of all assets. Security measures could include the following:

- Secure equipment and other assets by means of physical and other security devices (Access Control System)
 - Implement electronic access control systems to monitor and restrict access to areas with valuable asset and consider implementing additional physical security measures such as CCTV cameras for areas where valuable assets are stored
- Authority to access these secured assets should be clearly documented
- Establish a clear incident reporting and response procedure for any security breaches or asset losses, ensuring all staff are aware of this procedure and know how to report incidents promptly
- All items in the asset register should be permanently and visibly marked as the school's property
- Any portable equipment that is vulnerable to theft must be clearly marked with the name of the specific school
- Items of school property should not be removed from the school premises without the appropriate delegated authority
- Regularly review and update the school's security policies to ensure they remain effective and relevant, including an annual review of security measures and procedures
- Provide regular security training sessions for all staff members, covering the importance of asset security, the school's security policies, and how to use security devices and systems.
- Should property be removed from the school premises, the school should:
- Establish the position relating to insurance before the assets are taken off site

- Be aware of the fact that assets on loan for extended periods or to a single member of staff on a regular basis may give rise to a benefit-in-kind which may be subject to a form of taxation
- Keep a record of all the assets removed from the school premises
- Update the record when the assets are returned.

13.5 Disposal of assets

The governing body may dispose of capital assets through sale, donation or scrapping. Any disposal of a capital asset must be made in accordance with the school's policy on purchasing and disposal*, and where the disposal involves land and/or buildings funded by the LA, the formal advice of the Schools Finance Team is needed.

*The school's policy on purchasing and disposal of assets should be clear and detailed, outlining the procedures for disposing of different types of assets including criteria for determining when an asset should be disposed of and the preferred methods of disposal.

For every disposal the governing body or headteacher must:

- record the reasons for the disposal
- be able to demonstrate that the assets are either obsolete or surplus to requirements.

Headteachers must appoint a single named officer who is responsible for disposal. The officer must be clearly identified in the disposal file. The officer should be notified in writing of the disposal and is ultimately accountable for the disposal.

To assist in making a record of the disposal of an asset, a standardised asset disposal form should be created to document the disposal process including details of the asset description, reason for disposal, method of disposal, and authorisation.

Provide training for the responsible officers on the disposal procedures and their responsibilities. This ensures that they are aware of the correct processes and can carry out disposals in accordance with the school's policy.

The asset disposed of must be removed from the asset register following disposal, and if the asset is insured, its insurer should be notified of the disposal once it is completed.

All IT equipment must be disposed of in accordance with the LA IT standards. In the case of PCs or any equipment which stores data, prior to any disposal of equipment you will need to ensure compliance with the [Data Protection Act 1998](#) by:

- erasing all personal data from the hard drive (note that merely deleting files may not physically remove the data, which could be restored using specialised products)
- ensuring that any software products, for which licences are maintained in-house, are removed from the equipment prior to disposal - you should seek advice before disposing of any office computer.

Any member of staff who determines that an asset is surplus to requirements or is involved in the disposal must never attempt to purchase it or take it for themselves. There should be a clear separation of duties.

Official receipts must be issued for income received. Monies must be received and properly accounted for by someone who has not been involved in the disposal.

Other types of asset definitions are:

- Obsolete assets - assets are obsolete if they have no useful life. Schools may donate surplus obsolete assets to the voluntary sector, or scrap.
- Surplus assets - for assets that are surplus to requirements, disposal should be made in accordance with the governing body's purchasing and disposal policy. Where the possible sale value for an item or group of items is in excess of a pre-determined threshold value then the school should seek to dispose of them by quotation, competitive tender or public auction unless approved by the governing body to do otherwise.

13.6 Retention of disposal documentation

All documentation relating to the disposal of the asset must be retained for a period of six years after the disposal.

The types of documents that should be retained are:

- The governing body or headteacher's written record declaring the asset surplus and instructions to the person appointed as responsible for the disposal
- Advertisement of the asset for disposal
- Offers made for the asset
- Receipt of the asset disposal
- Regular audits of documentation.

Insurance

14.1 Risk management strategy

Purchasing insurance is part of the school's overall risk management strategy. However, risk management is far wider than just the purchase of insurance. Risk management is a method of identifying, controlling and managing the risks that an organisation faces.

The main risks considered are:

- Dangerous playground equipment
- Damage to property caused by flooding
- Bullying
- Falls and slips
- Arson
- Theft

14.2 Insurances

Insurance is a means of protection from financial loss which has been caused by sudden and unforeseen events such as damage to property from weather related events, failure of building systems or theft that may impact seriously on a school's financial resources.

Purchasing insurance can be expensive. The golden rule is "the higher the risk, the higher the premiums". Therefore, as part of the school's risk management strategy, it is very important that schools strive to reduce the risk of losses. In some instances it may even be possible to minimise the risk.

Some examples of how a school could reduce risk are:

- Ensure buildings are secured when occupied
- Mark all moveable assets with indelible ink
- Install a good quality alarm system / CCTV
- Illuminate external areas
- Ensure staff receive appropriate training on securing assets
- Carry out regular inspection and maintenance of the building and mechanical / electrical / plumbing systems

It is common practice for risks to be logged in a register and managed through the management structure of the organisation.

Examples of wider risks that maintained schools manage are:

- Secure sharing of data
- Following safeguarding policy
- OFSTED inspections.

Many risks cannot be reduced by insurance; other common control measures include education, communication and/or updating policies and procedures. Each risk requires its own unique control measures to be put into place.

There are of course many more methods that could be employed, and the council's Insurance Section will be able to provide more specific information

14.3 Purchasing insurance cover

Each school is responsible for purchasing their own insurance cover. This can either be purchased by buying into the LA package or arrangements can be made with external suppliers. When using external suppliers please ensure that they are members of the [Association of British Insurers](#) or members of the [British Insurance Brokers' Association](#).

As of April 2020, the DfE also offer a [risk protection arrangement \(RPA\)](#) for maintained schools.

Please note, if buying into the council's insurance arrangements, the policies run from 1 October to 30 September but schools are billed on a financial year cycle from the 1 April to the 31 March.

Each school is also responsible for maintaining an up-to-date list of their insurers and the insurance cover they have purchased as well as the property/risks covered by those policies.

When purchasing insurance, schools should get quotes from a number of different sources before making a final decision. The validity of many insurance policies is subject to certain conditions being observed and it is the school's responsibility to ensure that these conditions are complied with. It is the school's responsibility to finance any claims that fall outside the scope of their cover.

Where external suppliers are used schools must comply with certain conditions and the insurance policies must comply with the minimum standards of cover agreed by the LA and schools must ensure that they have continuous cover in any one financial year.

The policies must meet the criteria below:

- Written confirmation from your broker that your cover meets the LA's minimum requirements

- Property cover has been written in joint names of the council and the school and that all covers jointly indemnify the council and your school
- Written confirmation from your broker that they will give the council a minimum of 21 days written notice in the event of cancellation of the policy
- Copy of the policy document to be provided within 30 days of policy inception
- All policy excesses are no greater than £1,000 (or the minimum lowest offered by the insurer)
- The building to be insured on a full reinstatement basis.

If arrangements made by the school are inadequate or adequate proof of cover is not provided, the LA has the right to arrange cover under its scheme and charge the school accordingly until the situation has been resolved. This is to protect both the school and the LA in the event of claims being made during the period.

The level of the school premium will be based upon the level of risk and insurers may need the following information to enable them to quote:

- Pupil numbers
- Staff numbers
- Value of buildings
- Value of contents - an inventory should be kept
- Details of previous and current claims and/or incidents

The types of insurance elements that a school should insure are:

- Property damage (buildings and contents)
- Business interruption / consequential loss
- Money (not belonging to members of staff)
- Fidelity guarantee i.e. against fraud by employees (The LA has to do this by law)
- Employers' liability i.e. employees sustaining injury or disease during the course of or arising out of their employment
- Public liability i.e. where the school is sued for losses or injury caused by its actions or those of its staff
- Governors' liability and professional indemnity
- Libel and slander
- Personal accident (assault on staff)
- Engineering

- Motor vehicles (owned by school)
- School journey.

14.4 Claiming from insurance

Each insurer will have their own procedures with regards to making claims against policies and these should be followed very closely to avoid claims being refused. In particular all schools should pay attention to the reporting deadlines and the requirement placed upon them to provide relevant information.

When making a claim, the type of information that would be required from you is as follows:

- Date of loss/damage/accident/incident
- Exact cause of loss
- Extent of loss
- Time and exact place of loss (as near as possible)
- Value of items claimed for and proof of value (e.g. receipts, invoices etc)
- Where a public liability claim is being made in relation to personal injury, the following should be readily available as a minimum; accident report, witness statements where applicable, risks assessments and details of any similar incidents or complaints.

All schools insured via the LA should make claims via the council's Insurance Section and they will be able to provide support and advice about how to deal with claims.

If you receive any letters of claim against your school or a threat of legal proceedings, you should acknowledge it and send it to your insurer or, if purchasing from the LA, to the council's Insurance Section as soon as possible and:

Payroll and Pension

15.1 Delegation

The resources for payroll services were fully delegated to schools from 1 April 1996. Schools are responsible for a number of statutory and other functions relating to payroll and pension.

15.2 Payroll and pension regulatory requirements

The payroll and pension functions within schools are governed by a comprehensive set of laws, regulations and statutory requirements. Schools and governing bodies must ensure compliance with the legal frameworks in relation to payroll and pension administration and failure to comply can result in penalties, legal disputes and reputational damage.

Below is an overview of the key legislation and legal framework relevant to these functions:

<u>Employment Rights Act 1996</u>	Provides fundamental rights for employees, including protection against unfair dismissal, the right to a written statement of terms and conditions of employment, and provisions related to pay and working hours. It establishes the duty of employers to comply with the statutory rights of employees, which is central to payroll functions, including sick pay, maternity pay, and the handling of redundancy payments
<u>Income Tax (Earnings and Pensions) Act 2003</u>	Governs the taxation of income and pensions, establishing the basis for the calculation of income tax on earnings and the contribution of pensions to the UK tax system. Schools must comply with the requirements of this Act when calculating tax deductions for employees, including teachers and support staff
<u>The Income Tax (Pay As You Earn) Regulations 2003</u>	Requirements for the collection of income tax from employees' wages via the PAYE system. Schools must ensure that income tax is correctly deducted and reported in accordance with these regulations, including submission of Real Time Information (RTI) to HMRC

<u>National Minimum Wage Act 1998</u>	Requirements for the minimum pay that workers in the UK must receive. Schools must ensure that all staff, including support staff and casual workers, are paid in accordance with the minimum wage requirements, in line with changes made by the government
<u>Pensions Act 2008</u>	Requires employers to automatically enrol eligible employees into a pension scheme. This legislation is crucial for schools, which must comply by enrolling staff in either the Teachers' Pension Scheme (TPS) or Local Government Pension Scheme (LGPS), depending on the employee's role
<u>The Local Government Pension Scheme Regulations 2013</u>	Framework for the LGPS, which is the pension scheme for non-teaching staff in maintained schools. These regulations set out the rules regarding contributions, eligibility, and benefits under the scheme, and schools must ensure that contributions are made in compliance with these rules.
<u>The Teachers' Pensions Regulations 2010</u>	Provisions for teachers' pensions, governing the Teachers' Pension Scheme (TPS). The regulations define the calculation and payment of pension contributions, the responsibilities of the employer, and the benefits employees are entitled to receive from the scheme
<u>Equality Act 2010</u>	Consolidates and updates anti-discrimination law. While primarily concerned with ensuring equality in the workplace, it also affects payroll and pension administration, particularly in how payments, benefits, and pension entitlements are distributed. Schools must ensure that their payroll systems comply with this Act to avoid discrimination on the grounds of sex, race, disability, or other protected characteristics
<u>The General Data Protection Regulation (GDPR) 2018</u> <u>Data Protection Act 2018</u>	Governs the processing of personal data, including payroll and pension information. Schools must ensure that they handle payroll and pension data in a way that complies with GDPR requirements, ensuring the security, privacy, and lawful processing of employees' personal information
<u>Freedom of Information Act 2000</u>	Provides public access to information held by public authorities, including schools. While this Act primarily affects the transparency

	and access to records, it also impacts payroll and pension records, which must be made available for inspection under certain circumstances
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15.3 External payroll providers requirements

Whilst the council is accountable to the relevant statutory agencies including HMRC, The Pensions Regulator and the administrators of the Local Government and Teachers' Pension Schemes, schools must ensure that contracts with external payroll providers are appropriate to the requirements governing the role of the LA which remains the legal employer, for pension purposes, of staff in maintained schools.

Schools **must** therefore ensure that they are able to meet their responsibilities and the statutory requirements set out below. Statutory agencies may impose penalties in the event of a breach of statutory duty and the LA will pass on those penalties if incurred as a result of actions (or lack of action) taken by the maintained schools and/or the external payroll provider.

In addition, the governing body **must** explicitly satisfy the council's Chief Finance Officer that it can adequately carry out the payroll functions through the external payroll provider by obtaining an Annual Audit Assurance from that payroll provider's own auditor to confirm that the payroll provider has reasonable controls in place to discharge their payroll functions, including functions relating to pension contributions in respect of employees at all maintained schools.

The Headteacher **must** supply a letter of authorisation detailing those persons authorised to certify payroll transactions on behalf of the school (including specimen signatures) to the payroll provider.

The Headteacher **must** report on the performance of the payroll contractor, including non-compliance against current and new requirements to the governing body regularly.

15.4 Responsibilities in relation to the payroll functions

The governing body manages their payroll responsibilities by engaging an external payroll provider of its own choice. In doing so, the governing body has **overall responsibility** for:

- All aspects of the payroll functions.
- Ensuring the school's internal processes, records and those of its choice of external payroll provider are fully compliant with current and pending HMRC regulations, pension regulations, accounting standards and requirements of the LA.
- Ensuring the school's payroll and pension arrangements comply with the standards required by the council's internal and external auditors and the auditors of HMRC.

- Ensuring that the school has a data archiving policy which includes the creation and retention of payroll data, including individual employees' pay slips, **members prints, opt in and opt out forms as well as start or stop notices for additional pensions** which must be held for legal and regulatory compliance, IT restoration and disaster recovery purposes.
- Ensuring all payroll and pension records comply with the requirements of current the UK General Data Protection Regulation (GDPR), the Data Protection Act 2018 and Freedom of Information Act 2000.
- Making employee records available for inspection during the statutory Inspection of Accounts period each year.
- Ensuring that there are adequate "back-up" arrangements to pay employees in the event of their normal payroll system failing.
- Keeping up to date with changes in legislation which may affect payroll or pensions' administration such as the National Minimum Wage Agreement, Additional Statutory Paternity Pay, Student Loans and, for pensions, actuarially reduced pensions and auto-enrolment.
- Ensuring they understand and are able to comply with legislation regarding the provision of "[Real Time Information](#)".

More specifically, when schools engage an external payroll provider, the governing body retains the following **mandatory responsibilities**:

- Ensuring the correct calculation of statutory items including income tax, national insurance contributions (both employees and employers), pension contributions, statutory sick pay, statutory maternity pay, statutory paternity pay and statutory adoption pay.
- Ensuring the correct calculation and payment of occupational sick pay and occupational maternity pay in accordance with the appropriate conditions of service.
- Processing nationally agreed pay awards and increments in accordance with the appropriate conditions of service.
- Ensuring the correct calculation and payment to temporary employees including casual administrative assistants, supply and visiting teachers in accordance with the appropriate regulations and conditions of service.
- Having appropriate arrangements for processing payment of benefits and expenses to employees who use their own vehicles for business purposes including the necessary year end reporting to HMRC.
- Producing and submitting statutory year-end returns by the appropriate deadlines.
- Producing and distributing Forms P45, P60, P11D and other statements of employees' earnings by statutory deadlines, where appropriate.

- Administering 'Attachment of Earnings Orders' issued by Magistrates' and County Courts, and other bodies such as the Child Support Agency.
- Ensuring the correct administration and deduction of pension contributions, both for the Teachers' Pension Scheme and the Local Government Pension Scheme, including the operation of auto-enrolment arrangements.
- Ensuring that in-house pensions additional voluntary contributions schemes (AVC) are operated correctly.
- Ensuring that the **data files** in respect of Teachers Pension Monthly Contributions Reconciliation (MCR) are submitted as soon as possible after the payroll run and no later than the end of the month, in the correct format for submission, including:
 - details of employees' pensionable pay and all pension contributions (employees' basic and additional, and employers') together with associated Additional Voluntary Contributions
- The pensions' scheme administrators have confirmed that Teachers Pensions (TP) remittances can only be accepted directly from the LA. Therefore, the school must forward to the council, the appropriate remittances for TP and associated AVC contributions at the same time as the MCR submission..
- Ensuring that the **data files** in respect of the Local Government Pension Scheme (LGPS) monthly data returns are uploaded to the Employer Hub by the 10th of each month, in the correct format for submission, including:
 - details of employees' pensionable pay and all pension contributions (employees' basic and additional, and employers') together with associated Additional Voluntary Contributions
- Remit contributions monthly to the LGPS fund administered by the council by the 19th of the month following the payroll run (in line with HMRC payment timelines). Each payment should be accompanied by a contribution schedule.
- Submit an LGPS final annual return (sometimes referred to as the year-end return). This provides cumulative data for the tax year (e.g. pay, contributions, working hours) and ensures accurate pension records. The standard deadline is usually 30th April, though this can vary slightly depending on scheme guidance and communications issued in the final quarter of the financial year.
- Ensuring the school, on behalf of the employer, can obtain payroll records and reports from external payroll providers, spot check such records or secure statements, certified by the external payroll provider's own auditor, in sufficient detail to support pension return entries and the End of Year Certificate audit process.

15.5 Responsibilities in relation to the payroll processes

When schools engage an external payroll provider, the governing body will ensure that processes are in place to ensure that the:

- Accuracy of members records, in relation to Name; NI numbers; pension reference; male / female; pay and allowances paid and FTE, submitted on the Teachers' Pension MCR and the LGPS monthly data returns and final annual return, is checked by the school before it is submitted by its payroll provider to the council.
- Payroll data is regularly checked and updated monthly for starters leavers, change to pay grade and hours, maternity and strike pay, honoraria allowance, on costs payments.
- Calculation of all remunerations and gratuities are correct.
- Timely and accurate monthly deductions are made for Tax and National Insurance to HM Revenue and Customs, fulfilling legal obligations.
- Timely and accurate monthly deductions are made in relation to Teachers Pension, Local Government Pension Schemes and Auto Enrolment regulations, fulfilling legal obligations.
- Timely and accurate information required by Teachers Pension and Local Government Pension schemes is provided to the school or directly to the above organisations by the external payroll provider.

The appropriately authorised officer is responsible for:

- Ensuring all payroll input forms (starters, leavers, contract variations and claims) are signed in accordance with the headteacher's letter of authorisation sent to the external payroll providers with any other relevant instructions.
- Advising by email any corrections or additions to the payroll provider.
- Ensuring that when the final payroll is sent by the payroll provider:
 - An examination of the report and reconciliation to the initial payroll report is undertaken.
 - The reconciliations are signed by the individual undertaking the reconciliation and the headteacher.
 - Journal entries in respect of the report totals are made into the financial management system and a copy of the journal filed with the payroll report (duly signed by two persons).

15.6 Recovery of overpaid salaries

When an overpayment has been identified, the school has an obligation to recover the debt.

In cases where the amount overpaid is small, the recovery should be made automatically and the member of staff will be advised verbally to inform them of the overpayment and this will be confirmed in writing. For the purposes of this procedure, a small amount would normally be defined as 5% or less of gross pay in the period concerned.

The agreement of the member of staff will always be sought for overpayments (of over 5% of gross pay in the period concerned and the details of any agreement will be evidenced in writing or by email. As a guide, the recovery period of an overpayment (of over 5% of gross pay) will normally be the same as the period over which the overpayment occurred and should not put the employee in a ruinous position.

It is for the school to decide the repayment period and to advise the external payroll provider accordingly.

When a situation arises, where an individual does not agree, or states that they will not repay the overpayment, the school will make a decision (taking into account the circumstances, legal recourse) as to the course of action they wish to undertake and then either:

- pursue the overpayment; or
- in exceptional circumstances only, not pursue recovery of the overpayment

In circumstances where an employee has left their job and overpayment exists, an invoice will be raised, and recovery of the debt will be pursued in accordance with normal council procedures.

It must be noted that it is the responsibility of the school to inform their payroll provider of any changes (e.g. leavers, reductions in hours), immediately to avoid overpayment being made.

15.7 Local government pension scheme

Membership of the scheme is automatic upon appointment for all non-teaching employees under the age of 75, other than those on a contract of less than three months. The amount the employee contributes to their pension is based on their actual pensionable pay. The rate of employers' contributions will be varied by the council's actuaries every three years.

Schools will be responsible for ensuring that the appropriate employer and employee contributions are paid via their external payroll provider in accordance with the set timetable of which they will be notified.

For more information go to the [Local Government Pension Scheme | Southwark Council](#).

15.8 Teachers' pension scheme

All teachers (including unqualified teachers) are automatically entered into the scheme and the amount the employee contributes to their pension is based on their actual pensionable pay. Teachers can elect to opt out of scheme membership.

Employer contributions to Teachers' Pensions is set by the Government Actuary Department (GAD) every four years. Schools must ensure that their external payroll provider transfers the appropriate employer and employee contributions to the council in accordance with the set timetable of which they are notified.

For more information go to the [Teachers' Pensions website](#).

15.9 Other pension funds

A small number of maintained schools still have staff who are members of other pension funds (for instance, the London Pensions Fund Authority) and, as with the two main pension funds, they need to ensure that appropriate employer and employee contributions are passed onto those bodies according to their timetable.

Fraud and Audit

16.1 Fraud and corruption

Fraud and corruption impact on the council's ability to provide much needed services to their residents. This is exacerbated due to the financial situation currently faced by the public sector.

The council will not tolerate any fraud or corruption and will always seek to recover any losses and to punish those responsible. We will protect our valuable and limited resources, our residents and communities against those seeking to benefit from committing fraud against the council.

The council employs a team of counter fraud professionals in order to protect our limited resources and our residents from fraud, and to identify fraud and corruption where it takes place. The Counter Fraud team concentrates its resources on the fraud risks known to be prevalent within the Borough and will always consider emerging risks of fraud where these are identified within the council or from horizon scanning.

All employees of the council have a responsibility to consider the risk of fraud, corruption and misconduct, and to report their suspicions at the earliest opportunity. The council has a whistleblowing policy and procedure should officers wish to make a referral under whistleblowing legislation

16.2 Whistleblowing

All schools should have appropriate procedures in place for whistleblowing. The governing body needs to ensure that staff and governors alike are aware of to whom they can report their concerns, and the way in which such concerns will be managed. This policy should cover:

- Respect for staff confidentiality
- Opportunity to raise concerns outside of the management line structure
- A proper way of raising concerns outside the organisation if necessary

The whistleblowing charity, [Protect](#), provides support for organisations and confidential independent advice to employees about wrongdoing in the workplace. Contact details for Protect can be located [here](#).

16.3 Fraud and corruption: definitions and types

Fraud and corruption can have significant financial implications for the council and can cast severe doubt on its credibility.

Corruption can be defined as the abuse of entrusted power for the purpose of financial gain. In cases of corruption there has been evidence, not only that any employee has acted differently from what might be expected, given the circumstances, but that the employee (or someone connected or associated with them) has received some form of personal 'benefit', for instance, cash inducement; improved purchase terms such as extended credit or interest free loans; 'free' or discounted goods or services; achievement of targets, which may result in improved pay, promotion, or a secured position

The [Fraud Act 2006](#) defines the offences of fraud. Fraud can be committed in three ways, and if found guilty carry a sentence of up to 10 years imprisonment.

- Fraud by false representation – e.g. a person, who uses a school order to obtain goods for their own use, would be guilty of this offence.
- Fraud by failing to disclose information - e.g. a person, who fails to declare details of their income and savings when applying for City Council means tested services, would be guilty of this offence
- Fraud by abuse of position - e.g. a member of school staff, who uses their position to obtain funds would be guilty of this offence.

Schools are responsible for many millions of pounds of public money and the council has a statutory and moral duty to prevent the fraudulent use or misappropriation of the income and expenditure it controls. Ensuring the establishment and maintenance of an adequate system of internal control is the responsibility of the governing body.

16.4 Suspicion or evidence of any irregularities

The governing body is responsible for ensuring compliance with statutory and other regulations, including those in relation to taxation, and for the prevention and detection of irregularities, including fraud. Audit are able to carry out investigations into alleged fraud, irregularity or corruption.

Any staff member or party involved in the school's activities who suspects or has evidence of the existence of fraud, corruption or any other irregularity must immediately inform their Headteacher or the Chair of Governors. If the Headteacher or Chair of Governors appears to be implicated or involved in the matter, then it would be appropriate to notify the Director of Children's Services.

Where an irregularity, or suspected irregularity affects income, expenditure, cash, stores or other resources then the headteacher and governing body must make a report to the Senior Finance

Manager, Education who, alongside the council's Anti-Fraud Team*, will determine the arrangements for investigating the irregularity (or suspected irregularity). The council will maintain a register of reported irregularities and will report cases to the Strategic Director of Resources.

*It is the responsibility of the council's Anti-Fraud Team to determine whether the matter requires investigation by the Police and/or notification to the External Auditor.

If you are unsure of what to do, contact the Schools Finance Team.

Throughout the investigation, contact will be maintained with the governors or headteacher to agree steps to be taken to mitigate any loss and prevent a recurrence where this is appropriate. The governing body must co-operate with the Investigation Officers as indicated above.

At the conclusion of the investigation the council's Anti-Fraud Team may issue a report to the governing body where this is appropriate.

16.5 Key fraud risks within schools

The following are some of the common risks which staff and governors should be alert to and how these may impact on the school.

Key fraud risks within schools	Example of risk	Impact on school
Recruitment	Recruiting family members or friends and not adhering to the recruitment procedures	<ul style="list-style-type: none"> Person may be either not fit, or the best person to do the job Accusations of nepotism and lack of objectivity in future decision making
Job applications	Applicants making false declarations about their experience, qualifications, right to work, criminal past etc. Checks on teaching and non-teaching staff not being undertaken	<ul style="list-style-type: none"> Person may be either not fit, or the best person, to do the job. Child safety could be put at risk School being liable to fines
Inappropriate pay awards	Paying staff outside of the standard pay and conditions	<ul style="list-style-type: none"> Inequality and financial loss

Key fraud risks within schools	Example of risk	Impact on school
Off payroll payments	Payments made to individuals via petty cash or invoice to avoid the individual's and the school's duty to pay Income Tax or National Insurance	<ul style="list-style-type: none"> School could be made liable for any unpaid tax or National Insurance along with any fines imposed by HMRC
Staff sickness	Staff reporting themselves sick and then working elsewhere	<ul style="list-style-type: none"> Financial loss to cover absence
Collusion/corruption in supplier selection	Awarding contracts where there is a conflict of interest and not following procurement procedures, often in return for some form of inducement	<ul style="list-style-type: none"> Not receiving value for money Potential for legal action by other contractors Financial loss to rectify poor quality work
Payments for goods and services	Using the school's ordering and payments systems to purchase items for personal use cheques being used to pay for non-school related expenditure or being intercepted, altered and negotiated fraudulently	<ul style="list-style-type: none"> Financial loss
Bogus invoicing	Suppliers putting on pressure to pay invoices for goods not ordered or received	<ul style="list-style-type: none"> Financial loss
Mandate/CEO fraud	Bogus approaches from fraudsters to change supplier bank account details to divert payments, or to request an	<ul style="list-style-type: none"> Financial loss

Key fraud risks within schools	Example of risk	Impact on school
	urgent payment to be made supposedly on the instruction of a senior official	
Inappropriate person use of goods and services	Using school equipment or materials or services for personal interests	<ul style="list-style-type: none"> Financial loss to pay for replacement items
Cash and assets	Using unofficial funds for the benefit of staff rather than the school Theft of cash income and school equipment Loss of data	<ul style="list-style-type: none"> Financial loss Inability to provide aspects of the school curriculum Risk of fine if confidential information is stolen
Premises rental	Unauthorised use of the school premises for events e.g. hall being used for social events	<ul style="list-style-type: none"> Event may be uninsured Loss of potential revenue Additional cost to provide utilities, cleaning etc.

16.6 The fraud environment

The presence of factors such as those listed below will render an organisation susceptible to fraud:

- Lack of awareness, at the management level, of the dangers of fraud and the necessary defences
- No top down commitment to root out and deal with instances of fraud; this means taking effective and punitive action
- The failure of management to implement sound financial procedures for financial controls and ensuring that all staff are aware of the need to adhere to them and are trained in their use and action taken whenever staff fail to comply
- Financial control systems which do not provide and segregation of duties and/or allow for adequate internal checks

- Inadequate provision of financial information to enable considered decision making poor security controls, for instance: no control of safe keys, no control of systems passwords or leaving computers logged on when unattended
- Employee 'pressure' factors, for instance, high staff turnover and/or staff shortages, resulting in checks not being carried out or being carried out inadequately; lack of supervision; lack of training, so staff are not aware of the importance of policies and procedures, or where their jobs fit in the broader picture, and they are not aware of possible areas where fraud might occur
- Lack of understanding by employees of what is expected in their behaviour.

Within schools the main financial management systems which control the use of official funds are expected to be robust, but the same should also be true of those systems which regulate unofficial funds. By their very nature, these funds can often 'go under the radar' and experience shows that wherever there is a lack of management oversight, fraud can occur

16.7 Minimising fraud and corruption

Each staff member and governing body with delegated powers is responsible for ensuring that all reasonable steps are taken to prevent and detect occurrences of fraud and corruption. Minimising the risk of fraud and corruption can be achieved by ensuring that:

- Staff are recruited in accordance with the council's recruitment and selection procedures and all the necessary pre-employment checks are performed. Some of the more important pre-employment checks include Disclosure and Barring Service (DBS) checks, qualification checks and recruitment checks
- Internal controls to prevent and detect fraud are designed, established and regularly monitored
- All parties involved in the school's activities are aware of the school's policy and codes on fraud and corruption
- Staff who use the council's whistle-blowing facility are not discriminated against.

16.8 Audit arrangements

The Strategic Director of Resources is responsible for arranging an adequate and effective internal audit in order to examine the accounting and financial operations of the council, including schools. Internal auditors will give assurance to the governing body and the headteacher about the efficiency and effectiveness of operations, compliance with laws and regulations, and accuracy and reliability of management reporting.

The LA may, from time to time, be subject to audit, inspection or investigation by external bodies such as HMRC, who have statutory rights of access.

Internal auditors and external auditors shall have access for any necessary examination and audit, at all reasonable times, to all cash, property, documents, books of accounts and vouchers relating in any way to the finances and other operations of the council and are entitled to require such explanations as may be reasonably considered necessary to satisfy themselves of the correctness of any matter under examination.

16.9 Internal audit

All internal audit visits to maintained schools are contracted out to BDO, UK. The purpose of these audit visits is to provide assurance to the council, the headteacher and the school's governing body that there are sufficient financial controls within the school to ensure that all statutory procedures are complied with, and also to make recommendations for improvements to any potential risks identified.

BDO will:

- A cyclical plan is followed that aims to complete an internal audit (finance audit) of all schools over a four year period. The programme of audits is agreed with the Director of Children's Services.
- The purpose of a school audit is to assess whether adequate controls are in place to help prevent financial management weaknesses within the school that could result in budget overspend or inappropriate expenditure.
- Prior to the start of each financial year, Internal Audit produces a standard Terms of Reference setting out the objective, scope, and approach. This is agreed by the Director of Children's Services prior to the start of each financial year.
- The council's School, Improvement and Advisory team initiate the process by contacting the schools to be audited prior to each term and issue the standard terms of reference to the headteacher along with a proposed date for the site visit.
- Upon agreement of the date and confirmation of key contacts (including the School Business Manager, any external financial advisers and the Chair of Governors), a final Terms of Reference is issued by Internal Audit.
- The covering email includes an initial request for information and documentation to be provided, ideally one week prior to the audit or on the start date of the audit. Where documentation is provided, this is reviewed ahead of the site visit. This is an initial request and is not exhaustive – further information requiring the school's attention (including meetings) will be required during the fieldwork stage.
- To support the fieldwork a standard testing programme is used, against which to assess and test the adequacy of the design of the controls and the operational effectiveness of the internal controls in place in a consistent way.

- Testing is performed on a sample basis, selected from decisions made and transactions processed in the previous 12 months.
- After the fieldwork has been completed, a closing meeting is held with school staff to inform them of preliminary audit findings and to highlight any outstanding requirement for information and documentation. A closing meeting memo is issued ahead of this meeting.
- After the closing meeting, a draft internal audit report is prepared, with the target date of two weeks following the date of the closing meeting. Prior to issue, internal audit reports are subject to the required quality assurance process. This may give rise to queries or points of clarification to the school, which will need to be resolved before the draft report is issued to the head teacher and school business manager.
- It is important that the audit report is factually correct, and school staff are given up to a three-week period (15 working days) turnaround to provide a management response to the report and agreed actions to address the findings and recommendations raised
- A final internal audit report is issued within two weeks of receiving the final school response.
- Recommendations are rated based on the risks associated with the findings arising from the internal audit work and are linked to controls that are not in place or are not being complied with. Recommendations are rated as high, medium, or low priority.
- Two overall assurance opinions are provided, one for the design of the controls in place and one for the operational effectiveness, which are based on the priority and numbers of recommendations.
- The highest opinion is Substantial Assurance - a sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
- The lowest opinion is No Assurance - immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and/or control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
- Where a school receives an internal audit opinion of Limited Assurance, a follow-up audit is undertaken in the next financial year. The follow up review seeks to confirm the implementation status for the high and medium priority recommendations, with reference to evidence, and that the control improvements are operating as designed and effectively.
- An annual Schools Summary Report is prepared, which collates the outcomes of the holistic school audit programme completed. It draws together the assurance ratings and number of recommendations made across each risk area, highlights common themes, and compares these to those summarised in previous years.
- This report is presented to the Audit, Governance and Standards Committee, and is shared with all schools via the Schools Forum.

Internal Audit's approach will be aimed at assisting school governors and headteachers and the LA to establish and maintain effective systems of financial administration and stewardship. However, Internal Audit will seek to assess the risks at the client schools and adapt the audit approach accordingly. It will combine:

- Review all risk areas in proportion to perceived risk each year
- Look at the highest risk areas annually and other risk areas cyclically
- Use control self-assessment techniques as a part of the overall internal audit approach.

16.10 Scope of internal audit

The council makes an assessment of risk factors associated with a school and ranks schools as a low, medium or high risk. A high-risk school could be scheduled for an internal audit each year. A low risk school will probably be scheduled for an internal audit once every four years.

It is BDO's duty, as the LA's Internal Auditors, to carry out such work as will enable them to form an opinion on whether the framework of internal control in operation at the school is adequate to manage identified risks to tolerable levels. The audit will cover the following areas:

Area	
Governance	<ul style="list-style-type: none"> • Declaration of business interest forms for governors • Governors are given opportunities to declare interests at each meeting • Meetings are quorate and held at least termly • An independent clerk is used
Banking	<ul style="list-style-type: none"> • With whom the school banks • The school has not been overdrawn • Bank mandate and cheque signatories conform to the school's scheme of delegation • Check the last three bank reconciliations and re-perform the latest one • Determine controls on the security over cheque stationery, confirm their storage location and review the stationery to ensure no cheques are pre-signed.
Budgeting	<ul style="list-style-type: none"> • Agreement of the budget • Three months of budget monitoring • Reporting of budgeting monitoring to governors • Commitment of expenditure to individual budget areas

Area	
Payroll and pensions	<p>Payroll</p> <ul style="list-style-type: none"> • The contract in place with payroll provider is signed and covers the current financial year • Review entire payroll process to determine that there is adequate separation of duties • Review the last 12 months payroll and highlight any major differences and investigate why • Sample test overtime claims • Test for a sample of payments that they are for correct amount • Sample test amendments to pay and process • Sample test process for leavers and starters • Check evidence of current DBS checks <p>Pensions</p> <ul style="list-style-type: none"> • Pension opt-out forms • Payroll provider is responsible for payments regarding pensions • Process for informing the council's pension teams of changes to payroll data
Procurement	<ul style="list-style-type: none"> • The full purchasing process from the use of purchase order forms to invoice authorisation • Process for payments made over thresholds set in the school's financial procedures • Direct debits and control over payments • Purchasing, or procurement, cards, and controls over payment • Bankline
Data security	<ul style="list-style-type: none"> • Access to the finance system • Password security • Back ups of dataDBS checks
Cash handling	<ul style="list-style-type: none"> • Receipting of cash and cheques received • Records of monies due and received • Banking records • Reconciliation processes of monies collected to those banked

Area	
	<ul style="list-style-type: none"> • Whether the cash in the safe agrees with records • Physical security over cash held on the premises / access to keys

Please note: Inventory and asset checks are no longer conducted as part of the internal audit reviews

16.11 Before and during the school visit

a) Before the site visit, the Internal Auditor will:

- Inform you in advance of when we will attend
- Arrange times that suit you
- Send a schedule of information that we will require whilst on site
- Send a copy of the council's internal audit charter

b) During the site visit, the Internal Auditor will:

- Two days on site
- Meetings at start of day one and debrief at end of day two
- Keep out of the way as much as possible
- Discuss issues arising at the end of day one
- Hold a debrief meeting on our findings and recommendations

16.12 How to make the audit process easier

- Be accessible: key documents are readily accessible
- Be available: necessary officers available to talk to, head teacher available on the afternoon of day two for the debrief
- Samples: have lists and transactions, from which samples can be selected, ready at the start of day one
- Draft Report: respond promptly
- Be open - if there is an issue you are aware of, tell the auditors.

16.13 Schools responsibilities to auditors and investigating officers

Internal auditors and external auditors shall have access for any necessary examination and audit, at all reasonable times, to all cash, property, documents, accounts and vouchers relating in any way to the finances and other operations of the council and are entitled to require such explanations as may be reasonably considered necessary to satisfy themselves of the correctness of any matter under examination.

The governing body of each school in receipt of a delegated budget has the same responsibilities to Internal and External Auditors and must:

- Check and confirm the identity of the Auditor at the beginning of an audit in their area of responsibility
- Give auditors access for the purposes of the audit to premises, land, staff records, documents and correspondence relating to the operations being audited
- Ensure that all financial records are stored in a secure and easily retrievable manner
- Ensure that all staff co-operate with the Auditors during audits and explanations are provided as necessary
- Nominate a member of staff to liaise with the Auditors
- Allow the Auditors to attend meetings or report on matters affecting their audit responsibilities
- Provide timely responses to audit reports and agree suitable action plans
- Organise the proper implementation of audit recommendations to the agreed timetable

In instances where a school wishes to seek an additional source of assurance at its own expense, a governing body is permitted to spend funds from its budget share to obtain external certification of its accounts, separate from any LA or internal audit process. Where a school chooses to seek such an additional audit it does not remove the requirements that the school must also co-operate with the LA's internal and external auditors

16.14 Reporting of audit findings

After the site visit, the Internal Auditor will:

- Write a draft report and cross reference all our work to evidence obtained throughout the audit
- This report and evidence is then sent for quality review

- A draft report is issued to the headteacher with 3 weeks.

On completion of the audit work a draft report would be prepared and issued to the headteacher. School management have three weeks to provide a formal management response to the draft report. Once management comments are returned the report is once more reviewed by audit management, queries or areas of disagreement are resolved through discussion and then the final report is issued. Ultimately, the final report will be issued to the Headteacher and the Chair of Governors, and the governing body should table this report at the next meeting. The report would give an opinion on the adequacy of the framework of internal control operated by the school's management. Where parts of the framework are not adequate:

- The weaknesses would be reported to the school and rated as a high, medium or low priority weaknesses on the basis of the Internal Auditor's professional judgement
- Recommendations on how satisfactory control can be achieved cost effectively would be made and discussed with the head teacher.

16.15 Voluntary funds

In addition to the normal internal and external audits, schools must provide audit certificates in respect of any voluntary and private funds they hold and of the accounts of any trading organisations controlled by the school. The [Consistent Financial Reporting](#) framework requires that private funds under the control of the governing body are included in the school's assets.

Where fund turn-over (income or expenditure) is under £10,000 for a financial year, a statement is needed from the governing body to explain that they have chosen not to seek an independent examination or audit of the fund and to assert that the financial statement for the fund is supported by the records of the fund and all necessary disclosures have been made.

Where fund turn-over (income or expenditure) is between £10,000 and £250,000 for a financial year, the governing body must provide the report of an independent examination or audit certificate of the fund. Where fund turn-over (income or expenditure) is over £250,000 for a financial year, the governing body must provide an audit certificate of the fund.

An independent examination can only be performed by someone independent of the school and an audit certificate can only be provided by a registered company auditor.

Appendices

Model scheme of delegation for schools

[enter name of school]

Model Scheme for the Delegation for Governing Bodies' Financial Powers and Duties to Others

Introduction

The governing bodies of schools with fully delegated powers under the local management scheme are responsible for ensuring that the Southwark Council's (the council) Financial Standing Orders, Financial Regulations and Contract Standing Orders are adhered to.

In practice many of the governing bodies' responsibilities will need to be delegated to a committee of the Full Governing Body and/or to the Headteacher.

To ensure that sound financial control is maintained it is essential that the extent of the delegation be clearly specified in writing.

[The School Governance \(Roles, Procedures and Allowances\) \(England\) Regulations 2013](#) require that the meeting of the Full Governing Body deciding upon a scheme of delegation must have a quorum of one half (rounded up to a whole number) of the membership of the governing body. This is the same quorum required for a meeting of the governing body and for any vote on any matter at such a meeting.

It should be noted that the scheme of delegation complements the council's Financial Standing Orders, Financial Regulations and Contract Standing Orders and should be operated in conjunction with those documents.

The Scheme of Delegation and the Terms of Reference of the Full Governing Body and its Committees must be reviewed annually

Guidance on financial matters is contained in the council's Schools Financial Procedures Manual.

A. Powers and duties reserved for the full governing body

The Full Governing Body is responsible for: -

- A1. Approving a written scheme of delegation of its financial powers and duties to its Finance (or Resources / Business) Committee and the Headteacher. The scheme must satisfy the Full Governing Body's ultimate responsibility for ensuring that there are adequate operational controls in place for all the financial processes within the school. It should be noted that the Scheme of Delegation supports the council's Financial Standing Orders, Financial Regulations and Contract Standing Orders and should be operated in conjunction with these documents.

The Scheme of Delegation should be reviewed and approved on an annual basis. The approval and presentation should be formally minuted and the documents attached to and certified at the same as the minutes.

Audit

- A2. Receiving the full Audit Report on the school issued by the council's Internal Audit provider (BDO) at the next Full Governing Body meeting following receipt of the report. This should be reflected in the minutes of that meeting.
- A3. Informing the Senior Finance Manager, Education if it suspects any irregularity affecting resources of the council.

Note

Voluntary funds are outside of the council's control but Full Governing Bodies may wish to include the following provision in their scheme of delegation.

The Finance (or Resources / Business) Committee shall inform the Senior Finance Manager, Education if it suspects an irregularity affecting the schools voluntary funds. The Senior Finance Manager, Education will inform BDO who shall take such steps as are necessary by way of investigation and report.

Budgets/budgetary control

- A4. Receiving and considering a full report of the school's final financial position (Outturn) no later than four months after the end of each financial year. This item should be recorded in the minutes of the meeting.
- A5. Approving (and minuting the approval of) the school's budget plan annually unless delegated to the Finance (or Resources / Business). A copy of the plan, certified by the Headteacher and Chair of Governors, should be submitted to the Schools Finance Team.
- A6. Receiving and considering, once a term, a report from the Finance (or Resources / Business) Committee. The receipt of such a report shall be minuted.

- A7. Approving, authorising and minuting all virements in excess of £20,000 between or within budget headings and reporting to the Schools Finance team in the quarterly return to the council. Details of all virements, approved and authorised by the Finance (or Resources / Business) Committee are to be formally notified to the Full Governing Body via the minutes which form part of the Finance (or Resources / Business) Committee report to the Full Governing Body.
- A8. Informing the Schools Finance team when the school wishes to meet expenditure of a capital nature from the revenue budget.
- A9. Entering into operational leasing/contract hire arrangements provided that the Director of Children's Services is satisfied that the method of finance is appropriate for the asset concerned, and that the best terms available have been secured. The Finance (or Resources / Business) Committee shall ensure that the resulting charges can be met within the budget for the current and future years.

Contracts

- A10. Maintaining a Register of Business and Pecuniary Interests for all governors and those school staff involved in financial management, or who are a budget holder, or who are involved in the process for awarding of contracts, including appointment of staff.
- This register will be readily available in the school and published on the school website
 - Governors and members of staff are required to inform the school of any changes in their interests as these arise so that they can be entered in the register. The register is also updated annually. Nil returns are obtained as appropriate. Any governor or member of staff who is unwilling to declare their interests or complete a nil return is not permitted to be involved in a buying or staffing decision.
- A11. Ensuring the school does not obtain goods or services for the private use of governors and members of staff.
- A12. Abiding by the council's Financial Standing Orders, Financial Regulations and Contract Standing Orders for purchasing, tendering and contracting matters. Assess in advance, where relevant, the health and safety competence of contractors, taking account of the council's policies and procedures.
- A13. Approving all contracts and purchases over £25,000 in Secondary Schools, and £20,000 in Nursery, Primary and Special Schools and obtain Local Authority (LA) officer countersignature for any contracts for goods or services for a value above £60,000 in any one year.

Compensation and ex-gratia payments

- A14. Authorising compensation payments up to £1,000. Payments in excess of £1,000 may only be made with the approval of the Director of Children's Services. The Full Governing Body should keep a record of all payments.
- A15. Ex gratia payments must always be referred to the Director of Children's Services for approval.

Income

- A16. Authorising the write-off of debts up to £1,000 after consultation with the Senior Finance Manager, Education. Debts over £1,000 can only be written off with approval of the Director of Children's Services. The Full Governing Body should keep a record of all write-offs.

Lettings

- A17. Receiving, considering and approving the Lettings Policy for the school, including oversight of the scale of charges recommended by the Finance (or Resources / Business). This responsibility can be delegated to the Finance (or Resources / Business).

Loans, investments and trust funds

- A18. Considering any proposals to borrow monies that require the approval of the council.

Security of assets

- A19. Authorising and formally minuting the write off of any deficiencies of individual items of stock and equipment with original purchase values in excess of £1,000. Where the original purchase value is not available, the current market value should be used. Agreement of the Senior Finance Manager, Education must be sought to write off in excess of £2,500.
- A20. Authorising and formally minuting the disposal of individual items of equipment and materials that have become surplus to requirements, unusable or obsolete with a realisable value in excess of £1,000. Agreement of the Senior Finance Manager, Education must be sought to write off in excess of £2,500.

Voluntary funds

- A21. Receiving and considering the independently audited accounts of all the school voluntary funds either each Autumn term to cover the previous year ending 31 August or each Summer term to cover the previous year ending 31 March. This item should be recorded in the minutes of the meeting.

Staffing

- A22. Appointing the Headteacher, Deputy Headteacher and Assistant Headteacher Powers and duties delegated to the finance (or resources / business) committee of the full governing body

The Finance (or Resources / Business) Committee shall be responsible for: -

General

- A23. Exercising the powers and duties of the Full Governing Body in respect of the financial administration of the school, except for those items specifically reserved for the Full Governing Body and those delegated to the Headteacher, or those delegated to other staff by the Headteacher.
- A24. Reporting on all decisions taken under delegated powers to the next meeting of the Full Governing Body.

Budgets/budgetary control

- A25. Considering budget monitoring reports on the school's financial position at every meeting and take appropriate action to contain expenditure within the budget and report to the Full Governing Body.
- A26. Approving (and minuting the approval of) the school's budget plan annually if delegated to the Finance (or Resources / Business) Committee by the Full Governing Body.
- A27. Exercising virements between and within budget heads, except for sums earmarked by the LA, subject to a limit of £20,000. Details of all virements, approved and authorised by the Finance (or Resources / Business) Committee are to be formally notified to the Full Governing Body via the minutes which form part of the Finance (or Resources / Business) Committee report to the Full Governing Body. Details of all virements approved and authorised by the Headteacher are to be formally notified to the Finance (or Resources / Business) Committee who shall minute the notification.
- A28. Reporting to the Full Governing Body all significant financial matters and any actual or potential overspending.
- A29. Submitting a draft budget plan to the Schools Finance team by 31 May.

Contracts

- A30. Exercising the powers and duties of the Full Governing Body in respect of the **council's** Contract Standing Orders, except for those items specifically reserved for the Full Governing Body and those delegated to the Headteacher, without reference to the Full Governing Body, up to a limit of £25,000 in Secondary Schools, and £20,000 in Nursery, Primary and Special Schools.

Income

- A31. Authorising the write-off of debts between £100 and £500 and to notify the Full Governing Body of any write-offs.
- A32. Reviewing all fees and charges, at least once a year, including lettings, and authorise any changes it considers appropriate

Insurances

- A33. Making arrangements for any insurance cover it considers necessary in liaison with the council's Insurance Section.

Lettings

- A34. Reviewing and submitting annually to the Full Governing Body the Lettings Policy and charges for the school (if this responsibility is delegated to the Finance (or Resources / Business) Committee by the Full Governing Body).

Loans, investments and trust funds

- A35. Setting aside funds that are not required for immediate use, in accordance with arrangements agreed with the Senior Finance Manager, Education.
- A36. Ensuring that all securities etc, relating to trust funds are deposited with the council, unless the deed states otherwise.

Security of assets

- A37. Ensuring that there are annual independent checks of stock and inventory records, in accordance with the requirements of the Schools Financial Procedural Manual.
- A38. Authorise the write off of any deficiencies of individual stock and inventory items with original purchase values between £250 and £1000. Where the original purchase value is not available, the current market value should be used. All such write-off's must be in accordance with the Schools Financial Procedural Manual and be recorded in the minutes of the committee
- A39. Authorising the disposal of individual items of equipment and materials that have become surplus to requirements, unusable or obsolete with a realisable value of between £250 and £1000. All such authorisations must be in accordance with the Schools Financial Procedural Manual recorded in the minutes of the committee.
- A40. Authorising when (if at all) school property may be removed from the premises otherwise than for educational purposes.

Voluntary funds

A41. Ensuring that all voluntary funds are properly administered and audited annually under the requirements of the Schools Financial Procedural Manual. Voluntary funds must be accounted for completely separately from any **LA** funds and reported annually to the Full Governing Body.

B. Financial powers and duties delegated to the headteacher

Delegation of headteachers' responsibilities

[The School Governance \(Roles, Procedures and Allowances\) \(England\) Regulations 2013](#) permit a Full Governing Body of a school or college to delegate some of its financial responsibilities to the Headteacher in recognition of the practicalities of running a school. In addition, the Headteacher may allow some of his/her responsibilities to be exercised by other members of staff, and they will remain accountable for the actions of those staff.

The Deputy Headteacher is authorised to act under this scheme in absence of the Headteacher.

The Headteacher shall be responsible for: -

Accounts

- B1. The operation of financial processes within the school, ensuring that adequate operational controls are in place and that the principles of internal control are maintained.
- B2. Ensuring that full, accurate and up to date records are maintained in order to provide financial and statistical information and that the figures have been reconciled with the school bank account and the LA central records.
- B3. The financial accounting system is xxxxxxxxxxxxxxxx (for the school to insert) and the Headteacher should consult the Schools Finance team on the development of any other local financial system and the links with the council's central systems.

Audit

- B4. Ensuring that all records and documents are available for audit by the council's (appointed) Internal and External Auditors and arrange for the required cooperation with and accommodation of the auditors.

Banking arrangements

- B5. Maintaining proper records of account in accordance with arrangements approved by the Senior Finance Manager, Education.
- B6. Providing reconciled bank statements to the Schools Finance Team at least quarterly or more frequently if required.

Budgets/budgetary control

- B7. Monitoring of expenditure and income against the approved budget, regularly, and submitting budget monitoring reports on the school's financial position to every meeting of the Finance (or Resources / Business) Committee. Any actual or potential overspending shall be reported to the Finance (or Resources / Business) Committee.

- B8. Ensuring that all required monthly and quarterly monitoring reports and closing of accounts information is sent to the Schools Finance team within the required timescale.
- B9. Preparing an annual draft budget plan for consideration by the Finance (or Resources / Business) Committee before the start of the relevant financial year.
- B10. Submitting updated budget plans at the beginning of each term if requested by the Schools Finance team.
- B11. Viring between and within budget headings up to a value of £10,000, although this must be formally reported and minuted at the following Finance (or Resources / Business) Committee meeting.

Contracts

- B12. Exercising the following powers and duties of the Full Governing Body in respect of the council's Contract Standing Orders:
 - a) Ensuring that all contracts and agreements conform with the Contract Standing Orders
 - b) Acceptance of quotations up to £10,000 in value.
- B13. Maintaining a register of formal contracts entered into, amounts paid and certificates of completion.
- B14. Retaining quotes obtained for goods, works and services.
- B15. Signing certificates where contracts require that interim and final payments are made on such certificates.
- B16. Ensuring that the requirements of the [Construction Industry Scheme](#) are adhered to where applicable.
- B17. Maintaining a register of gifts and hospitality.

Income

- B18. Ensuring the arrangements for collection of income is in accordance with the council's Financial Regulations.
- B19. Ensuring that all income is accurately accounted for and is promptly collected and banked intact.
- B20. Ensuring that all receipt forms, books, tickets and other such items shall be ordered and issued in a form approved by the council.

B21. Writing-off debts up to £100.

Information and communication systems

B22. Ensuring that the Senior Finance Manager, Education has been consulted on the introduction of any new information and communication system, or the development of an existing system.

B23. Ensuring that the standards of control for such systems in operation within the school include the use of properly licensed software and for the security and privacy of data in accordance with the Data Protection Act.

Insurances

B24. Notifying the council's Insurance Section on any eventuality that could affect the council's insurance arrangements.

Lettings

B25. Varying lettings charges if/when it is considered necessary. The Finance (or Resources / Business) Committee shall be informed of any variation to the agreed scale of charges.

Orders for goods, works and services

B26. Ensuring that arrangements for the ordering of goods, works and services are in accordance with the council's Financial Standing Orders, Financial Regulations and Contract Standing Orders.

B27. Authorising members of staff to order or receive goods and certify invoices for payment, ensuring the appropriate division of these duties between the staff. A record must be maintained of such authorisations.

Payments

B28. Ensuring the arrangements for processing payments is in accordance with the council's Financial Standing Orders and Regulations.

B29. Ensuring that all correct invoices are duly certified by authorised staff before payments are made.

B30. Ensuring that invoices, vouchers and other records are retained and stored in a secure way and are readily available for inspection by authorised persons.

Salaries, wages and pensions

B31. Appointing teachers and support staff

B32. Securing supply teaching and other staff cover in the event of staff absence or vacancy

- B33. Employing casual staff
- B34. Ensuring the arrangements for processing salaries, wages and pensions are in accordance with the council's Financial Standing Orders and Regulations.
- B35. Authorising members of staff to certify pay documents and time records, maintaining a record including specimen signatures of such authorised staff and sending a copy to the Payroll Provider.
- B36. Collecting any monies advanced to a member of staff who is to leave the school employment.

Security of assets

- B37. Ensuring the arrangements for security of assets is in accordance with Schools Financial Procedural Manual.
- B38. Ensuring that proper security is maintained at all times for all buildings, furniture, equipment, vehicles, stocks, stores, cash, information and records etc under his/her control.
- B39. Maintaining an inventory, in accordance with the instructions in the Schools Financial Procedural Manual, of all items of furniture, equipment, vehicles and plant. The inventory record, whether manual or computerised, shall be a permanent and continuous record.
- B40. Arranging for the security marking for such items, where appropriate.
- B41. Arranging for annual independent checks and certification of stock and inventory records, in accordance with the instructions in the Schools Financial Procedural Manual.
- B42. Authorising the write off of any deficiencies of individual stock and inventory items with original purchase values up to £250. Where the original purchase value is not available, the current market value should be used. All such write offs should be in accordance with the Schools Financial Procedural Manual and be formally reported and minuted at the following Finance (or Resources / Business) Committee meeting.
- B43. Authorising, in accordance with the instructions in the Schools Financial Procedural Manual, of the disposal of individual items of equipment and materials that have become surplus to requirements, unusable or obsolete with a realisable value of less than £250. All such authorisations should be in accordance with the Schools Financial Procedural Manual and be formally reported and minuted at the following Finance (or Resources / Business) Committee meeting.
- B44. Ensuring that keys to safes and other similar receptacles are held under the close personal security of responsible staff at all times.

C. Financial powers and duties delegated to the bursar / school business manager and other members of staff

Members of staff with delegated responsibilities should be aware that these must be exercised in accordance with the council's Financial Standing Orders, Financial Regulations and Contract Standing Orders.

The following responsibilities are delegated to the Bursar/School Business Manager unless otherwise stated.

Accounts

- C1. Operating financial processes within the school, ensuring that adequate operational controls are in place, and that the principles of internal control are maintained in accordance with this Scheme of Delegation and the council's Financial Standing Orders and Regulations.
- C2. Ensuring that full, accurate and up to date records and documents are maintained in order to provide financial and statistical information and that the figures have been reconciled with the school bank account and the council's central records.

Audit

- C3. Ensuring that all records and documents are available for audit by the council's (appointed) Internal and External Auditors and arrange for the required accommodation of the auditors.

Banking arrangements

- C4. Maintaining proper records of accounts in accordance with arrangements approved by the Senior Finance Manager, Education.
- C5. Providing reconciled bank statements to the Schools Finance Team, at least quarterly or more frequently if required.

Budget/budgetary control

- C6. Notifying the Schools Finance Team of variations in the school's budget plan, approved by the Finance (or Resources / Business) Committee at the beginning of each term.
- C7. Viring sums between and within budget headings up to a value of £5,000, although this must be formally reported and minuted at the following Finance (or Resources / Business) Committee meeting. The Bursar/School Business Manager will also process any other virements notified to him/her as authorised by the Full Governing Body, Finance (or Resources / Business) Committee or the Headteacher.
- C8. Submitting all required reports and VAT reimbursement claims to the Schools Finance Team monthly or quarterly, as required.

Contracts

- C9. Ensuring that all contracts and agreements conform with the council's Contract Standing Orders.

Income

- C10. Maintaining a record of all income held in the school and ensure that all income is accurately accounted for, promptly collected and banked intact.
- C11. Ensuring that no cheques are cashed out of money held on behalf of the school/council and that a suitable receipt is given when cash is handed over from one person to another.
- C12. Ensuring that all receipt forms, books, tickets and other such items shall be ordered and issued in a form approved by the council.

Information and communication systems

- C13. The designated Systems Manager shall be responsible for the control of systems and for the security and privacy of data.

Lettings

- C14. Ensuring the correct administration and authorisation of lettings.

Orders for goods, works and services

- C15. The following members of staff, in addition to the Headteacher, are authorised to issue (sign) orders for goods, works and services are specified: -

Staff	Types of Order*
Deputy Headteacher	All
Bursar/School Business Manager	All
Head of Department	For goods for that department's use, subject to there being sufficient provision within the departmental budget.

* Varying financial limits can be set to aid control

- C16. All orders must be processed via the Bursar/School Business Manager who shall promptly enter them into the school's computerised accounting system and be responsible for the safe custody and proper use of official orders, maintaining a record of order books in use and marking orders appropriately when they have been paid.

Payments

C17. The following members of staff, in addition to the Headteacher, are authorised to receive goods: -

- Deputy Headteacher
- Bursar/School Business Manager
- Clerical staff (please specify)
- Caretaker

C18. The following members of staff are authorised to certify* payments: -

- Deputy Headteacher
- Bursar/School Business Manager

*The certifying officer shall NOT be the person who ordered or received the goods.

C19. Ensuring that invoices, vouchers and other records are retained and stored in a secure way.

Salaries and wages

C20. Notifying the Payroll Provider of any matters affecting payments to employees of the school/council.

C21. The following members of staff, in addition to the Headteacher, are authorised to certify pay documents and time records (excluding documents relating to themselves): -

- Deputy Headteacher
- Bursar/School Business Manager

C22. Collecting any monies advanced to a member of staff who is to leave the school employment and maintain a record of all cash holdings in the school/college.

Security of assets

C23. Receipting and ensuring the care and safe custody and issue of stocks and stores.

C24. Maintaining an inventory, in accordance with the instructions in the Schools Financial Procedural Manual, of all items of furniture, equipment, vehicles and plant. The inventory record, whether manual or computerised, shall be a permanent and continuous record.

C25. Arranging for the security marking of such items, where appropriate.

C26. Maintaining a record (Loans Book) in accordance with the instructions in the Schools Financial Procedural Manual, of all school property removed from the premises. Where the use is for other than school/college business, the Bursar/School Business Manager shall ensure the approval of the Finance (or Resources / Business) Committee.

C27. Ensuring that maximum limits of cash held do not exceed the council's insurance cover.

Petty Cash

C28. Maintaining a petty cash balance that does not exceed £xx **(school to insert)**.

School bank accounts

C29. The school operates the following bank accounts:

A list the names of the accounts but not, for security purposes, the account numbers (school to insert)

Cheques issued on all accounts require any two signatures from the following three officers:

- Headteacher
- Deputy Headteacher
- Bursar/School Business Manager

Under normal circumstances, it is the Headteacher and the Deputy Headteacher. The Bursar/School Business Manager does not sign cheques if he/she has raised the order.

The Bank orders chequebooks for all the accounts automatically. All chequebooks are kept in the safe when not in use.

Copies of the bank mandates are kept xxxxxxxxxxxx (school to insert).

D. Purchasing & tendering policy

- D1. The school has adopted a tendering policy for items of work of significant value, which carefully analyses and compares all possible options to ensure that best possible value for money is obtained. Schools are required to abide by the LA's financial regulations and standing orders in purchasing, tendering and contracting matters and this policy assumes the use, in appropriate cases and where required of the council's or diocese own Tendering Regulations.
- D2. For goods and services up to £100 the school is not required to obtain telephone or catalogue quotations but must have an Official Purchase Order
- D3. Goods and services that are over £100 but less than £500 are subject to a minimum of three catalogue / telephone or website quotations.
- D4. Goods and services with a value of £500 up to £10,000 are subject to a minimum of three competitive quotations in writing and must be on an Official Purchase Order/Contract.
- D5. Goods and services with a value of £10,001 up to £20,000 for primary schools OR £25,000 for secondary schools are subject to at least three written quotations/tenders, require Finance (or Resources / Business) Committee approval and must be on an Official Purchase Order/Contract
- D6. Goods and services valued over £20,000 for primary schools OR £25,000 for secondary schools and less than £60,000 are subject to at least three written quotations/tenders, including one from a local supplier, require Full Governing Body approval and must be on an Official Purchase Order/Contract. The contract must also be signed by the local authority.
- D7. The Full Governing Body must seek advice for the local authority before proceeding with the procurement of goods and services valued over £60,000 and less than £100,000. The goods and services can only be procured are subject to at least three written quotations/tenders, including one from a local supplier, requiring approval from the Full Governing Body and must be on an Official Purchase Order/Contract. The contract must also be signed by the local authority.
- D8. The Full Governing Body must seek advice for the local authority before proceeding with the procurement of goods and services valued over £100,000
- D9. Recurring contracts will be reviewed for value for money approximately every three years or prior to renewal, e.g. catering, pay, grounds maintenance, heating, etc.
- D10. If an urgent decision is necessary and it is not practicable to call a meeting of the appropriate Committee, then a decision may be taken by either the Chair of Governors or the Vice Chair in their prolonged absence.

Scheme of Delegation Approval and Review Record

Scheme of Delegation approved by governors (date)	
Signed by Chair of Governors	
Annual review by governors (date)	
Summary of changes	
Annual review by governors (date)	
Summary of changes	
Annual review by governors (date)	
Summary of changes	

App B Finance Committee – Terms of Reference

Finance/resources/business committee - terms of reference

[ENTER NAME OF SCHOOL]

1. General Terms

- To act on matters delegated by the Full Governing Body
- To liaise and consult with other committees where necessary
- To contribute to the School Development Plan
- To consider safeguarding and equalities implications when undertaking all committee functions

2. Membership

- 2.1. The membership of the committee shall consist of not less than three governors.

3. Quorum

- 3.1. The committee is free to determine their own quorum, but as a minimum, this must not be less than three governors, who are members of the committee.

4. Meetings

- 4.1. The committee shall meet at least once per term.
- 4.2. The committee meetings are not open to the public but minutes should be made available (except for confidential items).
- 4.3. In the absence of a chair the committee will choose an acting chair for that meeting from among their number.
- 4.4. In the absence of a clerk, the committee will choose a clerk for that meeting from among their number (who is not the headteacher).
- 4.5. The draft minutes of each meeting will be circulated with the agenda of the next ordinary meeting of the Full Governing Body and be presented by the chair.
- 4.6. Any decisions taken must be determined by a majority of votes of committee members present and voting - but no vote can take place unless the majority of those present are governors.

5. Finance

Planning

- 5.1. To review, adopt and monitor a Finance Policy which includes the Scheme of Delegation and budgetary adjustments (virements) for the committee, headteacher and other nominated staff.
- 5.2. To review, adopt and monitor, all additional financial policies (listed in the table below).
- 5.3. To establish and maintain a three year financial plan, taking into account the School Development Plan, pupil numbers and central and local government signals as to future funding of schools
- 5.4. To oversee the preparation of the annual budget and to propose to the governing body for adoption
- 5.5. To make decisions on service level agreements and contract arrangements.
- 5.6. To ensure sufficient funds are set aside for pay increments as set out in the Pay Policy and as recommended by the headteacher.

Monitoring

- 5.7. To monitor the income and expenditure of all devolved funds against the annual plan and to ensure that the school's delegated budget is administered in accordance with the council's Scheme for Financing Schools.
- 5.8. To receive at least termly budget monitoring reports from the headteacher.
- 5.9. Subject to the Scheme of Delegation, to approve any budget adjustments that is required.
- 5.10. To ensure the school meets the Schools Financial Value Standard (SFVS) and that the return is submitted to the Local Authority (LA) and any remedial action taken.
- 5.11. To consider any audit report and act upon any recommendations of such reports.
- 5.12. To monitor the expenditure of all voluntary funds kept on behalf of the Full Governing Body.

6. Premises

- 6.1. To determine, within the budget allocation, the provision of services relating to facilities management and grounds maintenance (including the approval and monitoring of any contracts for such services).
- 6.2. To ensure that an annual inspection of the premises and grounds takes place and a report is received identifying any issues. From this, a plan of priorities be developed and approved at the Full Governing Body.
- 6.3. To ensure day-to-day repairs and maintenance are monitored.

- 6.4. To arrange professional surveys and emergency work, as necessary. The Headteacher is authorised to spend without the prior approval of the committee, in an emergency where delay would cause more damage or present a risk to the health and safety of staff or pupils. In this event, the headteacher would be expected to consult the chair of the committee as soon as possible.
- 6.5. To approve plans (e.g. asset management plans/building development plans) for the improvement and maintenance of the premises and grounds within the budget allocation.
- 6.6. To ensure compliance with statutory health and safety regulations and to review, adopt and monitor a health and safety policy.
- 6.7. To ensure that the Full Governing Body's responsibilities regarding litter, refuse and dog excrement are discharged according to section 89 of the Environmental Protection Act 1990.
- 6.8. To ensure adequate premises, contents and public liability insurance is in place.
- 6.9. To ensure all reasonable efforts are made to achieve maximum energy conservation.
- 6.10. To exercise, with the Headteacher, responsibility for the use of school premises both during and outside the school day.
- 6.11. To establish and keep under review the premises elements of the accessibility plan.

7. Personnel

- 7.1. To ensure that the school is staffed sufficiently to fulfil the School Development Plan and the effective operation of the school.
- 7.2. To approve the staffing complement and staffing structure (both teaching and non-teaching) for the school.
- 7.3. To ensure that staffing procedure (including recruitment procedures) follow equalities legislation.
- 7.4. To establish and oversee the schools capability and appraisal policy (including the headteacher) and recommend to the governing body for approval.
- 7.5. The Full Governing Body delegates to the Headteacher the appointment of staff, except to the posts of headteacher, deputy headteacher and assistant headteacher. When a vacancy arises for a headteacher or deputy headteacher post, the LA must be informed, and a selection panel must be appointed by the Full Governing Body in accordance with statutory regulations.
- 7.6. To ensure that provision is made for the continuing professional development (CPD) of staff.

8. Pay

- 8.1. To establish a pay policy for all staff and be responsible for its administration and review. Final approval by the governing body.
- 8.2. To carry out an annual salary review of teaching staff in accordance with the Statutory Guidance on teachers' pay and conditions.
- 8.3. To consider and determine recommendations for performance pay awards for teaching staff, the Headteacher and Deputy/Assistant Headteachers in accordance with the Statutory Guidance on teachers' pay and conditions.

9. Other

- 9.1. To ensure that relevant policies and documents up to date are published on the schools website (see guidance on what maintained schools must publish online).
- 9.2. To determine any other matters referred to the committee by the Full Governing Body.
- 9.3. To provide other committees information needed to perform their duties.

Policies suggested for review by the Finance/Resources/Business Committee

Policy	Final approval level	Review Cycle
Finance Policy (includes Scheme of Delegation and virements)	Finance/Resources/Business Committee	Annually
Charging and admissions		Recommended annually
Data protection	Finance/Resources/Business Committee	Recommended annually
Capability (and appraisal) of staff	Finance/Resources/Business Committee (but recommended that this is approved by the Full Governing Body)	Recommended annually
Staff discipline, conduct, grievance	Full Governing Body	Recommended annually

Policy	Final approval level	Review Cycle
Statement of procedures for dealing with allegations of abuse against staff	Finance/Resources/Business Committee (but recommended that this is approved by the Full Governing Body)	Recommended annually
Teachers pay	Full Governing Body	Annually
Accessibility plan	Finance/Resources/Business Committee	Every three years
Equality , information and objectives statement for publication	Finance/Resources/Business Committee	Every four years
Governors allowances	Finance/Resources/Business Committee	Recommended annually
Health and safety Policy	Employer Full Governing Body to review	Annually
Lettings policy	Finance/Resources/Business Committee	Recommended annually

*A full list of all policies for governing bodies can be found at [Statutory policies for schools and academy trusts](#)

App C Licensed Deficit Framework

Introduction

1. The Scheme for Financing Schools (the Scheme) applies to all maintained schools and to the Local Authority (LA) and is the basis on which local devolved financial management of maintained schools operates.
2. The Scheme sets out the rules under which schools and the LA must operate if a school plans to be in deficit in the current or any subsequent financial year.
3. Under the Scheme, if a school moves into or predicts a budget deficit the LA cannot write off the deficit balance. If the deficit is unable to be repaid within the following financial year (which is the usual expectation), schools may apply for and be granted a licensed deficit.
4. Additional financial support may be available to the school in the form of two alternate funding streams: falling rolls and schools in financial difficulty, after or as part of the approval process of the licensed deficit, as set out in paragraphs 30 and beyond.

Planning for a deficit budget

5. The Scheme requires that Southwark Council's (the council) maintained schools maintain a balanced budget and, at the same time, recognises that circumstances may mean that this is not always possible. Whilst the Scheme does not permit the council to write-off the deficit balance of a school, it does permit schools to apply for a 'licensed deficit'. A licensed deficit is when the LA formally agrees that the school may plan for a deficit budget under the circumstances and within the restrictions, as set out in 4.9 of the Scheme and further explained in this framework.
6. The granting of a licensed deficit does not abrogate the school's responsibility to continue to manage and monitor their budget effectively. Early identification of potential financial difficulties is fundamental to successfully avoiding and / or recovering a deficit balance and the development of effective short-term actions and medium to long-term strategies to enable the deficit to be reduced over the period of the recovery plan.
7. The ultimate responsibility for formulating a recovery plan proposal lies with the headteacher and the governing body of the school. It is vital that the school engages with the LA's Schools, Education, Learning & Achievement Team (SELA) and Schools Finance Team at an early stage in the process.
8. Prior to that communication, at **Stage 1** of this Framework, when planning for a deficit budget, the school should consider and have a response for the following questions:
 - (a) Is there a clear understanding of why the budget problem has arisen (e.g. is it a result of a single event, or the result of some underlying ongoing situation)?

- (b) Are the forecasts of income and expenditure underlying the identified deficit robust?
 - (c) Following a review of government funding and the accuracy of your school's data, is the funding allocation accurate?
 - The funding allocation review should include a review of pupils with an Education, Health and Care Plan (EHCP) and the accuracy of the funding allocated to support children with an EHCP and the resources deployed
 - (d) Has a review of the school's local income generation potential been undertaken, including access to various government grants?
 - (e) Has the cost of the staffing structure been determined and the implementation of integrated curriculum financial planning, to identify surplus capacity, considered?
 - (f) Have pupil forecasts been reviewed and the accuracy of census data submission checked?
 - (g) Has a comprehensive benchmarking exercise been undertaken against other similar schools to identify where expenditure patterns differ significantly from others of similar size and profile of needs?
 - (h) Does the school have the expertise to lead effective financial management?
9. Following the consideration of the questions above, if the school needs to set a deficit budget, moving into **Stage 2** of this Framework, the Chair of Governors and the Headteacher must notify both the Senior Finance Manager, Education, the Schools Finance Team and a Senior Adviser (SELA). At the same time, the school must complete a draft Deficit Recovery Plan (using the Licensed Deficit template).
10. At **Stage 3** of this Framework, an initial meeting will then be arranged with the Chair of Governors, the Headteacher and a Senior Adviser (SELA) and the Senior Finance Manager, Education to talk through the draft deficit recovery plan and to question and provide challenge. The draft recovery plan (to be submitted to the LA at least five working days before the date of the initial meeting) must bring the budget into full recovery by the end of three years or five years, in exceptional circumstances. On conclusion of this initial discussion, the purposes of the deficit should be clear, outline arrangements for appropriate monitoring will have been made and confirmation that the agreed payback period is feasible.
11. When an initial Licensed Deficit Recovery Plan cannot be agreed, an additional meeting will take place between the Headteacher and Chair of Governors, the relevant LA officers and the Director of Children's Services (or their representative) with the aim being further consideration of the school's resource base, organisation structure and financial commitments.

12. The meeting will seek to agree a shared plan for returning the school to a break-even budget over an appropriate timeframe without compromising the quality of provision and, therefore, any plan will need to be phased over the prescribed timeframe of up to three years or five years, in exceptional circumstances.
13. The Full Governing Body should formally consider and endorse the licensed deficit recovery plan and accompanying action plan prior to submission to the LA for approval to commence **Stage 4** of this Framework. The objective of that plan must be threefold, it must:
 - (a) Help the school to return to a sustainable position of a cumulative positive balance;
 - (b) Enable equality of educational provision for all pupils at the school; and
 - (c) Ensure the teaching and learning standards at the school remain at least good.

Applying for a licensed deficit

14. Continuing with Stage 4, all applications for licensed deficits must be in writing from the Chair of Governors to the Director of Children's Services who will make a recommendation, with support from the Professional Finance Service, to the Strategic Directors (Resources & Children's and Adults' Services) for a decision.
15. The application will need to show that the strategy of seeking a licensed deficit for the school is a minuted decision of the Full Governing Body.
16. Details of how to apply for a licensed deficit are in the Schools Financial Procedures Manual, using the Licensed Deficit Template (which is available from the Schools Finance Team).

Approval of a licensed deficit

17. To conclude **Stage 4**, under Clause 4.9 of the Scheme, Southwark will consider, in exceptional circumstances, a school's request to plan for a licensed deficit where they cannot set a balanced budget without seriously impacting on the educational provision at the school.
18. The LA will consider the following in reaching a decision:
 - the nature of the circumstances which gave rise to the deficit and whether it could be foreseen;
 - the schools track record in financial management;
 - significant falling rolls;
 - the robustness of the deficit recovery plan;
 - school in special measures or requiring improvement; and
 - other circumstances agreed by the LA as bring reasonable.

19. A licensed deficit budget must be jointly approved by the Strategic Directors of Resources and Children's & Adults Services on the recommendation of the Director of Children's Services. For approval to be granted, the following conditions must be met:
- A licensed deficit can only be agreed where circumstances affecting the school have changed in ways that could not be foreseen or where pupil numbers have fallen significantly and the school needs a period to enact a reduction in expenditure to eliminate the deficit;
 - There will be a maximum of three years or up to five years, in exceptional circumstances, for repayment, there will be no further extensions and therefore if the financial position of the school worsens during this period then the plans must be adjusted accordingly;
 - The school must revisit the plan each year and submit any necessary revisions to the plan to ensure that the targets are met;
 - The deficit subject to a plan cannot exceed 30% of the schools budget share for nursery, primary, and special schools and 20% of the schools budget share for secondary schools, (although in exceptional circumstances a higher amount may be agreed)¹;
 - Progress against the plan will be monitored by the schools finance team reviewing monthly monitoring returns in a manner and format that the council determines.

Reporting Requirement for schools

20. Following the approval of the Licensed Deficit Scheme, **Stage 5** of this Framework commences where the school will be required to provide a monthly return to the same standard as the usual quarterly returns, demonstrating action and progress to recover the deficit position until the deficit is resolved.
- (a) Income and Expenditure report (CFR) format
 - (b) 12 months cash flow forecast

Monitoring and Reviewing Deficit Recovery Plans

21. The school is responsible for monitoring and reviewing its deficit position and deficit recovery plan. It is a requirement for a school to have monitoring of the recovery plan as a standing agenda item for their Finance or Resources Committee and to submit a copy of all finance committee minutes to the Schools Finance Team. Schools are expected to honour any commitments regarding monitoring procedures given in their application for a Licensed Deficit.

¹ If an individual school deficit exceeds the limits enshrined in the Scheme, it is a breach of the Scheme and will automatically trigger a notice of concern under section 2.15 of this Scheme.

22. Under **Stage 6** of this Framework, there will be a formal review of spending and implementation of the Licensed Deficit Recovery Plan each quarter with the Chair of Governors, the Headteacher and the relevant LA officers. If there is proven success, demonstrated by evidence of the actions undertaken and the documented engagement of governing bodies in monitoring the plan, and sufficient progress to recover the deficit position in line with the plan's targets, the formal reviews will move to every six months and continue until the deficit is resolved. That is, if the plan is on track then no further action will be taken.

LA Action when insufficient progress against the Deficit Recovery Plan

23. Continuing with **Stage 6**, when it becomes apparent, through the formal review meetings and work with the school and governors, that the school has not been able to secure the appropriate reduction in debt, or implementation of the agreed recovery plan, the Director of Children's Services (or their representative), will hold a meeting with the school leadership, Chair of Governors, the School Business Manager (if deemed appropriate) and relevant LA officers. This meeting will cover:
- (a) how the school can better manage the debt reduction plan and future viability
 - (b) re-scoping the strategy and engagement of the LA in supporting and monitoring spending and the financial capacity building at the school
 - (c) agreeing detail of the LAs close monitoring of spending against the budget, including the provision of data and outturns
 - (d) consideration of LA support at governing body financial subcommittee meetings
 - (e) discussion on temporary removal of financial delegation
 - (f) the reallocation of financial and administrative resources;
 - (g) size, shape and remuneration levels of staffing structures, in discussion with Schools HR and the school improvement officer
 - (h) changes to the school's Pupil Admission Number or school organisation structure.
24. The specific actions taken will be dependent upon the specific circumstances of each school. These discussions will explore a range of options with governors and the school's leadership to bring about the budget savings required.
25. At this point, quarterly review meetings will be reinstated and continue until there is demonstrable evidence that the plan is working well and the deficit reduction is being successfully managed, after which the LA will continue working with the school providing support, monitoring and six monthly reviews of the progress until the school returns to break even.

26. If it is the LA's view that additional support for the school is required (e.g. external finance support or other specialist support), those costs will be charged to the school. Further, the LA may consider the need for the requirement to have an internal audit on the governance of budget setting and monitoring process and arrangements² within the schools to assist in determining the capacity of the school to bring about the budget savings required.
27. At any time during this process, the Strategic Director of Resources (or their representative) has the right to attend meetings of the governing body at which any agenda items are relevant to the exercise of their responsibilities.
28. Where it is determined that the school is unable to manage their finances and, following support and guidance, are unable to maintain and reduce their deficit, the LA may exercise its responsibilities to intervene and remove financial delegation – Stage 7 of this Framework. If such a decision is made, the LA will formally write to the governing body outlining the LA's plans, which could include:
- (a) suspending financial delegation
 - (b) establishing agreed processes for the schools to follow in agreeing and authorising expenditure within set parameters
 - (c) in exceptional circumstances, closing the school's bank account and managing the financial planning, accounting and decisions on staffing directly from the LA.
29. If this latter action is taken, a strategy group will be established to include the school's Headteacher, Chair of Governors, School Business Manager and LA school improvement and school finance officers to agree the procedures and spending priorities. The intention would be to work with the school's governors and leaders to ensure that any decisions met the debt reduction plan over an appropriate timeframe without putting the quality of the school's provision at risk. It would involve:
- (a) close working with governors to ensure that there was transparency on budget plans and spending
 - (b) dedicated financial resource funded from the schools' budget and resources

² Section 6.2 of the Scheme enables the following charges: Recovery of costs incurred by the LA, because the governing body did not abide by the scheme, resulting in additional work for schools finance team or internal audit beyond their regular programme of work.

The charge for an internal audit could be made, in this instance, as it is only proposed when there is insufficient progress against the Deficit Recovery Plan and, therefore, the GB is technically not abiding by the Scheme in the form of the conditions imposed by entering into a Licenced Deficit Agreement

- (c) working alongside the school's leadership to build capacity to enable the budget control to return to the schools as soon as it is practically possible and when the debt recovery is secure.

Additional Financial Support

- 30. In accordance with the Scheme, the council cannot write off the deficit balance of any school. If the LA wishes to give assistance towards elimination of a deficit balance this should be through the allocation of a cash sum, from the LA's school budget, which for mainstream maintained schools is in the form of a de-delegated contingency budget that has been agreed by the Schools Forum.
- 31. The LA currently operates two such funds that can be accessed in the event of a schools falling into deficit:
 - (a) The Falling Rolls Fund
 - (b) Schools in Financial Difficulty
- 32. Decisions on the allocation of funding are delegated to the Schools' Financial Support Panel (SFSP) which consists of three maintained school headteachers and is supported by the following officers: Senior Adviser (SELA), Head of Schools HR and Senior Finance Manager, Education.
- 33. There may be other instances where a school is facing financial difficulty. The Panel has the discretion to consider, in exceptional circumstances, such requests as is relevant and reasonable, where there is sufficient funding available.
- 34. More detail on the criteria for providing additional financial support can be found in the SFSP's Terms of Reference.

