



**SCHEME FOR  
FINANCING SCHOOLS**

Version **2019.01**

As approved by Schools Forum on **xx/xx/18**

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## FOREWORD

The scheme sets out the principles underlying the funding of schools, and the basis for the financial relationship between maintained schools in Reading and the Authority.

The revisions in 2018 reflect statutory changes and changes to the DfE guidance on local authority schemes for financing schools effective from March 2018. The revisions also include changes to ensure the scheme reflects current practices and desired ways of working.

The Authority will keep the scheme under review and stakeholders are invited to comment on the scheme at any time to the Chief Finance Officer.

## SECTION 1: INTRODUCTION

### 1.1 The Funding Framework

The funding framework which replaces Local Management of Schools is set out in the legislative provisions in sections 45-53 of the School Standards and Framework (SSAF) Act 1998.

Under this legislation, local authorities determine for themselves the size of their schools budget and their non-schools education budget - although at a minimum a local authority must appropriate its entire Dedicated Schools Grant to their schools budget. The categories of expenditure which fall within the two budgets are prescribed under regulations made by the Secretary of State, but included within the two, taken together, is all expenditure, direct and indirect, on an authority's maintained schools except for capital and certain miscellaneous items. Local authorities may centrally retain funding in their schools budget for purposes defined in regulations made by the Secretary of State under s.45A of the Act. The amounts to be retained centrally are decided by the authority concerned, subject to any limits or conditions prescribed by the Secretary of State (including gaining the approval of Schools' Forum or the Secretary of State in certain instances). The balance of the schools budget left after deduction of centrally retained funds is termed the Individual Schools Budget (ISB). Expenditure items in the non-schools education budget must be retained centrally (although earmarked allocations may be made to schools).

Local authorities must distribute their ISB amongst their maintained schools using a formula which accords with regulations made by the Secretary of State, and enables the calculation of a budget share for each maintained school. This budget share is then delegated to the governing body of the school concerned, unless the school is a new school which has not yet received a delegated budget, or the right to a delegated budget has been suspended in accordance with s.51 of the Act. The financial controls within which delegation works are set out in a scheme made by the authority in accordance with s.48 of the Act and regulations made under that section. All proposals to revise the scheme must be approved by the Schools' Forum, though the authority may apply to the Secretary of State for approval in the event of the forum rejecting a proposal or approving it subject to modifications that are not acceptable to the authority.

Subject to provisions of the scheme, governing bodies of schools may spend budget shares as they think fit for any purposes of their school. They may also spend budget shares on any additional purposes prescribed by the Secretary of State in regulations made under s.50 of the Act. (Section 50 has been amended to provide that amounts spent by a governing body on providing community facilities or services under section 27 of the Education Act 2002 are treated as if they were amounts spent for the purposes of the school).

An authority may suspend a school's right to a delegated budget if the provisions of the school financing scheme (or rules applied by the scheme) have been substantially or persistently breached, or if the budget share has not been managed satisfactorily. A school's right to a delegated budget share may also be suspended for other reasons (schedule 17 of the Act). There is a right of appeal to the Secretary of State. A school's right to a delegated budget share may also be suspended for other reasons (s.17 of the SSAF Act 1998), but in that case there is no right of appeal.

Each authority is obliged to publish each year a statement setting out details of its planned Schools Budget and other expenditure on children's services, showing the amounts to be centrally retained and funding delegated to schools. After each financial year the authority must publish a statement showing outturn expenditure at both central level and for each school, and the balances held in respect of each school. Information in either statement may be collated and published by the Secretary of State.

The detailed publication requirements for financial statements are set out in directions issued by the Secretary of State, but each school must receive a copy of each year's budget and out-turn statements so far as they relate to that school or central expenditure.

The arrangements for formula funding of schools, including the allocation formula itself are set out in the Authority's Financial Requirements Arrangements for Formula Funding of Schools.

Regulations also require a local authority to publish their scheme and any revisions to it on a website accessible to the general public, by the date that any revisions come into force, together with a statement that the revised scheme comes into force on that date.

## 1.2 The role of the scheme

The Scheme is prepared in line with the latest statutory guidance issued by the Department for Education which relates to s.48 of the School Standards and Framework Act, and Schedule 14 to the Act. It sets out the principles underlying the funding of schools, and the basis for the financial relationship between Reading Borough Council and the maintained schools which it funds. The requirements of the scheme relating to financial management and associated issues as detailed throughout this document are binding on both the Authority and on schools.

## 1.3 Application of the scheme to the Authority and maintained schools

The institutional coverage of the scheme will be for all community, nursery, voluntary, foundation, community special or foundation special schools and pupil referral units (PRUs) maintained by Reading Borough Council. A current list of the schools to which the scheme applies is provided at annex A (Schools covered by the scheme) of this document. Unless specifically

stated otherwise the provisions of this Scheme apply to any nursery school maintained by the Authority.

As indicated in s.48 of the Act, new maintained schools opening will also be covered by the scheme.

Maintained schools that convert to academy status will cease to be covered by the Scheme. Similarly new Free Schools will not be covered by the Scheme.

#### **1.4 Publication of the scheme**

A copy of the scheme and any approved revisions will be supplied to the head teacher and to the governing body of each school covered by the scheme and placed on the Authority's website. This requirement is subject to regulations published by the Secretary of State for Education.

#### **1.5 Revision of the scheme**

The scheme and any subsequent amendments are subject to the approval of members of Schools' Forum representing maintained schools. Any subsequent revisions to the scheme will be subject to consultation with the governing body and head teacher of every school maintained by the Authority and then submission to Schools' Forum for approval. Where Schools' Forum does not approve them or approves them subject to modifications which are not acceptable to the Authority, the Authority may apply to the Secretary of State for approval.

#### **1.6 Delegation of powers to the head teacher**

As part of the scheme, the governing body of each school is required to consider and review (at a frequency to be determined by the governing body and agreed with the Director of Children's, Education & Early Help Services) the extent to which it wishes to delegate its financial powers to the head teacher, and to record its decision (and any revisions) in the minutes of the governing body. ~~Such decisions by the governing body will be subject to any requirements of regulations to be made under s.38 of the Act, and Schedule 11 thereto.~~ Additionally, the Governing Body or a committee of the governing body must approve the first formal annual budget plan of each financial year.

#### **1.7 Maintenance of Schools**

Reading Borough Council is responsible for maintaining the schools covered by the scheme, and this includes the duty of defraying all the expenses of maintaining them (except in the case of a voluntary aided school where some of the expenses are, by statute, payable by the governing body). Part of the way in which the Authority maintains schools is through the funding system put in place under sections 45 to 53 of the School Standards and Framework Act 1998.

## SECTION 2: FINANCIAL CONTROLS

### 2.1 Application of financial controls to schools

Schools are required to abide by the Authority's requirements on financial controls and monitoring in the management of their delegated budgets as outlined within this scheme and detailed in the financial regulations, and also those guidelines contained in more detailed publications referred to in the scheme but outside and compatible with it.

### 2.2 Provision of financial information and reports

Schools are required to provide the Authority with details of actual expenditure and income reconciled to the bank account **at a minimum on a termly basis** approved by the school's Finance Committee **and preferably monthly**. The Authority may determine different methods for individual schools and will consult with schools about such requirements, **for example schools in financial difficulty may be asked to submit monthly**. The submission of such information should so far as possible take account of the Consistent Financial Reporting (CFR) framework. This is in addition to the financial information required as part of schools annual budget plans and year-end predicted outturn processes.

### 2.3 Payment of salaries; payment of bills

All payments from delegated budgets are to be made in accordance with:

- ~~the Financial Requirements – Arrangements for Formula Funding of Schools~~
- ~~the Financial Regulations for Management of Schools under Devolved Funding Arrangements~~
- any specific Service Level Agreement drawn up between the school and Reading Borough Council and,
- the guidelines as detailed as part of any service purchased by the school as part of a Buy-Back service from the Authority, **which includes the retention of delegated funding as part of the arrangements for the payroll service**.

### 2.4 Control of assets

Each school is required to maintain an inventory of its moveable assets, in a form to be agreed by the Authority and establish authorisation procedures for disposal of assets. As a minimum requirement all schools should maintain an inventory which records all plant, machinery and equipment with an estimated life of more than five years and an approximate replacement value of, or historic cost of more than, £1,000. Schools should also keep some form of register of assets worth less than £1,000 but are free to determine their own arrangements (with a suggested de minimis of £250).

### 2.5 Accounting policies (including year-end procedures)

Schools are required to comply with the procedures, requirements and regulations relating to the accounting policies and end of year financial procedures issued and determined by the Authority as being applicable to schools. Guidance will be published annually on the practical arrangements (e.g. accruals accounting and other end of year financial procedures).

## **2.6 Writing off of debts**

No debt shall be discharged other than by payment in full or being written-off. The writing-off of non-recoverable debts is set out in the Financial Regulations and requires the Authority's approval for sums over £5,000, **as well as full Governing Body approval.**

## **2.7 Basis of accounting**

Reports and accounts completed by schools for submission to the Authority are to be prepared on the same accounting basis as the Authority's financial accounts, that is on an accruals accounting basis, as detailed in the Authority's financial regulations and in accordance with a timetable agreed with the Authority. Support will be available from the Authority for schools requiring assistance in this process.

## **2.8 Submission of budget plans**

Governing bodies must prepare, formally adopt and submit to the Authority a budget plan which reconciles with their total budget allocation, detailing its budgeted income and expenditure for the current financial year, **in a format taking account of the Consistent Financial Reporting framework.** The plan should be prepared in accordance with the guidelines issued by the Authority to schools as part of the Authority's annual budget preparation process, and should take full account of estimated deficits / surpluses at the previous 31 March. Governing bodies should normally submit their formal budget plan to the Authority by **no later than 1<sup>st</sup> May.**

**The Authority will supply schools in a timely manner with all income and expenditure data it holds which is necessary to efficient planning by schools, for example indicative budget shares as soon as they are available.**

The Authority would normally expect the Governing body to review the initial submitted and approved budget plan in September and January of the current financial year and submit current year outturn forecasts to the Authority. Completed budget plans and any current year forecasts need to demonstrate both the assumptions which underpin the financial data reported and what consideration the school has made of other Authority initiatives which have a direct impact on the school's resources.

## **2.9 Submission of financial forecasts**

Governing bodies must also submit to the Head of Finance a financial forecast covering each year of a three to five year period for which schools have been notified of budget shares beyond the current year. The purposes of such forecasts are to ensure schools are planning ahead strategically and to indicate where schools may have financial difficulties. Multi-year forecasts should be submitted no later than the 30<sup>th</sup> June.

## **2.10 Efficiency and value for money**

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

It is for heads and governors to determine at school level how to secure better value for money.

As a minimum schools should review their current expenditure, compare it to other schools (such as through use of the DfE's benchmarking tool), and think about how to make improvements.

## **2.11 Virement**

Governing bodies are authorised to freely transfer funds between budgets whilst ensuring that the overall budget as approved and submitted to the Authority remains within the cash limit agreed with the Authority. It is for the Governing Body to determine the extent to which it wishes to delegate power to vire between budget heads and to record its decision in the minutes of the Governing body. Proposed virements exceeding the delegated power must be formally adopted by the Governing Body and duly minuted.

## **2.12 Audit: General**

In accordance with the Local Government Act 1972 and the Accounts and Audit Regulations 2011, the Chief Finance Officer has a statutory responsibility to ensure that a continuous internal audit and examination of accounting, stores and financial records and internal control systems of the Authority and its officers are carried out.

The Chief Finance Officer or a nominated and authorised representative, including the Authority's external auditor, shall have the authority to:

- enter at all times on any premises or land used by the Authority;
- make such checks and seek such explanations as is considered necessary to be satisfied any matters under examination are correct;
- require any employee of the Authority and/or governing body to produce upon request cash, stores or other Authority (including all school) property under his/her control (including reasonable access to IT systems).

Wherever possible auditors will agree an appointment in advance with the school and ensure that they carry out their duties with the minimum disruption to the school.

This internal audit shall be carried out in accordance with the audit regime adopted by the Authority and as detailed in the Authority's *Financial Regulations*. Schools must co-operate with the Chief Finance Officer or his / her representative in all aspects related to the internal and external audit process including responding promptly and where appropriate confidentially to requests for information necessary to carry out the audit.

Head teachers and/or governing bodies shall notify the Director of Children's, Education & Early Help Services, who shall in-turn inform the Chief Finance Officer of any irregularities or suspected irregularities concerning cash, stores or other property of the Authority or school, or the exercise of any of the Authority's or school's functions.

### **2.13 Separate external audits**

Governing bodies are authorised to spend funds from their budget share to obtain external audit certification of its accounts, separate from any Authority internal or external audit process. Any external audit commissioned by the school must take into account the status of the school as being a spender of the Authority's funds. Copies of external audit reports commissioned by the school should be made available to the Authority.

### **2.14 Voluntary Funds Charity Commission Registration and Audit of voluntary and private funds**

#### **Registration**

Charity Commission registration requirements should be followed, these differ between voluntary, foundation and community schools.

Schools must consider their own specific needs should the annual gross income of these funds exceed £5,000. This includes donations, fund raising receipts as well as interest payments. **As a general principle there is no requirement to register where money is all paid out quickly, even though receipts may exceed £5,000. Where the fund (or part of the fund) is used as a holding account, where money is being collected for a specific purpose, e.g. school trips, photographs, uniforms, this can be netted off and be exempt from the £5,000 (other than any surplus). If a school is in any doubt about whether or not it needs to register, it should seek advice from the Charity Commission.**

#### **Scrutiny of accounts**

The Governing body must advise the Chief Finance Officer of all voluntary and private funds held by the school including any trading organisations controlled by the school. In addition to details of any such funds, schools are required to provide annual audit certificates of all such funds. The governing body must choose either independent examination by a suitably qualified person or arrange for an independent audit by a registered auditor

that provides the level of assurance deemed suitable and this should be documented in the school's own finance procedures manual.

Any other requirements concerning the audit of such funds are a matter for those making the funds available and, where registered as a charity, any Charity Commission requirements.

## 2.15 Register of business interests

Governors and staff have a responsibility to avoid any conflict between their business and personal interests and the interests of the school. This is essential for effective and accountable financial management of the school. Interest should be declared that could result in a conflict of interest. Examples of potential conflicts of interest include: -

1. Financial - interests in a contract or proposed contract by direct or family connection.
2. Appointment - interests in the provision for sponsor governors or interests in someone's appointment, reappointment or suspension from office as a governor or clerk to the governing body.
3. Pay and performance - interests in the pay or appraisal of someone working at the school in cases where the governor or staff member is also paid to work at the school.

The governing body of each school is required to establish a register which lists for each member of the governing body and management team (including the head teacher and bursar), any business interests they or any member of their immediate family have; **details of any other educational establishments that they govern; and any relationship between school staff and members of the governing body.** The register must be kept up to date with notification of changes and through annual review of entries, and to make the register available for inspection by governors, staff and parents, and the authority **and to publish the register on a publicly accessible website.** ~~Details of the contents of the register must be made available to the Director of Children's, Education & Early Help Services and Chief Finance Officer upon request.~~

## 2.16 Purchasing, tendering and contracting requirements

Schools must abide by the Authority's financial regulations and standing orders in purchasing, tendering and contracting matters (including leases). Schools are required to assess in advance, where relevant, the health and safety competence of contractors, taking account of the Authority's policies and procedures.

In accordance with DfE requirements, schools are **exempt** from any provisions in the Authority's *Financial Regulations* which would require them to:

- a. do anything incompatible with the provisions of the Scheme, or any statutory provision, or any EU Procurement Directive;
- b. seek an Authority officer countersignature for any contracts for goods or

- services for a value below £60,000 in any one year;
- c. select suppliers only from an approved list;

or would permit schools to seek fewer than three quotes or tenders in respect of any contract with a value exceeding £10,000 in any one year, subject to specific listed exceptions.

## 2.17 Application of contracts to schools

Schools are free to elect to opt out of contracts arranged by the Authority, **except for:**

- ~~contracts which schools have agreed to be covered by in respect of services for which funding was specifically delegated by the Authority both before and after delegated budgets were first introduced, and~~
- ~~certain contracts approved by the Secretary of State for services for which funding was delegated, irrespective of the agreement of schools.~~

Whilst governing bodies are empowered under paragraph 3 of schedule 1 to the Education Act 2002 to enter into contracts, in most cases they do so on behalf of the Authority as maintainer of the school and the owner of the funds in the budget share. For this reason the Authority will require all contracts exceeding £100,000 entered into by the school to be counter-signed by the Authority. Other contracts may be made solely on behalf of the governing body, when the governing body has clear statutory obligations - for example, contracts made by aided or foundation schools for the employment of staff. VA and Foundation school governing bodies are legally separate entities and do not require counter-signature from the Authority. However, as the Authority is providing the funds, any school which places a contract that will be funded by more than £60,000 from delegated funds, should advise the Authority. In practice this notification will normally happen in the ordinary course of events.

In line with Section 2.16 and the requirement on schools to have regard to good tendering procedures, schools should:

- Seek tenders for all contracts over £60,000
- Obtain 3 quotes or tenders for contracts above £10,000
- Ensure that the Chair of Governors of all schools (or a nominee) opens tenders above £100,000
- Ensure that an Authority Member is involved in the opening of tenders above £250,000 (community schools only)
- Be permitted to use any Authority approved list of suppliers, but not be required to use it.

## 2.18 Central funds and earmarking

The Authority is authorised to make sums available to schools from central funds, **including those identified as part of the Additional Grants for Schools**

regulations for the distribution and use of approved grants, in the form of allocations which are additional to and separate from the schools' budget shares. All such allocations may be subject to conditions setting out the purpose or purposes for which the funds may be used; and while these conditions need not preclude virement (except, where the funding is supported by a specific grant which does not permit virement), this should not be carried to the point of assimilating the allocations into the school's budget share.

Such earmarked funding from centrally retained funds is only to be spent on the purposes for which it is given, or on other budget heads for which earmarked funding is given, and is not transferred into the budget share. Schools are not permitted to authorise expenditure in excess of the amount allocated without the prior agreement and approval of the Director of Children's, Education & Early Help Services. Furthermore, unless previously agreed with the Director of Children's, Education & Early Help Services, any earmarked funds not spent in the current financial year are to be returned to the Authority. The Authority will not make any deduction, in respect of interest costs to the Authority, from payments to schools of devolved specific special grant. Schools shall comply with the audit requirements as outlined within financial regulations. Details of earmarked funds as well as the purposes of such funds will be included with the budget statements for each school year.

## **2.19 Spending for the purposes of the school**

Schools must be managed in accordance with their budget allocation for each financial year. They may use their budget allocation to meet, subject to the requirements as outlined in the scheme, all expenditure for the purposes of the school.

They may not however use this resource to meet the cost of:

- any items detailed as exceptions within the scheme, and outlined in this document,
- any items relating to unofficial school funds and;
- any non-LA (or non-curriculum related) activities. By virtue of section 50(3A), amounts spent by governing bodies on community facilities under section 27 of the Education Act 2002 will be treated as if spent for the purposes of the school.

Schools are allowed to spend their budgets on pupils who are on the roll of other maintained schools or academies.

Income received and/or reflected in the schools general accounts must come from the following sources only:

- Advances (general and special) from the Authority
- VAT, tax and other related reimbursements
- Any income generated as a result of an authorised school activity

- Approved contributions towards school expenditure from a third-party
- Any other sources as notified and agreed with the Director of Children's, Education & Early Help Services and the Chief Finance Officer.

## **2.20 Capital spending from budget shares**

Governing bodies may use their budget shares to meet the cost of capital expenditure on the school premises. This includes expenditure by the governing body of a voluntary aided school on work which is their responsibility under paragraph 3 of Schedule 3 of the SSAF Act 1998.

Schools must notify the Authority of all proposed capital spending from their budget share. It is recommended that schools discuss their proposals with the Authority prior to the final authorisation of such proposals and in particular that they ensure that the proposed works do not already form part of the Authority's approved capital programme. If the expected capital expenditure from the budget share in any one year will exceed £25,000, the governing body must notify the Authority and take into account any advice from the Director of Children's, Education & Early Help Services and the Chief Finance Officer as to the merits of the proposed expenditure. If the Authority owns the premises or the school has voluntary controlled status, then the governing body should seek the consent of the Authority to the proposed works, but consent will only normally be withheld on health and safety grounds.

## **2.21 Notice of concern**

The Authority may issue a notice of concern to the governing body of any school it maintains where, in the opinion of the Chief Finance Officer and the Director of Children's, Education & Early Help Services, the school has failed to comply with any provisions of the scheme, or where actions need to be taken to safeguard the financial position of the Authority or the school.

Such a notice will set out the reasons and evidence for it being made and may place on the governing body restrictions, limitations or prohibitions in relation to the management of funds delegated to it. These may include:

- insisting that relevant staff undertake appropriate training to address any identified weaknesses in the financial management of the school;
- insisting that an appropriately trained/qualified person chairs the finance committee of the governing body;
- placing more stringent restrictions or conditions on the day to day financial management of a school than the scheme requires for all schools - such as the provision of monthly accounts to the Authority;

- insisting on regular financial monitoring meetings at the school attended by Authority officers;
- requiring a governing body to buy into the Authority's financial management systems; and
- imposing restrictions or limitations on the manner in which a school manages extended school activity funded from within its delegated budget share - for example by requiring a school to submit income projections and/or financial monitoring reports on such activities.

The notice will clearly state what these requirements are and the way in which and the time by which such requirements must be complied with in order for the notice to be withdrawn. It will also state the actions that the Authority may take where the governing body does not comply with the notice.

## **2.22 Schools Financial Value Standard (SFVS)**

All local authority maintained schools (including nursery schools and Pupil Referral Units (PRUs) that have a delegated budget) must demonstrate compliance with the Schools Financial Value Standard (SFVS) and complete the assessment form on an annual basis. It is for the school to determine at what time in the year they wish to complete the form.

Governors must demonstrate compliance through the submission of the SFVS assessment form signed by the Chair of Governors. The form must include a summary of remedial action with a clear timetable, ensuring that each action has a specified deadline and an agreed owner. **Governors must monitor the progress of these actions to ensure that all actions are cleared within specified deadlines.**

All maintained schools with a delegated budget must submit the form to the Authority before the 31<sup>st</sup> March 2013 and annually thereafter.

### **~~2.22 Statement of Internal Controls~~**

~~Schools are required to complete and submit to the Authority the Statement of Internal Controls (SIC) in a format specified by the Authority and approved by Schools' Forum on an annual basis. The Authority recommends the SIC is completed at the same time as the SFVS is certified.~~

## **2.23 Fraud**

All schools must have a robust system of controls to safeguard themselves against fraudulent or improper use of public money and assets.

The governing body and head teacher must inform all staff of school policies and procedures related to fraud and theft, the controls in place to prevent

them; and the consequences of breaching these controls. This information must also be included in induction for new school staff and governors.

## **SECTION 3: INSTALMENTS OF THE BUDGET SHARE; BANKING ARRANGEMENTS**

For the purposes of this section, Budget Share includes any place-led funding for special schools or pupil referral units.

### **3.1 Frequency of instalments**

The Authority will ensure that schools receive their budget share allocation in monthly instalments sufficient to meet their reasonable cash-flow needs. Top-up payments for pupils with high needs will be made on a monthly basis unless alternative arrangements have been agreed with the provider. The Chief Finance Officer in consultation with the Director of Children's, Education & Early Help Services will agree with individual schools an appropriate schedule of payment. Payments to individual school bank accounts will usually be by BACS.

### **3.2 Proportion of budget share payable at each instalment**

Monthly budget share payments to schools will be made in accordance with the schedule of payment agreed with individual schools and the Chief Finance Officer. Where no prior agreement exists with a school and the Chief Finance Officer, then the budget share payable will be equal to one twelfth of the schools approved budget share. Payment will be made direct into the school's main bank account.

Schools wishing to revise their schedule of payment, changing either the frequency of each instalment or the proportion of budget share payable at each instalment are required to submit their request at least two weeks in advance in writing to the Chief Finance Officer.

Schools who use a payroll service that is external to that provided by the Authority will receive their budget share in instalments that reasonably take account of payroll costs. Those schools whose payroll is administered by the Authority will receive the instalments net of estimated payroll costs for the period to which the payment relates.

### **3.3 Interest clawback**

Where a school requests and the Authority agrees to make available the budget share in advance (of what the Authority believes to be reasonable cash flow needs taking account of the pattern of expenditure of schools of that size, and any particular representations relating to the individual school's circumstances) the Authority may deduct from the budget share an amount equal to the estimated interest lost. The calculation basis as outlined in annex B (Interest charges on advances) may be at a rate up to 2% higher than the rate applicable to funds invested with the Authority on any amount advanced, although provided the Authority has agreed the business

plan with the school that sets out the repayment regime, interest will usually be waived.

### **3.3.1 Interest on late budget share payments**

The Authority will add interest to late payments of budget share instalments made after payroll run day each month, where such late payment is the result of Authority error. The interest rate to be used will be that used for clawback calculations as detailed above.

### **3.4 Budget shares for closing schools**

Subject the agreement of the Director of Children's, Education & Early Help Services and the Chief Finance Officer, the budget shares of schools for which approval for discontinuation has been secured, may be made available until closure of that school on a monthly basis net of estimated pay costs, even where some different basis was previously used.

### **3.5 Bank and building society accounts**

All maintained schools must establish a main bank account to which the budget share will be paid. They must notify the Chief Finance Officer of the account and any proposals to change it. Schools shall be allowed to retain all interest payable on the account unless they choose to have an account within an authority contract which makes other provision.

When a school so changes its bank account, the previous account used to receive budget shares should be closed within 3 months, and any balance transferred to the new account. Any balance the Authority is holding in respect of the school's budget share (or if necessary an estimate, to be adjusted once the correct amount is determined), will also be transferred to the new account (or from it in the case of a deficit, subject to funds being available).

~~To facilitate this, the Authority has arranged for all schools who wish to have an account with the Co-operative Bank as part of the 'Reading Borough Council' group to do so. Such accounts will normally earn interest on credit balances at base rate less 0.25%.~~

Schools shall also notify the Chief Finance Officer of other bank accounts they hold, although this is not necessary if the account is held by a separate legally constituted related legal body (e.g. a properly constituted charitable trust).

The operation of school bank accounts in this way will result in school balances being held in the nominated account at the year end, or one otherwise agreed with the Chief Finance Officer (subject to adjustments associated with estimated payroll costs, as mentioned in 3.2.)

### **3.6 Restrictions on accounts**

Full details, including account details and authorised signatories (minimum of two) for all banking transactions, of all bank and/or building societies maintained by the school should be supplied in writing to the Chief Finance Officer. Schools are normally required to advise the Authority at least three months in advance of its intention to change its banking arrangement. Any school closing an account used to receive its budget share and opening another must agree the new bank or building society with the Chief Finance Officer, which must be consistent with the authority's Treasury Management policy.

Under section 49(5) of the Act, all monies paid by the Authority and held in such accounts shall remain to be the property of the Authority until spent.

Although accounts can be in the name of the school rather than the authority, wherever the school holds its bank account, the account mandate should provide that the Authority is the owner of the funds in the account, that it is entitled to receive statements, and that it can take control of the account if the school's right to a delegated budget is suspended by the Authority.

### **3.7 Borrowing by schools**

With the exception of loan schemes run by the Authority and outlined in the scheme, Governing Bodies may only borrow money (which includes the use of finance leases) with the written permission of the Secretary of State (who will only grant permission for borrowing in exceptional circumstances). Details of all such requests and subsequent approvals or otherwise should be supplied in writing to the Authority's Chief Finance Officer.

However, schools may be permitted to use any scheme that the Secretary of State has said is available to schools without specific approval, such as the Salix scheme which is designed to support energy saving.

Schools should not use credit cards (where the balance is not paid off in full each month), as this is considered a form of borrowing. Procurement cards are the preferred means of facilitating electronic purchases.

### **3.8 Finance leases and hire purchase agreements**

The Authority adopts the definition of leases in accordance with best accounting practice as described in the International Accounting Standard (IAS) 17.

IAS 17 classifies a lease as a finance lease if it 'transfers substantially all the risks and rewards incidental to ownership' to the lessee. A lease not classified as a finance lease is classified as an operating lease.

A finance lease is a form of borrowing and must not be entered into by a school without the agreement of the Authority. A hire purchase agreement

is similar in substance to a finance lease and must not be entered into by a school.

IAS 17 states that 'whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract'.

IAS gives the following examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease: -

- a) The lease transfers ownership of the asset to the lessee by the end of the lease term.
- b) The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised.
- c) The lease term is for the major part of the economic life of the asset even if title is not transferred.
- d) At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.
- e) The leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

The standard also provides indicators of situations that individually or in combination could result in a finance lease as follows: -

- a) If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee.
- b) Gains and losses from the fluctuation in the fair value of the residual accrue to the lessee.
- c) The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Schools must seek an opinion from the Authority's professional advisors (financial or legal) or the Authority before entering into any significant lease agreement, where a significant lease agreement is defined as a lease agreement where an annual gross lease payment to a bank or banks exceeds £20,000 or total gross lease payments over the life of the lease exceed £60,000 and/or at a level at the discretion of the Chief Finance Officer. This must be done irrespective of any advice given by the leasing company on the nature of the lease.

Schools must not enter into a significant lease through the equipment vendor without the express agreement of the Authority.

Schools must provide information on all leases as at the year end or as requested by the Chief Finance Officer.

### **3.9 Other provisions**

All relevant provisions contained in the Authority's financial regulations or other appropriate financial guidance issued by the Authority shall be applicable to schools where those provisions impact on a school's banking arrangements.

## SECTION 4: THE TREATMENT OF SURPLUS AND DEFICIT BALANCES ARISING IN RELATION TO BUDGET SHARES

### 4.1 The right to carry forward surplus balances

Schools may carry forward from one financial year to the next any shortfall in expenditure relative to the school's budget share for the year plus or minus any balance brought forward from the previous year.

### 4.2 Reporting on and control of the use of surplus balances

#### 4.2.1 Reporting on surplus balances

Local authorities are no longer required to operate a balance control mechanism.

~~The Authority has consulted Schools' Forum as to whether the Scheme should contain a balance control mechanism. Schools' Forum proposed a balance control mechanism should continue to operate, but should be managed by Schools' Forum rather than the Authority.~~

The Authority will, however, provide Schools' Forum with the level of year-end balances held by schools and the balance as a percentage of the delegated budget, plus the data for the previous three years. Schools' Forum will decide whether any some schools will be required to provide additional information regarding the proposed use of those balances, if it has concerns over that school's financial management. Schools' Forum may commission the Authority to collect the information or collect the information directly. Schools' Forum must make information so collected available to the Authority on request.

~~Schools' Forum will select schools where additional information is required using the previous thresholds. For a nursery / primary or special schools the threshold is a balance of over 8% of its delegated budget, for a secondary school the threshold is a balance of over 5%, or a balance of £10,000 where it is greater than either percentage threshold.~~

- ~~• Schools' Forum will assess schools with excess balances as to the extent to which the balance is committed, planned or assigned for a specific purpose.~~
- ~~• Where Schools Forum is satisfied the school's excess balance is not properly committed, Schools' Forum may authorise the Authority to collect excess balances above the threshold.~~
- ~~• Any sums collected through this mechanism will be held within the total Schools Budget for re-distribution across all schools.~~
- ~~• Where a member of Schools' Forum represents a school with an excess balance, they must declare a conflict of interest and would be excluded from participating in any decision regarding whether or not excess~~

balances are to be collected from that school.

#### **4.2.2 Determining the size of the surplus balance**

In determining the size of surplus balances, the Authority will adopt the following approach:

a. The Authority will calculate each year the surplus balance, if any, held by each school as at the preceding 31 March. For this purpose the balance will be the revenue balance as defined in the Consistent Financial Reporting Framework;

b. The Authority will then deduct from the resulting sum any amounts which the school has declared to be assigned for specific purposes (paragraph 4.2.3), and which Schools' Forum is satisfied are properly assigned. Balances which are retained beyond the period stipulated for the purpose in question without Schools' Forum's consent may no longer count as properly assigned. This is to ensure that while schools can build up reserves towards particular projects, they cannot defer implementation indefinitely. In considering whether balances are properly assigned Schools' Forum will take into account a school's previous plans for any surplus balances and any changes to such plans.

c. if the result of steps a-b is a sum greater than 5% of the previous year's budget share (secondary schools) or 8% (nursery, primary and special schools), or £10,000 where that is greater than either percentage threshold, then Schools' Forum may authorise the Authority deduct from the current year's budget share an amount equal to the excess.

In calculating this amount Schools' Forum will consider each school on an individual basis and will give due regard to the particular circumstances resulting in excess balances. It will take into account funds from sources other than the Authority and forming part of the school's budget share, including, for example, the impact of voluntary parental contributions. Community facilities funds (held under s.27 of the Education Act 2002) will not be taken into account unless the school adds these to its budget share surplus.

#### **4.2.3 Purposes for school balances that may count as properly assigned**

School balances may be held for the kind of specific purposes listed below. The list is not exhaustive:

- Capital building and construction projects
- Furniture, IT and other one-off expenditure of a capital nature
- Infrastructure maintenance and refurbishment
- Staffing remodelling / restructuring

- Funding held on behalf of a group of schools to deliver a service
- Specific curriculum resources.

### **4.3 Interest on surplus balances**

Balances held by the Authority on behalf of schools will **not** attract interest.

### **4.4 Obligation to carry forward deficit balances**

Where a schools expenditure in a financial year exceeds the schools budget share plus any surplus/deficit balances carried forward from a previous year, this will generate a deficit balance to be carried forward to the next financial year. Any such deficit balances will form a first charge and be deducted from the following year's budget share.

Unless the deficit is very small and can be managed within the school's normal cash flow, as soon as the school foresees such a situation is likely to arise it must seek advice of the Chief Finance Officer and Director of Children's, Education & Early Help Services with proposals as to how the situation will be addressed.

Details of the amount of balances carried forward from one financial year to the next will be reflected in the relevant out-turn statement published under s.251.

### **4.5 Planning for deficit budgets**

Schools are required to operate on the basis of a balanced budget agreed with the Authority and are not permitted to plan for deficits in their initial budget plan. In the event that a school unavoidably generates a deficit balance then section 4.9 of the scheme shall apply.

### **4.6 Charging of interest on budget advances**

The Authority is permitted to charge interest on any cash advanced to fund deficit balances. Interest on deficit balances will be calculated on a daily basis and may be charged at a rate up to base rate plus 2% though this will normally be waived provided the Authority has agreed the business plan to address a deficit position.

### **4.7 Writing off deficits**

The Authority is not permitted to write off the deficit balance of any school.

### **4.8 Balances of closing and replacement schools**

When a school closes, any balance, whether surplus or deficit shall revert to the Authority; it cannot be transferred as a balance to any other school, even where the school is a successor to the closing school. The closing

school must make all reasonable endeavours to avoid a deficit balance on closure.

The Authority may make allocations to new schools which have the effect of giving them the benefit of additional sums which are equal to the balances of the relevant closing schools.

Where a school converts to academy status (whether as a standalone academy or as part of a multi academy trust) under section 4(1)(a) of the Academies Act 2010, the Authority must pay to the new academy school an amount equal to the surplus balance of the school at the date of conversion.

Where a school with a deficit balance converts to academy status (whether as a standalone academy or as part of a multi academy trust) under section 4(1)(a) of the Academies Act 2010, the Authority shall be compensated by central government for the amount of deficit inherited at the date of conversion. Central government will then recover the deficit from budget allocations made by them to the new academy.

Where a school converts to academy status as a sponsored academy **due to being eligible for intervention**, the Authority will pay to the academy school an amount equal to the surplus balance of the school at the date of conversion. Where a school with a deficit balance converts to academy status as a sponsored academy **due to being eligible for intervention**, the amount of the deficit is transferred to the Authority. The Authority may charge some or all of the cost of deficit against the Dedicated Schools Grant.

#### 4.9 Planned (licensed) deficits

~~Currently, there is no provision for planned (licensed) deficit budgets.~~  
The LA will permit schools to plan for a deficit budget in particular circumstances. The funding to allow such a deficit budget shall be provided from the collective surplus of school balances held by the authority on behalf of schools although it is open to the local authority, in circumstances where there is no such surplus, to make alternative arrangements if it can do so within the relevant local authority finance legislation.

The requirements are set out below:

- The maximum length over which schools may repay the deficit, i.e. reach at least a zero balance with appropriate mechanism to ensure that the deficit is not simply extended indefinitely, would normally be five years.
- The deficit will only be agreed to allow a school in the short term to maintain a level of spend which in the opinion of the Head of the Education Service is the minimum required to deliver the National Curriculum.
- The maximum size of the deficit in normal circumstances will not exceed 5% of the school's budget share.

- The maximum proportion of the collective balances held by the LA, which would be used to back the arrangement, shall not exceed 20%.
- Before a deficit budget is approved, the school must produce a detailed deficit recovery plan in the prescribed format for the duration of the planned period of the deficit, which will be reviewed and updated at least annually.
- The school must provide to the local authority any additional information/school data requested in relation to the deficit recovery within a reasonable timescale. This may include information on staffing structures, class/timetable arrangements, curriculum plans etc.
- The school must submit monthly budget monitoring reports to the local authority.
- The school must meet with the local authority at least every 6 months to review progress of the deficit recovery plan and attend Schools' Forum if requested.
- A member of the LA may attend the school's Governor Meetings where the budget is to be discussed.
- The Head of the Education Service, jointly with the Head of Finance, would be responsible for approving any deficit.
- Should a school not comply with the requirements of the licensed deficit, and/or the deficit recovery plan is not being adhered to, the authority may issue a Notice of Concern (see paragraph 2.21) which may ultimately result in withdrawal of financial delegation.

Schools with an approved licenced deficit may request a budget advance to meet a deficit balance where cash flow problems are experienced until the situation can be corrected and the deficit removed. ~~Schools seeking a budget advance will be asked to complete a 'Budget Advance Application' wherein the Governing Body must set out its plan to pay back the advance of a fixed period not exceeding 3 years. The form will ask the Governing Body to consider all factors around the repayment of the loan including, proposed implementation timetable, impact on staffing and the curriculum and school development taking into account the effect of changing demography.~~

#### 4.10 Loan Schemes

Loans must only be used to assist schools in spreading the cost over more than one year of large one-off individual items of a capital nature that have a benefit to the school lasting more than one financial or academic year. Loans cannot be used as a means of funding a deficit that has arisen because a school's recurrent costs exceed its current income.

There is currently no loan scheme available to Reading Borough Council Schools, and schools with a deficit are covered by a licenced deficit as set out in paragraph 4.9.

#### 4.11 Credit union approach

~~The Authority may introduce a Credit Union approach subject to consultation with schools. There are no plans to introduce this at present.~~  
Schools may group together to utilise externally held balances for a credit union approach to loans. If doing so and if the authority does not act as administrator of such an arrangement, audit certification will be required.

## **SECTION 5: INCOME**

### **5.1 Income from lettings**

Schools are allowed to retain income from lettings of school premises owned by the Authority which would otherwise accrue to the Authority, subject to alternative provisions arising from any joint use or PFI/PPP agreements. Income from lettings of school premises should not be paid into voluntary or private funds held by the school. Schools must ensure that lettings of school premises are not provided at an overall cost to the budget share but may cross-subsidise lettings for community and voluntary use with income from other lettings, provided the governing body is satisfied that this will not interfere to a significant extent with the performance of any duties imposed on them by the Education Acts, including the requirement to conduct the school with a view to promoting high standards of educational achievement. The use of such premises is subject to any directions issued by the Authority as to the appropriate use of school premises as permitted under the School Standards and Framework Act 1998 for various categories of schools.

Lettings of school premises not owned by the Authority would not be affected by this provision.

### **5.2 Income from fees and charges**

Schools are allowed to retain income from fees and charges except where a service is provided by the Authority from centrally retained funds. Schools are required to give due regard to any policy statements on charging the Authority may produce.

### **5.3 Income from fund-raising activities**

Schools are allowed to retain income from fund-raising activities.

### **5.4 Income from the sale of assets**

Schools are allowed to retain the proceeds of sale of assets except in cases where the asset was purchased with non-delegated funds (in which case it will be for the Authority to decide whether the school should retain any of the proceeds), or the asset concerned is land or buildings forming part of the school premises and is owned by the Authority.

### **5.5 Administrative procedures for the collection of income**

The procedures for the collection of all income due to the Authority are subject to the continual review of and issuing of appropriate guidance from the Chief Finance Officer.

## **5.6 Purposes for which income may be used**

Income from the sale of assets purchased with delegated funds may only be spent for the purposes of the school.

Sale of assets would become part of the capital balance of the school and, therefore, would be available for capital expenditure only.

## SECTION 6: THE CHARGING OF SCHOOL BUDGET SHARES

### 6.1 General provision

The Authority is authorised to charge the budget share of a school without the consent of the governing body **only in circumstances expressly permitted by the scheme (6.2), and requires authorities to consult with schools on any intended changes, and notify schools when it has been done.** ~~but will wherever possible notify and discuss in advance with individual schools its decision to exercise this right. This authority is limited to those circumstances expressly permitted by the scheme.~~ The Authority is not permitted to levy a charge where the statutory responsibility rests elsewhere and therefore the Authority cannot incur a liability. For the avoidance of doubt the Authority may de-delegate funding for permitted services without the express permission of the governing body, provided this has been approved by the appropriate phase of the Schools' Forum.

6.1.1 All charges for salaries and wages of school-based staff to school budget shares will wherever possible be based on actual rather than estimated costs.

Schools may wish to draw to the attention of the Authority expenses they feel they have incurred as a result of the acts or omissions of the Authority.

### 6.2 Circumstances in which charges may be made

The circumstances under which charges may be applicable are outlined below:

- i. Where premature retirement costs have been incurred without the prior written agreement of the Authority to bear such costs (the amount chargeable being only the excess over any amount agreed by the Authority);
- ii. Other expenditure incurred to secure resignations where the school had not followed the Authority's advice;
- iii. Awards by courts and industrial tribunals against the Authority or out of court settlements, arising from acts or omissions by the governing body or head teacher contrary to the Authority's advice
- iv. Expenditure by the Authority in carrying out health and safety work or capital expenditure for which the Authority is liable where funds have been delegated to the governing body for such work, but the governing body has failed to carry out the required work;
- v. Expenditure by the Authority incurred in making good defects in building work funded by capital spending from budget shares, where the premises are owned by the Authority or the school has voluntary controlled status;
- vi. Expenditure incurred by the Authority in insuring its own interests in a school where funding has been delegated but the school has failed to demonstrate that it has arranged cover at least as good as that which

- would be arranged by the Authority;
- vii. Recovery of monies due from a school for services provided to the school, where a dispute over the monies due has been referred to a disputes procedure set out in a service level agreement, and the result is that monies are owed by the school to the Authority;
  - viii. Recovery of penalties imposed on the Authority by the Board of Inland Revenue, the Contributions Agency or HM Customs and Excise, Teachers Pensions, the Environment Agency or other regulatory authorities as a result of school acts or omissions.
  - ix. Correction of Authority errors in calculating charges to a budget share (eg pension deductions)
  - x. Additional transport costs incurred by the Authority arising from decisions by the governing body on the length of the school day, and failure to notify the Authority of non-pupil days resulting in unnecessary transport costs.
  - xi. Legal costs which are incurred by the Authority because the governing body did not accept the advice of the Authority.
  - xii. Costs of necessary health and safety training for staff employed by the Authority, where funding for training had been delegated but the necessary training not carried out.
  - xiii. Compensation paid to a lender where a school enters into a contract for borrowing or leasing beyond its legal powers, and the contract is of no effect, and the full initial cost of any credit arrangement the school enters into without the prior written agreement of the Chief Finance Officer.
  - xiv. Cost of work done in respect of teacher pension remittance and records for schools using non-Authority payroll contractors, the charge to be the minimum needed to meet the cost of the Authority's compliance with its statutory obligations.
  - xv. Costs incurred by the Authority in securing provision specified in an Education, Health and Care Plan (EHCP) where the governing body of a school fails to secure such provision despite the delegation of funds in respect of low cost high incidence SEN and/or specific funding for a pupil with High Needs.
  - xvi. Costs incurred by the Authority due to submission by the school of incorrect data.
  - xvii. Recovery of amounts spent from specific grants on ineligible purposes.
  - xviii. Costs incurred by the Authority as a result of the governing body being in breach of the terms of a contract.
  - xix. Costs incurred by the Authority or another school as a result of a school withdrawing from a cluster arrangement, for example where this has funded staff providing services across the cluster.
  - xx. Costs incurred by the authority in administering admission appeals, where the local authority is the admissions authority and the funding for admission appeals has been delegated to all schools as part of their formula allocation.

## SECTION 7: TAXATION

### 7.1 VALUE ADDED TAX

Schools are required to complete a monthly return of expenditure and income showing the amount of VAT incurred and any VAT arising for services supplied by schools. In respect of VAT incurred, schools must hold a valid VAT invoice to support their claim.

On receipt of the monthly return the Authority will reclaim the net VAT and arrange for the school to be reimbursed.

VAT **cannot be recovered** on expenditure by the governors of a voluntary aided school when carrying out their statutory responsibilities to maintain the external fabric of their buildings.

Schools should seek advice of the Chief Finance Officer in relation to VAT if there is any doubt as to how a particular transaction should be treated.

### 7.2 CIS (Construction Industry Taxation Scheme)

Schools are required to agree a procedure with the Chief Finance Officer to enable any expenditure they incur to which the Construction Industry Taxation Scheme (CIS) applies to be correctly accounted for. For many schools this can be achieved by asking the Chief Finance Officer to make such payments. **There is an exemption for all schools for small projects up to £1,000 labour value.**

## **SECTION 8: THE PROVISION OF SERVICES AND FACILITIES BY THE AUTHORITY**

### **8.1: Provision of services from centrally retained budgets**

The Authority will determine the basis upon which services from centrally retained funds (including existing premature retirement costs and redundancy payments) are provided to schools. The Authority will, wherever possible endeavour to do this in consultation with schools. The Authority will not discriminate in its provision of services on the basis of categories of schools except where such discrimination is justified by differences in statutory duties.

### **8.2 Provision of services bought back from the Authority using delegated budgets**

The Authority may require a minimum period of up to 3 years where it is necessary to ensure an economic service provision.

When a service is provided for which expenditure is not retainable centrally by the Authority under the Regulations made under section 46 of the Act, it will be offered at prices which are intended to generate income which is no less than the cost of providing those services. The total cost of the service will be met by the total income, even if schools are charged differentially.

### **8.3 Packaging**

The Authority will ensure that in providing any service on a buy-back basis that such services will be offered in a way which does not unreasonably restrict schools freedom of choice among the services available, and where practicable, this will include provision on a service-by-service basis as well as in packages of services. Services available to be purchased with delegated funds will be outlined in guidance from time to time (Reading Borough Council support services for schools).

### **8.4 Service level agreements**

Service level agreements must normally be in place by no later than 31<sup>st</sup> March to be effective for the following financial year and schools must normally have at least a month to consider the terms of agreements.

With the exception of centrally funded premises and liability insurances, if services or facilities are provided under a Service Level Agreement (SLA) - whether free or on a buy-back basis - the terms of any such agreement starting on or after the inception of the scheme will be reviewed at least every three years if the agreement lasts longer than that.

Services provided by the Authority will be available on a basis which is not related to an extended agreement, as well as on the basis of such

agreements. Where such services are provided on an ad-hoc basis they may be charged for at a different rate than if those services were provided on the basis of an extended agreement.

## **8.5 Teachers' Pensions**

For the purposes of the Teachers' Pensions Scheme (TPS), local authorities are deemed to be the employers of teachers employed in maintained schools, whoever is the contractual employer. This brings with it the duty, under the Teachers' Pensions Regulations 1997, to make data returns relating to contributions, salaries and service for the staff concerned to Teachers Pensions.

Schools must ensure that their contracts with third party payroll agencies contain proper provision requiring the agency to supply data returns in the format as reasonably specified by the Authority. Governing bodies must also ensure that details of Additional Voluntary Contributions (AVCs) are passed to the Authority within the time limit showed in the AVC scheme. Annex C sets out the full details. Where a revision to the contract involves increased charges then the additional cost is to be met from within the existing schools' budget share.

## **SECTION 9: PRIVATE FINANCE INITIATIVE / PUBLIC -PRIVATE PARTNERSHIP**

### **9.1 Private Finance Initiative (PFI) / Public -Private Partnership (PPP)**

The Authority may develop PFI projects within the schools sector. An appropriate funding mechanism for such projects will be established in consultation with schools and the particular governing bodies concerned. The Authority anticipates agreeing with the governing body of schools as to the basis of such charges; and the treatment of monies withheld from contractors due to poor performance.

## SECTION 10: INSURANCE

### 10.1 Insurance cover

The Head of Finance has the responsibility for ensuring that the Council is adequately protected by insurance. It is essential that the School Governing Body is adequately protected. Without insurance, Schools could find themselves in a position where they are exposing the School and the Council to potential liabilities which could have serious financial implications for Schools and the Council, e.g. a major fire or injury. In addition, individual teachers or Governors may unwittingly open themselves to the possibility of being sued personally. The Head of Finance can determine the minimum levels of insurance cover for Schools. The **Minimum Requirement** will be based on the cover currently provided by the LA, or such amounts that the Head of Finance reasonably determines due to changes in the nature of the risk. Schools will not be allowed to place their insurance cover elsewhere unless they can demonstrate that these meet the Minimum Requirements.

When considering the options open to them Governing Bodies should make their decision bearing in mind their own individual circumstances and ensure that they are clear as to the extent of cover and other services included within each option.

In the event of the School deciding not to take advantage of the Council's Insurance Service, the School must demonstrate that it has arranged cover to as good a standard as that which would have been arranged by the LA.

Schools making their own alternative insurance arrangements must produce evidence of such insurance to the Head of Finance following inception and each subsequent annual renewal.

An Authorised Insurer (i.e. a company that is licensed to undertake the appropriate insurance business in the United Kingdom) must provide any insurance cover. It must also meet the requirements of the Council's insurance advisor's security board.

If the alternative insurance does not meet the minimum specification, the Council will have the right to take out the necessary insurance cover on behalf of the School and charge the premium to the School delegated budget.

Details of the insurance cover required for Reading schools (available as a buy-back) is updated annually in the School Insurance Guide which is published on the Reading SLA portal, also outlined in the Authority's Insurance Guidance Notes for Schools, available on request from the Chief Finance Officer. The Authority will have regard to the actual risks which might reasonably be expected to arise at the school in question in operating such a requirement. Whilst an arbitrary minimum level of cover for all schools will not be applied, the Authority is likely to recommend minimum

levels of cover on the advice of its retained insurance advisor when to protect both the Authority's and the school's interests.

## SECTION 11: MISCELLANEOUS

### 11.1 Right of access to information

Governing bodies are required to supply upon request and within a reasonable timescale, all financial and other information including the specific requirements outlined throughout this document, which might reasonably be required to enable the Authority or, its auditors to satisfy itself as to the school's management of its delegated budget share, or the use made of any central expenditure by the Authority (eg earmarked funds) on the school.

### 11.2 Liability of governors

Under the terms of s.50 (7) of the Act, and the governing body being a corporate body, governors of maintained schools will not incur personal liability in the exercise of their power to spend the delegated budget share provided they act reasonably in good faith.

### 11.3 Governors' expenses

Under schedule 50(5) of the Act, only allowances in respect of purposes specified in regulations may be paid to governors from a school's delegated budget share. Payment of any other allowances is forbidden. Schools are also barred from payment of expenses which duplicate those paid by the Secretary of State to additional governors appointed by him to schools under special measures.

### 11.4 Responsibility for legal costs

Where the governing body fails to act in accordance with the advice of the Authority, then the Authority is authorised to charge school's budget shares for appropriate legal costs incurred by the school's governing body. The Authority will wherever possible discuss in advance with schools its intention to make such a charge, and may in exceptional circumstances, following consultation with schools, waive this right. **The costs referred to are those of legal actions, including costs awarded against the authority, not the cost of legal advice provided.**

The Head of Legal Services will issue from time to time guidance to schools about procedures for obtaining legal advice, including circumstances where there is a conflict of interest between the governing body and the Authority.

### 11.5 Health and Safety

The Authority, governors, senior managers and all employees have general duties under the Health and Safety at Work Act 1974. Those duties are underpinned by more specific requirements set out in regulations or other legislation. In expending the school's budget share, governing bodies are

required to give due regard to the requirements as specified in the aforementioned as well as those incorporated in Authority policy and other guidelines issued by the Authority that are deemed to be applicable to schools.

~~The Health and Safety Executive is working on detailed guidance for schools. In the meantime, the Authority may, under s39(3) of the School Standards and Framework Act issue directions to the governing body and headteacher of a community, community special or voluntary controlled school on health and safety matters, these directions are enforceable, so far as governing bodies are concerned, via S497 of the Education Act 1996 if not complied with.~~

### **11.6 Right of attendance for the Chief Finance Officer**

Governing bodies are required to permit the Chief Finance Officer or any person nominated by the Chief Finance Officer to attend meetings of the governing body at which any agenda items are relevant to the exercise of her or his responsibilities. To facilitate this, the Authority will, unless this is impracticable, give prior notice of its intention to attend, and the governing body will supply upon request advance details including appropriate documentation of specific items to be discussed at such meetings.

Relevant items are those relating to financial probity, or overall financial management of the Authority. Schools will always advise the Chief Finance Officer if the Governing Body is considering a probity matter where there is an allegation of fraud or irregularity in the use of delegated or devolved funds.

### **11.7 Special Educational Needs**

Schools are required to use their best endeavours in spending the budget share, to secure the special educational needs of their pupils. If the LA is advised that this is not being achieved it may need to suspend delegation where a situation is serious enough to warrant it.

### **11.8 Interest on late payments**

Schools are reminded that the terms of the scheme cannot affect statutory requirements. The Late Payment of Commercial Debts (Interest) Act 1998 requires debts to suppliers to be paid within 30 days of receiving the goods/services, or receiving the invoice (whichever is the later). The supplier must receive a cheque or cleared funds by the 30th day. Suppliers are entitled to charge interest at Bank of England Base rate plus 8% on late payments, as well as reasonable debt recovery costs.

### **11.9 'Whistleblowing'**

RBC has a ‘whistleblowing’ policy available on the Authority’s website - [www.reading.gov.uk/councilanddemocracy/corporatecomments/whistleblowing](http://www.reading.gov.uk/councilanddemocracy/corporatecomments/whistleblowing).

The purpose of the policy is to encourage all staff to feel confident in raising serious concerns, to question and act upon concerns about practice; to provide a method of raising concerns and receiving feedback on any action taken; to ensure that a response to concerns is received and to reassure staff that you will be protected from reprisals or victimisation for whistleblowing in good faith. This scheme should be followed by persons working at a school or school governors who wish to complain about financial management or financial propriety at the school.

As a first step, concerns should normally be raised with your immediate manager or Chair of the Board of Governors. This depends, however, on the seriousness and sensitivity of the issues involved and who is thought to be involved in the malpractice. If you need advice and guidance on how matters of concern may be pursued the Chief Auditor at Reading BC should be contacted.

#### 11.10 Child Protection

Schools must release staff to attend child protection case conferences and other related events. ~~The Authority maintains a budget for supply cover to enable staff to undertake these duties.~~

#### 11.11 Redundancy/Early Retirement Costs (new)

~~The text below is taken from the statutory guidance published by the DfE. The Authority proposes to establish a working group (including schools and Authority representatives) to review whether local changes are needed to the national policy. Any local variation that might be inserted into this section would be subject to consultation with all maintained school head teachers and governing bodies and would be subject to the agreement of Schools’ Forum.~~

It is expected that schools will normally meet all redundancy/early retirement costs from their delegated budgets, unless there are exceptional circumstances.

Annex D sets out the statutory guidance on the funding of premature retirement and redundancy costs.

## SECTION 12: REPAIRS AND MAINTENANCE

### 12.1 Responsibility for Repairs and Maintenance

With the exception of capital expenditure as defined by the 'CIPFA Code of Practice on local authority accounting', Reading Borough Council will delegate all funding for repairs and maintenance to schools.

Schools should set their own de-minimus limit in assigning whether work is classified as revenue or capital, the default being that used by the local authority.

~~A statement summarising the categories of work which governing bodies can expect to finance from their delegated budgets and those items which would ordinarily be expected to be financed by the Council is attached.~~

For voluntary aided schools, the liability of the authority for repairs and maintenance is the same as for other maintained schools.

Voluntary Aided governor responsibilities are as set out in the DfE document 'Funding for premises-related work at Voluntary Aided (VA) Schools in England' effective from 1<sup>st</sup> April 2002. VA governors will continue to be eligible for grant from the DfE in respect of their statutory responsibilities and in addition they will have responsibility for other repair and maintenance items on the same basis as Community and Foundation schools. VA governing bodies are liable for:

- 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 they are around the playing fields;
- Playgrounds;
- Furniture, fixtures and fittings - but not normally ICT equipment;
- Other capital items (which can include boiler replacements and replacement of services).

LEA's are liable for:

- Playing fields

## **SECTION 13: COMMUNITY FACILITIES**

### **13.1 Application of Schemes for Financing Schools to the Community Facilities Power**

Schools which choose to exercise the power conferred by s.27 (1) of the Education Act 2002 to provide community facilities will be subject to a range of controls. First, regulations made under s.28 (2), if made, can specify activities which may not be undertaken at all under the main enabling power. Secondly, the school is obliged to consult its authority and have regard to advice from the authority. Thirdly, the Secretary of State issues guidance to governing bodies about a range of issues connected with exercise of the power, and a school must have regard to that.

However, under s.28(1), the main limitations and restrictions on the power will be those contained in the maintaining authority's scheme for financing schools made under section 48 of the School Standards and Framework Act 1998 as amended by paragraph 2 of Schedule 3 to the Education Act 2002. This amendment extended the coverage of schemes to include the exercise of the powers of governing bodies to provide community facilities.

Schools are therefore subject to prohibitions, restrictions and limitations in the scheme for financing schools.

This part of the scheme does not extend to joint-use agreements; transfer of control agreements, or agreements between the authority and schools to secure the provision of adult and community learning.

### **13.2 Impact on main school budget**

The mismanagement of community facilities funds can be grounds for suspension of the right to a delegated budget.

Schools must maintain separate accounts and bank accounts for budget share and community facilities and should maintain the same controls on this bank account as they do for the budget share bank account.

### **13.3 Consultation with the authority - financial aspects**

Schools must seek Authority advice in any proposal to provide community facilities and must have regard to advice from the Authority. Schools must give the Authority a minimum of 4 weeks response time in such consultation and may be required to submit further information if insufficient data is submitted for an informed response.

### **13.4 Funding agreements - authority powers**

Schools seeking to enter into any funding agreement with a third party either supplying funding or supplying funding and taking part in the

provision, must submit any such proposed agreement to the Director of Children's, Education & Early Help Services for comment. Schools must give the Authority a minimum of 4 weeks response time in such consultation.

Schools seeking Authority advice and submitting proposals to the Authority for comment must take into account the comments of the Authority and inform the Authority what action has been taken following Authority advice. Whilst the Authority has no right of veto for such agreements, if an agreement has been or is to be concluded against the wishes of the Authority, or as been concluded without informing the Authority, which in the view of the Authority is seriously prejudicial to the interests of the school or the Authority, that may constitute grounds for suspension of the right to a delegated budget.

### **13.5 Other prohibitions, restrictions and limitations**

In cases where the Authority considers that a proposed project carries significant financial risks to the Authority, it may require the governing body concerned to make arrangements to protect the financial interests of the Authority by either carrying out the activity concerned through the vehicle of a limited company formed for the purpose, or by obtaining indemnity insurance for risks associated with the project as specified by the Authority.

### **13.6 Supply of financial information to the Authority**

Schools which exercise the community facilities power should provide the Authority every six months with a summary statement showing the income and expenditure for the school arising from the facilities in question for the previous six months and on an estimated basis, for the next six months.

Should the Authority consider there to be cause for concern as to the school's management of the financial consequences of the exercise of the community facilities power, it may request financial statements every three months and the submission of a recovery plan for the activity in question if required.

### **13.7 Audit**

Schools, in concluding funding agreements with other persons pursuant to the exercise of the community facilities power, should ensure that such agreements contain adequate provision for access by the Authority to the records and other property of those persons held on the school premises, or held elsewhere insofar as they relate to the activity in question, in order for the Authority to satisfy itself as to the propriety of expenditure on the facilities in question.

### **13.8 Treatment of income and surpluses**

Schools may retain all net income derived from community facilities except where otherwise agreed with a funding provider.

Schools may carry such retained net income over from one financial year to the next as a separate community facility supply, or transfer all or part of it to the budget share balance.

If the school is a community or community special school and the Authority ceases to maintain the school, any accumulated retained income obtained from exercise of the community facilities power reverts to the Authority.

### **13.9 Health and safety**

The health and safety provisions of the main scheme (see section 11.5) also apply to the community facilities power.

The governing body will be responsible for the costs of securing Criminal Records Bureau clearance for all adults involved in community activities taking place during the school day.

### **13.10 Insurance**

It is the responsibility of the governing body to ensure adequate arrangements are made for insurance against risks arising from the exercise of the community facilities power. **The school should seek the Authority's advice before finalising any insurance arrangement for community facilities** and should allow a two week response time for the Authority. The Authority may undertake its own assessment of the insurance arrangements made by a school in respect of community facilities and if it judges those arrangements to be inadequate, make arrangements itself and charge the resultant cost to the school.

### **13.11 Taxation**

Schools should seek the advice of the Authority initially and the local VAT office or professional VAT advice on any issues relating to the possible imposition of Value Added Tax on income and expenditure in connection with community facilities and any company set up to manage such facilities.

Schools must fulfil the Authority's directions on VAT issues that impact on the Authority's VAT return or position.

If any member of staff employed by the school or Authority in connection with community facilities at the school is paid from funds held in a school's own back account, the school is likely to be held liable for payment of income tax and National Insurance, in line with HM Revenue and Customs rules.

Schools should follow Authority advice in relation to the Construction Industry Scheme where this is relevant to the exercise of community facilities power.

### **13.12 Banking**

Schools should either maintain separate bank accounts for budget share and community facilities, or have one account but with adequate internal accounting controls to maintain separation of funds. School should also have regard to the provisions at 3.5 and 3.6 above relating to the banks which may be used, signing of cheques, the titles of bank accounts, the contents of bank account mandates, and similar matters. The general approach to these matters should mirror these sections, except that a provision requiring that a mandate show the LA as owner of the funds in the account should exempt the community facilities funds from that if they are not in the same account as the budget share.

Schools must not borrow money to fund a community service without the written consent of the Secretary of State (see section 3.7).

## **ANNEXES**

- A Schools Covered by the Scheme
- B Interest Charges on Advances
- C Requirement to provide data on Teacher Pensions
- D Responsibility for redundancy and early retirement costs

## ANNEX A

### SCHOOLS COVERED BY THE SCHEME

<b>Nursery Schools:</b>		
Blagrove	Caversham	Norcot
Blagdon	New Bridge	
<b>Primary Schools:</b>		
Alfred Sutton	Geoffrey Field Junior	Ridgeway Primary
Caversham Park Primary	Hill Primary, The	Southcote Primary
Caversham Primary	Katesgrove Primary	St. Annes RC Primary
Christ The King RC Primary	Manor Primary	St. Martins RC Primary
Coley Primary	Micklands Primary	St. Michaels Primary
E P Collier Primary	Moorlands Primary	Thameside Primary
Emmer Green Primary	Oxford Road Primary	Whitley Park Primary
English Martyrs RC Primary	Park Lane Primary	Wilson Primary
Geoffrey Field Infant	Redlands Primary	
<b>Secondary Schools:</b>		
Hugh Faringdon		
<b>Special Schools:</b>		
Phoenix School	The Holy Brook	
<b><u>Pupil Referral Units (PRUs):</u></b>		
Cranbury College		

## ANNEX B

### INTEREST CHARGES ON ADVANCES

The calculation basis of the deduction that the Council may make from a school's budget share in respect of estimated interest lost will be at a rate up to 2% higher than the rate applicable to funds invested with the Council on any amount advanced.

For example:

Suppose the normal instalments the Councils agrees to pay are one twelfth of the budget at the start of each month. A school with an annual budget of £300,000 asks for its March instalment 10 months earlier in May. Assuming that the current interest rate applicable to funds invested with the Council is 3% then, the interest charge on that advance will be calculated as:

$$\frac{\text{annual budget}}{12} \times \frac{\text{number of days in advance}}{365} \times (\text{current interest rate} + 2\%) = \text{interest charge}$$

$$\frac{£300,000}{12} = £25,000 \times \frac{305}{365} = £20,890 \times (3\% + 2\%) = £1,045$$

## ANNEX C

### REQUIREMENT TO PROVIDE DATA ON TEACHER PENSIONS

In order to ensure that the performance of the duty on Reading Borough Council to supply Teachers Pensions with information under the Teachers' Pensions Regulations 1997, the following conditions are imposed on RBC and governing bodies of all maintained schools covered by this Scheme in relation to their budget shares.

The conditions only apply to governing bodies of maintained schools that have not entered into an arrangement with Reading Borough Council to provide payroll services.

A governing body of any maintained school, whether or not the employer of the teachers at such a school, which has entered into any arrangement or agreement with a person other than the Authority to provide payroll services, shall ensure that any such arrangement or agreement is varied to require that person to supply salary, service and pensions data to the Authority which the Authority requires to submit its annual return of salary and service to Teachers' Pensions and to produce its audited contributions certificate. The Authority will advise schools each year of the timing, format and specification of the information required. A governing body shall also ensure that any such arrangement or agreement is varied to require that Additional Voluntary Contributions (AVCs) are passed to RBC within the time limit specified in the AVC scheme. The governing body shall meet any consequential costs from the school's budget share.

A governing body of any maintained school which directly administers its payroll shall supply salary, service and pensions data to RBC which the Authority requires to submit its annual return of salary and service to Teachers' Pensions and to produce its audited contributions certificate. Reading Borough Council will advise schools each year of the timing, format and specification of the information required from each school. A governing body shall also ensure that Additional Voluntary Contributions (AVCs) are passed to the Authority within the time limit specified in the AVC scheme. The governing body shall meet any consequential costs from the school's budget share.

## ANNEX D

### RESPONSIBILITY FOR REDUNDANCY AND EARLY RETIREMENT COSTS

This guidance note summarises the position relating to the charging of voluntary early retirement and redundancy costs. It sets out what is specified in legislation and provides some examples of when it might be appropriate to charge an individual school's budget, the central Schools Budget or the local authority's non-schools budget.

Section 37 of the 2002 Education Act says:

*(4) costs incurred by the local education authority in respect of any premature retirement of a member of the staff of a maintained school shall be met from the school's budget share for one or more financial years except in so far as the authority agree with the governing body in writing (whether before or after the retirement occurs) that they shall not be so met*

*(5) costs incurred by the local education authority in respect of the dismissal, or for the purpose of securing the resignation, of any member of the staff of a maintained school shall not be met from the school's budget share for any financial year except in so far as the authority have good reason for deducting those costs, or any part of those costs, from that share.*

*(6) The fact that the authority have a policy precluding dismissal of their employees by reason of redundancy is not to be regarded as a good reason for the purposes of subsection (5); and in this subsection the reference to dismissal by reason of redundancy shall be read in accordance with section 139 of the Employment Rights Act 1996 (c. 18).*

The default position, therefore, is that premature retirement costs must be charged to the school's delegated budget, while redundancy costs must be charged to the local authority's budget. In the former case, the local authority has to agree otherwise for costs to be centrally funded, while in the latter case, there has to be a good reason for it not to be centrally funded, and that cannot include having a no redundancy policy. Ultimately, it would be for the courts to decide what was a good reason, but the examples set out below indicate the situations in which exceptions to the default position might be taken.

#### *Charge of dismissal/resignation costs to delegated school budget*

- If a school has decided to offer more generous terms than the authority's policy, then it would be reasonable to charge the excess to the school
- If a school is otherwise acting outside the local authority's policy
- Where the school is making staffing reductions which the local authority does not believe are necessary to either set a balanced budget or meet the conditions of a licensed deficit
- Where staffing reductions arise from a deficit caused by factors within the school's control

- Where the school has excess surplus balances and no agreed plan to use these
- Where a school has refused to engage with the local authority's redeployment policy

*Charge of premature retirement costs to local authority non-schools budget*

- Where a school has a long-term reduction in pupil numbers and charging such costs to their budget would impact on standards
- Where a school is closing, does not have sufficient balances to cover the costs and where the central Schools Budget does not have capacity to absorb the deficit
- Where charging such costs to the school's budget would prevent the school from complying with a requirement to recover a licensed deficit within the agreed timescale
- Where a school is in special measures, does not have excess balances and employment of the relevant staff is being/has been terminated as a result of local authority or government intervention to improve standards

Costs of early retirements or redundancies may only be charged to the central part of the Schools Budget where the expenditure is to be incurred as a result of decisions made before 1<sup>st</sup> April 2013. Costs may not exceed the amount budgeted in the previous financial year.

It is important that the local authority discusses its policy with its Schools Forum. Although each case should be considered on its merits, this should be within an agreed framework. It may be reasonable to share costs in some cases, and some authorities operate a panel to adjudicate on applications.

A de-delegated contingency could be provided, if Schools' Forum agree, to support individual schools where "a governing body has incurred expenditure which it would be unreasonable to expect them to meet from the school's budget share".

For staff employed under the community facilities power, the default position is that any costs must be met by the governing body, and can be funded from the school's delegated budget if the governing body is satisfied that this will not interfere to a significant extent with the performance of any duties imposed on them by the Education Acts, including the requirement to conduct the school with a view to promoting high standards of educational achievement. Section 37 now states:

*(7)Where a local education authority incur costs—  
 (a)in respect of any premature retirement of any member of the staff of a maintained school who is employed for community purposes, or  
 (b)in respect of the dismissal, or for the purpose of securing the resignation, of any member of the staff of a maintained school who is employed for those purposes,*

*they shall recover those costs from the governing body except in so far as the authority agree with the governing body in writing (whether before or after the retirement, dismissal or resignation occurs) that they shall not be so recoverable.*

*(7A) Any amount payable by virtue of subsection (7) by the governing body of a maintained school to the local education authority may be met by the governing body out of the school's budget share for any funding period if and to the extent that the condition in subsection (7B) is met.*

*(7B) The condition is that the governing body are satisfied that meeting the amount out of the school's budget share will not to a significant extent interfere with the performance of any duty imposed on them by section 21(2) or by any other provision of the Education Acts.*

*(8) Where a person is employed partly for community purposes and partly for other purposes, any payment or costs in respect of that person is to be apportioned between the two purposes; and the preceding provisions of this section shall apply separately to each part of the payment or costs.*