



## **CHILDRENS and CULTURE DIRECTORATE**

## **LA SCHEME FOR FINANCING SCHOOLS**

**2019-20**

Effective from 14<sup>th</sup> August 2019

## CONTENT

### SECTION 1 INTRODUCTION

1.1	The Funding Framework	5
1.2	The role of the scheme	6
1.2.1	Application of the scheme to the Authority and maintained schools	6
1.3	Publication and revision of the Scheme	6
1.4	Responsibility of the governing body	7
1.5	Delegation of powers to the Headteacher	7
1.6	Maintenance of Schools	8

### SECTION 2: FINANCIAL REQUIREMENTS; AUDIT

2.1.1	Application of financial controls to schools	9
2.1.2	Provision of financial information and reports	9
2.1.3	Payment of bills: Payment of salaries and wages	10
2.1.3.1	Payment of bills	10
2.1.3.2	Payment of salaries and wages	10
2.1.4	Control of assets	10
2.1.5	Accounting Policies (including year-end procedures)	11
2.1.6	Writing off of debts	11
2.2	Basis of accounting	11
2.3	Submission of budget plans	11
2.4	School Resource Management	12
2.5	Virement	12
2.6	Audit: General	12
2.7	Separate external audits	13
2.8	Audit of voluntary and private funds	13
2.9	Register of business interests	13
2.10	Purchasing, tendering and contracting requirements	14
2.11	Application of contracts to schools	14
2.12	Central funds and earmarking	14
2.13	Spending for the purposes of the school	15
2.14	Capital spending from budget shares	15
2.15	SFVS (Schools Financial Value Standard)	16
2.16	Fraud	16
2.17	Notice of Concern	16

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

3.1	Frequency of instalments	18
3.2	Proportion of budget share payable at each instalment	18
3.3	Interest claw back	18
3.3.1	Interest on late budget share instalments	18
3.4	Budget shares for closing schools	18
3.5	Bank and building society accounts	19
3.5.1	Restrictions on accounts	19
3.6	Borrowing by schools	20
3.6.1	Procurement Cards	20
3.7	Other provisions	20

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

4.1	The right to carry forward surplus balances	21
4.2	Reporting on the intended use of surplus balances	21
4.3	Interest on surplus balances	22

## LONDON BOROUGH TOWER HAMLETS SCHEME FOR FINANCING SCHOOLS

4.4	Obligation to carry forward deficit balances	22
4.5	Planning for deficit budgets	22
4.6	Charging of interest on deficit balances	22
4.7	Writing off deficits	22
4.8	Balances of closing and replacement schools	22
4.9	Borrowing for agreed purposes	23
4.9.1	Licensed deficits	23
4.10	Loan schemes/Credit Union	23
4.10.1	Credit union approach	23
4.10.2	Loan Scheme	23
<b>SECTION 5: INCOME</b>		
5.1	Income from lettings	25
5.2	Income from fees and charges	25
5.3	Income from fund-raising activities	25
5.4	Income from the sale of assets	25
5.5	Administrative procedures for the collection of income	25
5.6	Purposes for which income may be used	26
<b>SECTION 6: THE CHARGING OF SCHOOL BUDGET SHARES</b>		
6.1	General provision	27
6.2	Costs incurred in securing the termination of employment Contracts.	28
6.3	Other Circumstances in which charges may be made	29
<b>SECTION 7: TAXATION</b>		
7.1	Value Added Tax	33
7.2	CITS (Construction Industry Taxation Scheme)	33
7.3	Payments to individuals claiming to be self-employed	33
<b>SECTION 8: THE PROVISION OF SERVICES AND FACILITIES BY THE AUTHORITY</b>		
8.1	Provision of services from centrally retained budgets	34
8.2	Timescales for the provision of services bought back from the LA using delegated budgets	34
8.2.1	Packaging	34
8.3	Service level agreements	34
8.4	Teachers' Pension Scheme	35
<b>SECTION 9: PRIVATE FINANCE INITIATIVES/ PUBLIC PRIVATE PARTNERSHIPS</b>		
		36
<b>SECTION 10: INSURANCE</b>		
10.1	Insurance cover	37
<b>SECTION 11: MISCELLANEOUS</b>		
11.1	Right of access to information	38
11.2	Liability of governors	38
11.3	Governors' expenses	38
11.4	Responsibility for Legal Costs	38
11.5	Health and Safety	39
11.6	Right of attendance for Chief Finance Officer	39
11.7	Delegation to New Schools	39
11.8	Optional Delegated Funding	39
11.9	Obligations with respect to special educational needs	40

## LONDON BOROUGH TOWER HAMLETS SCHEME FOR FINANCING SCHOOLS

11.10	Interest on late payments	40
11.11	Whistleblowing	40
11.12	Child Protection	40
11.13	School Meals	40

### **SECTION 12: RESPONSIBILITY FOR REPAIRS AND MAINTENANCE**

12.1	Distinction between Revenue and Capital.	41
12.2	LA Responsibilities	41
12.3	Responsibilities of Governing Bodies.	41
12.4	LA Expectations.	41

### **SECTION 13: COMMUNITY FACILITIES POWER**

13.1	Introduction	42
13.2	Consultation with the LA	42
13.3	Funding Agreements	43
13.4	Other Prohibitions, Restriction and Limitations	43
13.5	Supply of Financial Information	43
13.6	Audit/Access to Records	44
13.7	Treatment of Income and Surpluses	44
13.8	Health and Safety	44
13.9	Insurance	45
13.10	Taxation	45
13.11	Banking	45

<b>ANNEXE A –</b>	47
LIST OF SCHOOLS TO WHICH THIS SCHEME APPLIES	

<b>ANNEXE B –</b>	
RESPONSIBILITY FOR REDUNDANCY AND EARLY RETIREMENT COSTS	48

<b>ANNEXE C –</b>	51
BANKS RECOGNISED FOR THE PURPOSES OF THIS SCHEME -	

<b>ANNEXE D</b>	52
SWEEPING ARRANGEMENTS FOR SCHOOLS	

<b>ANNEXE E</b>	53
LICENSED DEFICIT SCHEME	

<b>ANNEXE F</b>	55
HEALTH & SAFETY	

<b>ANNEXE G</b>	56
CALCULATION OF INTEREST AND DEDUCTION	

<b>ANNEXE H</b>	59
PROPOSAL FORM – COMMUNITY FACILITIES AND SERVICES	

## **SECTION 1: INTRODUCTION**

### **1.1 The Funding Framework**

The funding framework, which replaces Local Management of Schools, is based on the legislative provisions in sections 45-53 of the School Standards and Framework Act 1998 (referred to here as “the Act”).

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 its School 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.

The Local Authority (LA) may centrally retain funding in the Schools Budget for certain 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 LA, subject to any limits or conditions, including gaining the approval of their School Forum or the Secretary of State. 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).

LAs must distribute the 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 LA 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 for the 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.

A LA 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 (s.17 of the Act).

The LA 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.

The detailed publication requirements for financial statements and for schemes are set out in directions issued by the Secretary of State.

A copy of each year's budget and outturn statement should be made easily accessible to all 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 that 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 in Tower Hamlets is founded on seven principles:

- Raising standards in schools.
- Self-management for schools.
- Clear accountability of both the LA and schools.
- Transparency of school finances.
- Opportunity for schools to take greater responsibility for management decisions.
- Equity among the categories of community, voluntary and foundation schools.
- Value for money for schools and the LA.

The purpose of the scheme is to set out the financial relationship between the LA and its maintained schools. The scheme sets out the requirements for sound financial management and associated issues. These requirements are binding on both the schools and the LA. Detailed requirements are set out in Tower Hamlet's *Schools' Financial Procedures Manual*. These are based upon the Council's financial regulations and contract standing orders amended as necessary to meet the needs of schools.

### **1.2.1 Application of the scheme to the Authority and maintained schools**

This scheme applies to all community, nursery, voluntary, foundation (including trust), community special or foundation special schools and Pupil Referral Units maintained by the London Borough of Tower Hamlets (as listed in Annexe A).

## **1.3 Publication and revision of the scheme**

A copy of the scheme will be made available to the governing body and the Headteacher of each school covered by the scheme and to the general public.

Headteachers and governing bodies will be consulted on any amendments to the scheme. All proposed revisions will then be submitted to the Schools Forum for approval by members of the Forum representing maintained schools. Following

approval by the Schools Forum, any approved revisions will be published on the LGFL site and an email notification sent to each school including the date the new revision comes in to force. A copy of the Scheme will also be published on the LA's website.

The Secretary of State may make directed revisions to schemes after consultation. Such revisions become part of the scheme from the date of direction.

#### **1.4 Responsibility of the governing body**

All governing bodies have full responsibility for the management of the school's budget and for the appointment and dismissal of all staff taking into account the professional advice of the Director of Children's Services and their headteacher.

Governing bodies are required to:

- spend their budgets in a manner that is consistent with the implementation of the National Curriculum; with the statutory requirements relating to the curriculum as a whole, (including religious education and worship), to secure provision for children with additional educational needs and use their best endeavours to secure the provision set out in the statement of special educational need of any pupil registered at the school in so far as that provision is not made from central resources retained by the LA for that purpose;
- operate an effective and efficient education service within the strategic framework set by the LA for the benefit of their pupils;
- operate within their budget share;
- meet the actual cost of all expenditure from their delegated budget, any devolved funding (e.g. SEN top-up funding) and any income accruing to the governors.

#### **1.5 Delegation of powers to the Headteacher**

This scheme requires each governing body to consider the extent to which it wishes to delegate financial powers to their headteacher. The LA has no wish to impose uniformity on schools but has set out a model scheme and code of practice for delegation to headteachers which sets out reasonable parameters that Governing Bodies are asked to consider. It is a suggestion only and governing bodies are free to determine arrangements appropriate to their circumstances. However it is likely that the following will be included:

- appointment of teachers and non teaching staff,
- securing supply teaching and other staff cover in the event of staff absence or vacancy,
- employment of casual staff,
- virement between budget heads up to £5,000 in primary and £10,000 in secondary schools (all uses of this power must be reported to the Governors as they remain responsible for the overall management of the budget),
- authority to order goods and services as necessary,
- authority to enter into operating leases up to a maximum of two years duration,
- negotiations with bankers,
- income matters, such as setting charges for once off activities,
- taking of corrective action to ensure budget plans are achieved,
- write off of debts up to any limit set by the Borough's Chief Finance Officer above which the agreement of the Director of Children's Services is required,

- disposal of assets.

The level of delegation decided upon by the Governors of the school and any subsequent revisions should be agreed by the whole Governing body and duly detailed in the minutes of the Governing body. Such decisions will be subject to any requirements of regulations made under Section 38 and Schedule 11 of the School Standards and Framework Act.

Whatever their decision Governors should delegate at least the day-to-day administration and management of the school finances to the Headteacher. The arrangements must also make clear the respective responsibilities of the governors and Headteacher for the Annual Budget Plan and delegated budget.

The Headteacher may, in turn, delegate certain tasks and responsibilities to other members of staff. Where such further delegation takes place the overall responsibility is deemed to remain with the Headteacher.

### **1.6 Maintenance of Schools**

The LA is responsible for maintaining the schools covered by the scheme, and this includes the defraying of all the expenses of maintaining them (except in the case of a voluntary aided school where some of the expenses are, by statute, the responsibility of the governing body). Part of the way an authority maintains schools is through the funding system put in place under sections 45 to 53 of the Schools Standards and Framework Act 1998.

## SECTION 2: FINANCIAL CONTROLS

### 2.1.1 Application of financial controls to schools

As far as possible schools will be given the freedom to exercise choice that is compatible with exercising management autonomy over their budgets. Tower Hamlets LA will seek only to impose regulations that are consistent with the need for accountability and control over the expenditure of public funds.

In managing their delegated budgets, schools are required to abide by the LA's requirements on financial controls and monitoring. These are set out below and in the *Schools Financial Procedures Manual*. This contains sections on:

- the Council's contract standing orders as modified for schools,
- the Council's financial regulations as modified for schools

The *Schools' Financial Procedures Manual* will be subject to regular review.

Should any inconsistency be detected between this scheme and any decision or other document produced by Tower Hamlets Council whether in exercise of its education powers or otherwise that purports to apply to schools with delegated budgets, this scheme takes precedence.

### 2.1.2 Provision of financial information and reports

School governors are responsible for:

- ensuring that there are effective controls in place for authorising, monitoring and controlling expenditure and obtaining value for money,
- maintaining accurate records of all income and expenditure transactions using an accounting package approved by the LA and
- providing the LA with copies of expected and actual income and expenditure, accounts, records, information and other relevant documentation in such form and at such times as required (this includes provision of information to Internal Audit, the external auditor and Revenue & Customs).

Under Section 151 of the Local Government Act 1972, the Borough's Chief Finance Officer<sup>1</sup> is responsible for the probity and regularity of Tower Hamlet's financial activities. The Borough's Chief Finance Officer (or other officer given authority to act on his or her behalf) will have the right to intervene in the financial affairs of a school where there are concerns about compliance with financial regulations or other guidance set out in this document or those to which it refers. In such an event the LA may withdraw delegation and any resultant costs arising for the LA will normally be charged to the school's budget.

The London Borough of Tower Hamlets has an overall responsibility to monitor school finances. Schools are required to provide the authority with details of expected and actual expenditure and income, in a form (generally in line with Consistent Financial Reporting) and at times determined by the authority. This will not be more often than quarterly (except for information connected with tax or banking reconciliation) but may

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<sup>1</sup> The terms Chief Finance Officer (CFO) and Director of Children's Services are used in the Scheme to designate the statutory officers responsible. The actual job titles may vary.

be more frequent if the LA has given the school notice in writing that it is concerned about its financial management or the school is in its first year of operation.

### **2.1.3 Payment of bills and salaries and wages**

#### **2.1.3.1 Payment of bills**

The London Borough of Tower Hamlets offers a disbursement bank account for all expenditure to all of its schools. At present all schools covered by this scheme have such bank accounts.

All schools covered by the provisions of this scheme must comply with the requirements set out in the *Schools' Financial Procedures Manual*.

These provisions state that a school may use its disbursement bank account to pay for all goods and service included in the delegated budget.

A school must not use its disbursement bank account to pay for any excepted items such as non-LA activities supported by School Funds or PTA Funds, listed in the *Schools' Financial Procedures Manual*.

#### **2.1.3.2 Payment of salaries and wages**

The Governing body shall be responsible for the payroll routines for employees working in their school. This responsibility will include calculating of all remuneration, pensions and gratuities, deductions for income tax, superannuation, National Insurance, the advance and recovery of any loans agreed by the school, etc. Governors will normally discharge these responsibilities with the assistance of their payroll provider.

- Where the governing body chooses to use the London Borough of Tower Hamlets Support Services both parties will be required to meet the requirements of an appropriate Service Level Agreement (SLA) that will make clear their respective responsibilities in these matters. This will include a statement about what information the payroll provider will provide to the school and other relevant agencies such as pension funds and Revenue & Customs.
- Should the governing body exercise this responsibility through some other provider then it is in the governing body's interest that their contract is equally clear about these matters. If governors do not do so they expose themselves to great risk and are therefore advised to seek advice from the Director of Children's Services about their view as to the provider's ability to carry out the functions set out above.
- The *Schools' Financial Procedures Manual* sets out the information about such matters as tax and pensions that the LA will require the governors to provide in order for it to carry out its remaining legal obligations in respect of tax and pensions etc. This continuing service may be the subject of a SLA for which a charge will be made.

#### **2.1.4 Control of assets**

The administrative arrangements for the management of assets, writing off losses and inventories are to be found in the *Schools' Financial Procedures Manual*.

Governing bodies are responsible for the safe custody and control of the school's and the Council's assets, income and stores. This scheme requires that inventories of ALL movable non capital assets must be held and kept up to date when schools within this scheme make purchases. These inventories can be maintained on a computer system such as Key Solutions Cash Accounts or the SIMS Equipment Register Module. Alternatively, those schools using a manual record are strongly recommended to use the standard recommended format to be found in the *Schools' Financial Procedures Manual* for all items over £1,000, the limit set by the Secretary of State in regulations and it is suggested that they keep the inventory for lesser value items in the same format. Schools are encouraged to register anything that is portable and attractive, such as a camera.

#### **2.1.5 Accounting Policies (including year-end procedures)**

Schools must abide by procedures issued by the authority in relation to accounting policies and year-end procedures set out in the *Schools' Financial Procedures Manual*.

#### **2.1.6 Writing off of debts**

Governing bodies are authorised to write off debts up to the limit set in the *Schools' Financial Procedures Manual* currently £10,000. The governing body may choose to delegate the responsibility for approving write-offs of small sums to the Headteacher. A suggested limit is set out in the *Schools' Financial Procedures Manual*.

Debts above this level need to be discussed with the Director of Children's Services.

Any schools experiencing problems recovering money due should contact the Service Head (Strategy and Resources) for advice and support.

### **2.2 Basis of accounting**

Reports and accounts provided to the LA by schools within the scheme shall be on an accrual basis and shall include the projected out-turn.

### **2.3 Submission of budget plans**

All schools within the scheme are required to submit a budget plan showing its intentions for expenditure in the current financial year and the assumptions underpinning it to the LA no later than 31st May. The budget plan must be approved by the governing body or a committee of the governing body.

Provisional budget plans should be submitted within 4 weeks of schools receiving their budget information from the LA.

The budget plan must be in the format set out in the *Schools' Financial Procedures Manual* and include all relevant items of expenditure and income along with any specified supplementary information. Schools must take account of any surplus from

earlier years and must take account of any accumulated deficit when formulating its plan. The LA will provide schools with all income and expenditure data that it holds which is necessary to efficient planning by schools such as inflation rates and pay rates that it recommends should be used in the budget planning process. Schools will also be provided with a statement annually setting out when the LA expects this data to be available.

Schools will also provide details of any proposed virements from the agreed plan on 30 September and 31 December of any financial year together with an explanation of any significant virement.

The LA requires that schools will need to submit a financial forecast covering each year of a multi-year period for which schools have been notified of budget shares beyond the current year. The format and content of such a forecast will be set out in the *Schools' Financial Procedures Manual*.

Future year financial forecasts indicate that a school is undertaking effective financial planning and so can be used as evidence to support compliance with the Schools Financial Value Standard (section 2.15) and will be used to support the LA's balance control mechanism (see section 4).

#### **2.4 School Resource Management.**

Schools must seek to achieve effective management of resources and value for money, to optimise the use of their resources and to invest in teaching and learning, taking into account the 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. There are significant variations in efficiency between similar schools, and so it is important for schools to review their current expenditure, compare it to other schools and think about how to make improvements.

#### **2.5 Virement**

Schools are free to vire between budget heads in the expenditure of their budget shares but governors are advised to establish criteria for virements and financial limits above which the approval of the governors is required.

This freedom to vire is sometimes restricted in the case of devolved funds. The extent of possible virement will be made clear in respect of each fund devolved.

#### **2.6 Audit: General**

In regard to **internal audit**, all schools come within the audit regime determined by the LA.

In relation to **external audit** all schools come within the LA external audit regime as determined by the Local Audit and Accountability Act 2014.

Schools are required to co-operate both with auditors employed by the local authority (**internal audit**) and external auditors appointed to audit the local authority itself

**(external audit).**

The accounting records and supporting prime documents are to be retained by Schools covered by the scheme together with all other records relating to their financial administration. These records must be readily accessible and made available for inspection by the auditors (both internal and external) and other such external bodies that have a statutory right of access e.g. Revenue & Customs.

**2.7 Separate external audits**

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

If a school chooses to exercise this discretion it should ensure that the appointed auditors are competent and that the Director of Children's Services is notified of the appointment.

**2.8 Audit of voluntary and private funds**

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

The procedures for furnishing these audit certificates and advice on the handling of such voluntary and private funds is set out in the *Schools' Financial Procedures Manual*.

The failure by a school to provide such certificates renders itself liable to being in breach of the scheme.

**2.9 Register of business interests**

The governing body of each school is required to establish and maintain a register that lists for each member of the governing body and the Headteacher and staff:

- Any business interests they or any member of their immediate family have.
- Details of any other educational establishments that they govern.
- Any relationship between school staff and members of the governing body.

The governors are also required to keep the register up to date with notification of changes through annual review of entries, and to make the register available for inspection by governors, staff and parents, and the LA. Governors are required to publish the register, for example on a publicly accessible web-site. Nil returns from staff and governors should be included in the register.

Further details and a recommended format for the register are set out in the *Schools' Financial Procedures Manual*.

## **2.10 Purchasing, tendering and contracting requirements**

Schools are required to abide by the LA's financial regulations and standing orders for this scheme in purchasing, tendering and contracting matters. This includes a requirement to assess in advance, where relevant, the health and safety competence of contractors, taking account of the LA's policies and procedures.

The financial regulations and contract standing orders will not apply where they would require schools:

- a. to do anything incompatible with any of the provisions of this scheme, or any statutory provision, or any EU Procurement Directive;
- b. to seek LA officer countersignature for any contracts for goods or services for a value below £60,000 in any one year;
- c. to select suppliers only from an approved list;
- d. to seek fewer than three tenders in respect of any contract with a value exceeding £10,000 in any one year.

The Governing body may enter into capital expenditure and leasing contracts and agreements but they are subject to the Director of Children's Services whose permission must be obtained in advance of any such agreement being entered into.

Schools may seek advice on a range of compliant deals via [Buying for Schools](#).

## **2.11 Application of contracts to schools**

Schools have the right to opt out of LA arranged contracts except where they have lost that right for particular contracts (whenever started) in accordance with a specified written procedure. In such cases they will be bound into the contract for its length (although the contract might contain clauses allowing variance of its terms and conditions).

In general schools, under paragraph 3 of schedule 10 of the Act, enter into contracts on behalf of the LA as maintainer of the school and owner of the funds in the budget share. However where a governing body has a clear statutory duty, e.g. contracts made by voluntary aided schools for the employment of staff, they are acting on their own behalf.

## **2.12 Central funds and earmarking**

The LA is authorised to make sums available to schools from central funds, in the form of allocations that are additional to and separate from the schools' budget shares. Such allocations shall be subject to conditions setting out the purpose or purposes for which the funds may be used.

While these conditions need not preclude virement (except, of course, where the funding is supported by a specific grant that the LA itself is not permitted to vire), this should not be carried to the point of assimilating the allocations into the school's budget

share. Such allocations may also be sums for Special Educational Needs or other initiatives funded from the central expenditure of a LA's School Budget or other LA budget, once again these should not be assimilated into the school's budget share.

Unless otherwise stated, such earmarked funding from centrally retained funds is to be spent only on the purposes for which it is given, or on other budget heads for which earmarked funding is given, and is not to be vired into the school's budget share. In general schools should assume that earmarked funds not spent within the period over which schools are allowed to use the funding (which could be different from a financial year) will be returned to the LA.

No deductions in respect of interest costs to the LA will be made from payments to schools of devolved specific or special grants.

In order that schools may demonstrate compliance with this requirement, the procedure as set out in the *Schools' Financial Procedures Manual* shall be used.

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

Although s.50 (3) of the Act allows governing bodies to spend budget shares for the purposes of the school, this is subject to regulations made by the Secretary of State and any provisions of the scheme.

Governing bodies are reminded that the prime purpose of the school and its consequent expenditure should be the provision of teaching and learning for the pupils and students attending the school. By virtue of section 50(3A), amounts spent by governing bodies on community facilities or services under section 27 of the Education Act 2002 will be treated as if spent for any purposes of the school.

In addition the following restrictions shall apply:

- Expenses incurred in connection with staff farewell celebrations and other such social events shall not be funded from the schools delegated budget.
- The advice of the Director of Children's Services should be sought in relation to proposed grants to individuals or groups since these may not be classifiable as being for the purposes of the school.

The costs of non-school activities taking place on school premises are specifically excluded from schools' budget shares; these include expenditure on:

- Adult and community education, student awards, youth services, boarding houses, pupil referral units and secure units;
- Pre and post school activities, crèches and nurseries and other self-financing activities. Additional costs in providing these activities must be met from income raised from charges to participants for the activities;
- Non-curriculum activities. The costs of trips such as skiing must be met from charges to participants;
- Fund raising activities.

## **2.14 Capital spending from budget shares**

Governing bodies are permitted to use their budget shares to meet the cost of capital expenditure on the school premises in addition to any devolved capital grant. This includes expenditure by the governing body of a voluntary aided school on work that is their responsibility under paragraph 3 of Schedule 3 of the SSFA 1998.

If the expected capital expenditure from the budget share in any one year will exceed £20,000, the governing body must submit detailed proposals to the Director of Children's Services prior to taking any other action and take into account any advice from the Director of Children's Services as to the merits or not of the proposed expenditure.

Where London Borough of Tower Hamlets owns the premises then the governing body shall seek the consent of the LA to the proposed works, but such consent will only be withheld on health and safety grounds. The reason for these requirements is to help ensure compliance with the School Premises (England) Regulations 2012, the Workplace (Health, Safety and Welfare) Regulations 1992, the Regulatory Reform (Fire Safety) Order 2005, the Equality Act 2010 and the Building Regulations 2010.

## **2.15 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 but it must be submitted before the end of the financial year being assessed

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 actions 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.

## **New 2.16 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.

## **2.17 Notice of concern**

The LA may issue a notice of concern to the governing body of any school it maintains where, in the opinion of the Director of Children's 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 local 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 local authority;
- Insisting on regular financial monitoring meetings at the school attended by local authority officers;
- Requiring a governing body to buy into a local 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.

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

### **3.1 Frequency of instalments**

The budget share will be made available to governing bodies as follows:

- 10% of each school's formula budget share will be transferred to its bank account on 1st April each year (or the nearest bank day in April) and 10% on the 20<sup>th</sup> April each year.
- 8% of each school's budget share will be transferred to its bank account on the 20<sup>th</sup> day of each month (or the nearest bank day in the month) for the months of May through to the following February inclusive except in December when the transfer will be on the 10<sup>th</sup> (or the nearest bank day in December) to allow the earlier running of the payroll ahead of Christmas.
- In accordance with the process for the clawback of surplus balances cash advances may be suspended from June onwards, pending the assessment of the appropriateness of the schools' budget plans

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

The whole of each school's budget share, less any deduction for interest lost by the Council, (see 3.3 below) is paid into the school's bank account in instalments in line with the frequencies set out in the paragraph 3.1 above. The budget share includes all pay costs. All inflation and pay factors included in the budget share are set out in the budget information sent out to schools each year.

### **3.3 Interest claw back**

The LA will deduct from budget share instalments an amount equal to the estimated interest lost by the LA in making available the budget share in advance.

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

The LA will add interest to late payments of budget share instalments at the same rate as used for the deductions set out in paragraph 3.3 above and Annexe G.

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

Where a date has been approved under the relevant sections of the Act to close a school, the payment of budget allocations will continue up to the date of closure in the same manner as hitherto. However, the maximum amount that will be so transferred to the control of the governors will be the pro rata share of what would have been the annual budget share had the school not been discontinued, (including any deductions in respect of deficits from earlier years) together with any agreed additions to meet exceptional costs approved by the LA from central budgets. Consequently the percentages set out in paragraph 3.1 above may need to be adjusted appropriately depending on the date of closure. Where the closure is phased over more than one financial year these arrangements will only apply in the last financial year in which the LA maintains the school.

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

All schools covered by this scheme have an external bank account into which their budget share instalments (as determined by other provisions) are paid. Schools shall be allowed to retain all interest payable on the account and must pay all charges arising from that account.

Circumstances could arise, e.g. on the opening of a new school, where a school initially does not have an external bank account and subsequently decides to have one. In that event they will not be permitted to do so until any deficit is cleared. When the external account is opened, the LA will immediately transfer the school's estimated balance to the account with any adjustment made when accounts for the relevant year are closed. The estimate of the balance will be made in conjunction with the school and will be based on the latest returns made by the school to the LA in accordance with the provisions of this scheme.

The LA provides a pooling arrangement in which all schools may participate. This arrangement is particularly beneficial for schools because of the relatively high interest it will earn. The details of it are set out in Annex D. The bank accounts within the pooled arrangement need to include the name "Tower Hamlets Borough Council" but will also carry the school's name and be specific to each school. Whilst balances held in the pool will earn interest collectively, it will be credited regularly to individual accounts.

#### **3.5.1 Restrictions on accounts**

The banks or building societies authorised to be used by schools for the purpose of receiving budget share payments can be obtained from the Schools Finance Team, as set out in Annex C. These will be among the top-rated United Kingdom banks and building societies.

Any school closing an account used to receive its budget share and opening another must select the new bank or building society from the approved list, even if the closed account was not with an institution on that list.

New bank account arrangements may only be made with effect from the beginning of each financial year and the school must select the new bank from the approved list.

Schools wishing to change to another bank must give four months notice to the LA.

Bank accounts may be in the school's own name without reference to the LA, however, if the LA is not named in the account name, the mandate must provide that the LA 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 owner of the funds right to a delegated budget is suspended by the LA.

Banking arrangements for any School Fund(s) must be kept separate from the school's bank account into which its school budget share is paid, or any other bank account in the school's or LA's name. Deciding who should be accountable for the management of any school fund account(s) rests with the governors but will, by default, rest with the Headteacher.

There are no restrictions on the use of direct debits or standing orders on school's bank accounts (assuming the school's banker is willing to provide that facility) but schools are reminded that banks may charge them for such arrangements.

Who signs cheques is a matter for the governors to determine except that governors who are not members of staff may not be signatories. However the LA requires that there are at least two signatories (two being the normal arrangement) and suggests that the signatories are normally the Headteacher and another member of the senior management team. It is recommended that three or four people are authorised signatories so that illness or other absence does not interfere with the smooth running of the school's administration.

### **3.6 Borrowing by schools**

Governing bodies may borrow money only with the written permission of the Secretary of State, this includes the use of finance leases.

This does not apply to Trustees and Foundations, whose borrowing, as private bodies, makes no impact on Government accounts. These debts may not be serviced directly from the delegated budgets, but schools are free to agree a charge for a service which the Trustees or Foundation are able to provide as a consequence of their own borrowing. Governing bodies do not act as agents of the LA when repaying loans.

In addition this restriction does not apply to the Licensed Deficit and Loan Schemes provided for at Section 4 below. Nor does it apply to limited schemes the Secretary of State may introduce from time to time to meet broader policy objectives, this includes the Salix scheme.

#### **3.6.1 Purchasing Cards**

##### **Schools are encouraged to use purchasing card schemes.**

Purchasing cards are purchasing, payment and data delivery tools that have been adopted by businesses and organizations both in the private and public sector. They are mainly used for low value high volume purchases that constitute the majority of purchases across an organisation. *(Please see 3.6 on the prohibitions on borrowing; these require that all balances must be cleared monthly)*

Tower Hamlets schools are permitted to use those providing enhanced controls, these should include:

- blocking merchant categories;
- applying single and monthly transaction limits;
- providing detailed management information.

### **3.7 Other provisions**

The LA has formulated separate detailed rules and guidance in respect of other aspects of banking arrangements that are as set out in the *Schools' Financial Procedures Manual*.

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

### **4.1 The right to carry forward surplus balances**

All schools will be able to carry forward surplus balances from one year to the next. The amount of surplus balance to be carried forward for each school will be reported to the Schools Forum. The surplus will be calculated by taking the difference between expenditure and the school's budget share for the year plus or minus any balance brought forward from the previous year.

### **4.2 Reporting on the intended use of surplus balances**

Surplus balances held by schools as permitted under this scheme are subject to the following restrictions:

- a. The authority shall calculate by 31 May 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 recurrent balance as defined in the Consistent Financial Reporting Framework (CFR);
- b. The authority shall deduct from the calculated balance any amounts for which the school has a prior year commitment to pay from the surplus balance and any unspent specific grant for the previous financial year;
- c. The authority shall then deduct from the resulting sum any amounts which the governing body of the school has declared to be assigned for specific purposes permitted by the authority (recorded in CFR line B01), and which the authority is satisfied are properly assigned. To count as properly assigned, amounts must not be retained beyond the period stipulated for the purpose in question without the consent of the LA. In considering whether any sums are properly assigned the LA may also take into account any previously declared assignment of such sums but may not take any change in planned assignments to be the sole reason for considering that a sum is not properly assigned.
- d. If the result of steps a-c is a sum greater than 5% of that year's budget share for secondary schools, 8% for nursery, primary and special schools, or £10,000 (where that is greater than either percentage threshold), then the authority shall deduct from the current year's budget share an amount equal to the excess.

Funds deriving from sources other than the LA will be taken into account in this calculation if paid into the budget share account of the school, whether under provisions in this scheme or otherwise.

Funds held in relation to a school's exercise of powers under s.27 of the Education Act 2002 (community facilities) will not be taken into account unless added to the budget share surplus by the school as permitted by the LA.

The total of any amounts deducted from schools' budget shares by the LA under this provision are to be applied to the Schools Budget of the LA.

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

School year-end balances will remain in the school's bank account and will earn interest for the school on the same basis as any other cash in the account. There are no restrictions on payments from accumulated reserves unless the school has agreed to participate in the licensed deficit scheme.

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

Where expenditure in any financial year exceeds the budget share, as adjusted for any surplus or deficit carried forward from a previous financial year, the deficit will be carried forward and deducted from the following year's budget share.

Where a school's budget share is reduced by a deficit at 31st March being carried forward, the school may either: -

- draw up a budget plan within the limit of that reduced budget share or
- if the deficit is greater than £10,000 or 4% of the school's budget share for the current financial year whichever is the greater, may seek the agreement of the Director of Children's Services to a schedule of repayments over more than one financial year so that only part of the deficit has to be made good in each of those years. The school would be required to cover that part of the deficit not made good that year by a cash advance, see paragraph 4.9, on which interest will be charged.

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

Schools covered by the scheme may only plan for a deficit budget in accordance with the arrangements set out in paragraph 4.9 below.

#### **4.6 Charging of interest on deficit balances**

Since schools must by the arrangements set out in paragraphs 4.4 and 4.5 above cover deficits by cash advances in accordance with the arrangements set out in paragraph 4.9, interest will be charged on the basis set out in paragraph 4.9.

#### **4.7 Writing off deficits**

London Borough of Tower Hamlets has no power to write off the deficit balance of any school.

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

Where a school converts to academy status under section 4(1) (a) of the Academies Act 2010 any surplus or deficit transfers to the academy.

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

However, the formal consultation document relating to school re-organisation may set

out any arrangements for allocations to schools that have the effect of giving them the benefit of additional sums that are less than or equal to but not more than the balances of the relevant closing schools.

Any extra payments to a new school that is the successor to one or more schools that are closing may be abated in full or in part to no more than the extent the predecessor school or schools closed with a deficit balance.

#### **4.9 Borrowing for agreed purposes**

The general provision in paragraph 3.6 above forbidding Governing bodies to borrow money shall not apply to schemes run by the Authority as set out in the following sections:

##### **4.9.1 Licensed deficits**

As set out above, any school in deficit or projecting a deficit may seek to cover this with a supplementary cash advance. In effect a request will be made by the governors for the LA to licence the expected deficit. The LA will require an agreed action plan to reduce recurrent expenditure and bring the school's finances back into balance over an agreed period that must not exceed three years. The action plan must allow for the repayment of the advance over the period of a licensed deficit.

A licensed deficit will require the approval of the Director of Children Services and the Chief Finance Officer.

The action plan will not automatically prevent schools with licensed deficits (or requesting to have one set up) from receiving grant funding that may require some element of contribution from the school budget. However, if the match funding adversely affects the school's ability to meet its repayment targets or the LA formed the view that such expenditure was unreasonable in the school's financial circumstances, then the LA may refuse the school's request to take up the grant.

#### **4.10 Loan schemes/Credit Union**

##### **4.10.1 Credit union approach**

Schools may group together to form a credit union to make loans for education development purposes to each other. If schools wish to adopt this approach they should first inform the LA. The LA will wish to ensure that any such proposal is properly researched and will construct a working party of professional staff, including legal and finance staff, to provide advice. The cost of this advice will be chargeable to the credit union. Alternatively, the credit union may seek advice from another professional source but the LA will require the scheme to be certified by its own appointed auditors. The cost of the audit will be chargeable to the credit union.

##### **4.10.2 Loan Scheme**

The Secretary of State directs that loans can 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.

In circumstances where schools may apply for a loan, its proposals must be discussed with and supported by the relevant LA officer. In particular the LA officer must be satisfied that the loan is necessary, that the purpose of the expenditure is satisfactory and the date by which the school proposes to repay the loan is achievable.

The detailed arrangements are set out in Annexe E. Loan arrangements are unlikely to be agreed for sums of less than 2% of the school's share of the ISB for the year in which the loan is taken out. Schools will be expected to manage lesser sums within the financial year.

The loan scheme is funded from the collective balances held by schools.

The Secretary of State directs that loans will not be used as a means of funding a deficit that has arisen because a school's recurrent costs exceed its current income.

If loans are made to fund a deficit and a school subsequently converts to academy status, the Secretary of State will consider using the power under paragraph 13(4)(d) of Schedule 1 to the Academies Act 2010 to make a direction to the effect that such a loan does not transfer, either in full or part, to the new academy school.

The maximum loan will be up to 5% of the schools budget share, excluding earmarked grants. Approval will be subject to the governing body submitting a detailed budget plan that satisfies the Authority that the repayments can be met.

When a loan is approved, the governing body will be required to formally commit to repay the loan or to make alternate arrangements to carry on the loan before undertaking any change to category or characteristics of the school.

## **SECTION 5: INCOME**

### **5.1 Income from lettings**

Schools may retain income from lettings of the school premises that would otherwise accrue to the LA, subject to alternative provisions arising from any joint use or PFI agreements. Schools are permitted to cross-subsidise lettings for community and voluntary use with income from other lettings, provided that there is no net cost to the budget share. However, schools whose premises are owned by the LA shall be required to have regard to directions issued by the LA as to the use of school premises as permitted under the School Standards and Framework Act 1998 for various categories of schools. Income generated from lettings should not be paid into voluntary or private funds held by the school.

Where land is held by a charitable trust, it will be for the school's trustees to determine the use of any income generated by the land.

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

Schools may retain income from fees and charges except where a service is provided by the LA from centrally retained funds. However, schools are required to have regard to any policy statements on charging produced by the LA.

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

Schools may retain income from fund-raising activities.

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

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

Schools will also have regard to the rules and regulations covering the disposal of assets purchased from Government grant monies.

The retention of proceeds of sale of premises not owned by the LA is not a matter for this scheme.

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

Services that lead to fees and charges such as fund-raising activities and the sale of assets have potential VAT implications. The LA will establish administrative procedures for the collection of income that may vary from time to time in the light of advice from the VAT authorities.

Separate administrative arrangements will be set out in the *Schools' Financial Procedures Manual* for income collected that accrues to the LA.

**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.

## **SECTION 6: THE CHARGING OF SCHOOL BUDGET SHARES**

### **6.1 General provision**

6.1.1 The budget share of a school may be charged by the LA without the prior consent of the governing body in circumstances set out below.

The LA shall consult a school as to the intention to so charge, and shall notify a school when it has been done.

Schools are reminded that the LA cannot act unreasonably in the exercise of any power given by this scheme, or it may be the subject of a direction under Section 496 of the Education Act 1996. The LA may only charge the actual cost incurred and the LA may incur a cost only for matters where it has a statutory duty to provide. If that statutory duty belongs to others, the LA has no power to intervene.

In the case of a dispute about such charges the following procedure will be used.

- The Director of Children's Services will let their view be known in writing to the school and the Borough's Chief Finance Officer who will first consider the matter.
- If the matter remains in dispute both parties may appoint a representative to consider the position together and make recommendations. These recommendations should be acceptable to both sides.
- If the matter remains unresolved, and the legal view is that there is not sufficient clarity to establish the rights of either party, the matter will be split equally. It is envisaged that this final course would only be contemplated where the amount involved is over £5,000.

Once a decision is made to make any of the charges set out below, an invoice will be issued that becomes due forthwith or, if appropriate, a deduction will be made from the next instalment of the school's budget share prior to it being deposited in the school's bank account.

The LA may charge interest on any sums due to it from the schools delegated budget if there is unreasonable delay on the part of the school to settle the account. By the same token the LA would be liable to pay interest to the school if it unduly delayed making payments it owed to a school. In either case the rate of interest would be that paid on the pooled bank accounts. Whilst the test of when the line is crossed between "reasonable" and "unreasonable" will always depend on the particular circumstances, 30 days might be a useful guide to have in mind.

The Authority must charge the salaries of school based staff to school budget shares at actual cost.

## **Circumstances in which charges may be made.**

### **6.2 Costs incurred in securing the termination of employment contracts**

The legal responsibilities for meeting the costs of redundancy and early retirement are set out in Annex B. In accordance with these responsibilities the following costs incurred by the LA can be recharged to a school or schools.

- 6.2.1 Recovery of premature retirement costs that have been incurred without the prior written agreement of the LA to bear such costs. The amount chargeable will be the amounts in excess over any amount agreed by the LA.
- 6.2.2 Recovery of other expenditure incurred to secure resignations where there is good reason to charge this to the school (see 6.2.6 and Annex B).
- 6.2.3 Costs incurred in securing the termination of employment of any member of school staff employed for community purposes shall be met by the governing body of the school, unless in the most exceptional circumstances the Authority has agreed in writing before the termination occurs that it will meet part of the cost.
- 6.2.4 Where a partnership agreement relevant to the particular employment is in force the termination costs will be charged proportionately against the budget shares of the partner schools as specified by the partnership agreement or in the absence of such a specification in proportion to the respective numbers of pupils at the schools.
- 6.2.5 The Authority may offer a contribution to any redundancy cost at its sole discretion where it deems that it would be unreasonable in all the circumstances to expect the school budget share and other income of the school to meet the whole cost of a particular redundancy.
- 6.2.6 School budget shares may be charged for the costs arising from any termination of employment where one or more of the circumstances set out below are applicable:
- any expenditure incurred to secure an agreement with the employee to terminate their contract of employment (usually known as a compromise agreement);
  - any expenditure incurred to secure resignations where the school has not followed the Authority's advice;
  - an offer intended to secure a resignation has been made by the school at terms which vary from the Authority's current policy;
  - it appears to the Authority that the proposed termination is aimed at avoiding the need to deal with a performance or capability issue which should be or should have been managed through other processes;

## LONDON BOROUGH TOWER HAMLETS SCHEME FOR FINANCING SCHOOLS

- staffing reductions arising from a deficit caused or made worse by factors mainly or wholly within the school's control;
- excessive staffing reductions arising from a failure to respond to changes to the funding or cost context of the school in a timely fashion;
- staffing reductions which the local authority does not believe are necessary to set a balanced budget or to meet the conditions of a licensed deficit;
- where the school receives an income stream from a grant making body which in principle includes the resources necessary to cover any costs arising from terminations of employment of staff associated with activities supported by that funding stream;
- the school has not actively engaged with the Authority's prevailing redeployment policy and redeployment processes;
- an excess surplus revenue balance as at the previous financial year end exists and the school could use such funds to support their reorganisation plans;
- the revenue savings anticipated to be delivered by the reorganisation provide an opportunity for the school to contribute to the costs of termination;
- the school appoints to a post with broadly similar responsibilities within two years of the termination;
- a temporary employment contract could be validly terminated or reduced in accordance with advice from the Authority as an alternative to the termination of a permanent employment contract;
- the liability to pay redundancy or termination costs has arisen from a repeated rolling renewal of a temporary employment contract;
- the school has not informed the authority at the earliest practicable opportunity of changed circumstances which give rise to the need to reduce employee numbers and the proposed change in employee numbers;
- the selection criteria specified by the governing body appear to the Authority not to select the most appropriate post(s) for termination;
- the local authority determines that the school has not made all practicable efforts to avoid the need for termination of an employment contract.

### **6.3 Other Circumstances in which charges may be made**

- 6.3.1 Recovery of awards by courts and industrial tribunals against the LA arising from action or inaction by the governing body contrary to the LA's advice.
- 6.3.2 Recovery of expenditure by the LA in carrying out health and safety work or capital expenditure for which the LA 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 to a satisfactory standard.

- 6.3.3 Recovery of expenditure by the LA incurred in making good defects in building work carried out by governing bodies to premises owned by the LA or the school has voluntary controlled status.
- 6.3.4 Recovery of expenditure incurred by the LA 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 LA.
- 6.3.5 Recovery of monies due from a school for services provided to the school, where a dispute over the monies due has been referred to the a disputes procedure set out in section 6.1 above or have been referred to a disputes procedure set out in a service level agreement or contract managed by the LA, and the result is that moneys are owed by the school to the LA;
- 6.3.6 Recovery of penalties, including any interest, imposed on the LA by the Contributions Agency, HM Revenue & Customs, Teachers Pension, the Environment Agency or regulatory authority as a result of school negligence, or where governing bodies fail to comply with the requirements set out in the *Schools Financial Procedures Manual*.
- 6.3.7 Recovery of sums to correct errors made by the LA in calculating charges to a budget share (e.g. pension deductions). No such deductions will take place if the error relates to a period for which the accounts have been closed.
- 6.3.8 Recovery of additional costs incurred by the LA arising from decisions by the governing body on the length of the school day e.g. transport costs and failure to notify the LA of non-pupil days resulting in unnecessary costs.
- 6.3.9 Recovery of legal costs incurred by the LA because the governing body did not accept the advice of the LA.
- 6.3.10 Recovery of the cost of necessary health and safety training for staff employed by the LA, where funding for training has been delegated but the necessary training not carried out.
- 6.3.11 Recovery of any compensation paid to a lender where a school enters into a contract for borrowing beyond its legal powers, and the contract is of no effect.
- 6.3.12 Recovery of any compensation for costs incurred by the LA if a school fails to pay a debt and which subsequently falls upon the LA to pay. This will include interest payments as per the Late Payment of Commercial Debts Act 1998.
- 6.3.13 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 or specific funding for a pupil with high needs.

- 6.3.14 Recovery of sums outstanding for 30 calendar days or more from the date the request for payment is issued where the school has entered into a service level agreement (SLA) with the LA, but has failed to pay an amount due under the SLA. This will only take effect if the school has not disputed the payment through the relevant contracts dispute procedure. Days in August will not count towards the 30 days. This will apply equally to requests for payment for both packages of services and “pay-as-you-use” services.
- 6.3.15 Recovery of sums outstanding for 30 calendar days or more from the date the request for payment is issued where the school has entered into a contract managed by the LA, but has failed to pay an amount due under the contract. This will only take effect if the school has not disputed the payment through the relevant contracts dispute procedure; or where the dispute procedure has held the school to be liable for a sum and it has not paid. Although the LA will use its best endeavours to avoid a significant part of the 30 days falling in August, no general dispensation can be given since the disputes and payment period are likely to be conditions of the contract.
- 6.3.16 Recovery of costs incurred by the LA where the school has failed to return information required by the LA on time, or where the information has to be corrected. This will be charged in accordance with the list of charges under service level agreements for ad hoc work, where these are applicable.
- 6.3.17 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.
- 6.3.18 Recovery of penalties imposed on the LA by copyright or similar agencies as a result of a governing body failing in its responsibility for copyright or similar compliance.
- 6.3.19 Recovery of costs incurred by the LA, because the governing body did not abide by the Scheme, resulting in additional work for Financial Services to Schools or Internal Audit beyond their regular programme of work.
- 6.3.20 Costs incurred by the LA as a result of withdrawal of delegation.
- 6.3.21 The Lottery Heritage Fund requires that bids for grants for specific projects have the support of the LA before the bid is submitted. In the event that a school that had received a grant failed to complete the project in a satisfactory manner, the LA would be required to return the funding. In such a case, the LA will recover the funds from the school's account.
- 6.3.22 Recovery of any costs to the LA as a result of the governing body being in breach of the terms of a contract.
- 6.3.23 At the end of the financial year, recovery of unspent balances of allocations from centrally held budgets. Where actual expenditure did not meet the conditions of the grant aid or specific purposes for which the allocation was made, the value

of that expenditure will be included in the unspent balance. In the case of grant-aided expenditure the recovery will include both the values of the grant aid and the LA's contribution unless the matched funding came from the school's delegated budget.

6.3.24 Recovery of interest claw-back due on budget shares as calculated in Annexe G.

6.3.25 Recovery of the cost of work done in respect of teacher pension remittance and records for schools using non-LA payroll contractors, the charge to be the minimum needed to meet the cost of the Authority's compliance with its statutory obligations.

6.3.26 Recovery of amounts spent from specific grants on ineligible purpose

## **SECTION 7: TAXATION**

### **7.1 VALUE ADDED TAX**

The procedures to enable schools to utilise the Local Authority's ability to reclaim VAT on expenditure relating to non-business activity is set out in the *Schools' Financial Procedures Manual*. Expenditure by the governors of a voluntary aided school when carrying out their responsibility to maintain the external fabric of their buildings however this is financed, or capital works at academies or foundation schools funded directly by the Education and Skills Funding Agency cannot be treated as LA expenditure to reclaim VAT incurred.

Amounts reclaimed through these procedures will be passed back to the school.

### **7.2 CIS (Construction Industry Taxation Scheme)**

Schools are required to abide by procedures issued by the LA in connection with CIS.

### **7.3 Payments to individuals claiming to be self-employed**

Schools are required to abide by procedures issued by the LA in connection with payments to individuals claiming to be self-employed. The *Schools Financial Procedures Manual* provides more detailed guidance.

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

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

The LA shall determine on what basis services from centrally retained funds will be provided to schools, but the LA is debarred from discriminating in its provision of services on the basis of categories of schools except where this would be permitted under the School and Early Years Finance Regulations or the Dedicated Schools Grant conditions of grant.

### **8.2 Timescales for the provision of services bought back from the LA using delegated budgets**

The term of any arrangement with a school to buy services or facilities from the LA shall be limited to a maximum of three years from the date of the agreement, and periods not exceeding five years for any subsequent agreement relating to the same services. In the case of catering these maximum time limits are 5 years and 7 years respectively.

Whilst prices to different schools may vary, in the case of services provided for which the LA may not hold central funding, the pricing structure shall be such as to ensure that the full cost of the service provided will be covered by the income generated. Achieving at least a break-even point may not be possible each year but the charging policy should expect to avoid a central subsidy of services.

#### **8.2.1 Packaging**

Schools are free to choose to buy from the range of traded services offered by Tower Hamlets Council in respect of areas of delegated funding or to make alternative arrangements.

The service packaging, contract period and pricing arrangements on offer will be a matter for the trading units to decide in the light of the demand from their clients. However the arrangements made will not be such as to fetter unreasonably a school's ability to choose among the services available or to choose to purchase services elsewhere. Thus in general services will be offered singly and in packages. There may well be discounted prices where packages of services are bought.

### **8.3 Service Level Agreements**

If services or facilities are provided under a service statement (free) or Service Level Agreement (SLA) (on a buyback basis) the terms of any such agreement will be reviewed at least every three years if the agreement lasts longer than that.

Services provided under SLAs are also likely to be available on an ad hoc basis but these may be charged at different rates from those provided under an extended agreement.

The likely demand for a service from the LA should be submitted as early as possible. It should be noted that this is a planning statement to assist both the schools and the

LA. It is not a commitment to subsequently sign a SLA.

Information about SLAs for the following financial year will normally be sent to schools prior to 1 April. To be effective during the financial year, a SLA should normally be signed before 1 May. Where SLA information is sent to schools after 1 April the date for signature will be 1 month after the date the information was sent to schools.

SLAs will set out the service to be provided as agreed with the customer, the respective responsibilities, prices, contact points and how relationships are to be managed. A formal review of contracts will take place every three years but the management arrangements provide for regular feedback on a continuous basis and amendment by agreement.

Service statements will have similar conditions attached but no prices.

Premises and liability insurances are excluded from the above limitations as well as those limitations set out in paragraphs 8.2.

A list of services and facilities available to schools from London Borough of Tower Hamlets is set out on the SLA Online website.

#### **8.4 Teachers' Pension Scheme**

In order to ensure that the performance of the duty on the Authority to supply Teachers Pensions with information under the Teachers' Pensions Scheme Regulations 2014, the following conditions are imposed on the Authority 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 the LA 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 LA 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 LA which the LA requires to submit its monthly return of salary and service to Teachers' Pensions and to produce its audited contributions certificate. The LA 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 the LA 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 the LA which the LA requires to submit its monthly return of salary and service to Teachers' Pensions and to produce its audited contributions certificate. The LA 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 LA within the time limit specified in the AVC scheme. The governing body shall meet any consequential costs from the school's budget share.

## **SECTION 9: PRIVATE FINANCE INITIATIVES/PUBLIC PRIVATE PARTNERSHIPS**

### **9.1 PFI Scheme**

The LA currently operates two school PFI schemes: Grouped Schools PFI, which is due to run until August 2027 and Mulberry PFI which is due to run until March 2029. The LA has governing body agreements with each of the schools that are included in the PFI contracts. These agreements allow for variations to the scheme and cover such matters as charges relating to the schemes, benchmarking and the treatment of monies withheld from contractors due to performance failures.

### **9.2 PFI Charge**

The LA may charge a school's budget share for its contribution to the costs of the PFI contract in accordance with:

- a) The Governing Body agreement, which allows for baseline costs, adjusted for the school's changing circumstances and contractual inflation; and
- b) A supplementary levy, equal in value to a PFI formula factor that the school will have received in its budget share.

### **9.3 PFI payments**

The Governing Body agreements require that school contributions should be made monthly in arrears. The LA will accept an alternative payment schedule for individual schools, based on termly payments, in line with the timetable for school payments of service level agreements

## SECTION 10: INSURANCE

### 10.1 Insurance cover

Insurance covers the following matters.

- Public liability (third party)
- Employers liability and professional negligence,
- All risk losses such as theft, accidental and other damage to equipment machinery etc,
- Fidelity with respect to cash and valuable items and interests,
- Property construction and contents,
- Business interruption,
- Personal accident.
- Motor vehicle.

Schools will continue to be included in the LA's corporate provision for insurance cover managed by the Borough's Chief Finance Officer unless the governors make satisfactory alternative arrangements. The level of insurance set for a school within a corporate insurance contract when used as a benchmark against which alternative arrangements are to be judged satisfactory or otherwise must reflect the actual risk relevant to that school and not simply a general rate applied to all schools in the contract.

Any school wishing to make its own insurance arrangements will be required to demonstrate that cover relevant to the LA's insurable interests, under a policy arranged by the governing body, is at least as good as the relevant minimum cover made from time to time by the LA. Details of the minimum cover made by the LA can be found in the *Schools' Financial Procedures Manual*. The evidence required to demonstrate the parity of cover should be reasonable, not place an undue burden upon the school, nor act as a barrier to the school exercising their choice of supplier.

Schools will be responsible for keeping the Borough's Chief Finance Officer informed of changes to insurable risks.

The Borough's Chief Finance Officer may require schools to participate in corporate risk reviews and support the elimination of risk.

## **SECTION 11: MISCELLANEOUS**

### **11.1 Right of access to information**

Governing bodies are required to supply the LA with whatever information is required in order for the LA to satisfy itself that the school is managing its delegated finances satisfactorily. In normal circumstances the LA will not require any more information than is set out at other sections of this scheme and this provision will only be followed where there are concerns about the state of a school's financial management arrangements. Further guidance on this matter can be found in the Code of Practice on LA/School Relations.

### **11.2 Liability of governors**

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

A fraudulent act is an example of behaviour that is not in good faith. Breaches of the Scheme or rejecting LA advice as to financial management are not necessarily breaches of good faith.

### **11.3 Governors' expenses**

The LA shall have the power to delegate to the governing body of a school yet to receive a delegated budget, funds to meet governors' expenses at rates set by the LA.

Under Section 50(5) of the Act only allowances in respect of purposes specified in regulations made under Section 19 of the Education Act 2002 may be paid to governors from a school's delegated budget share. Schools are expressly forbidden from paying any other allowances to governors.

Schools are also barred from payment of expenses duplicating those paid by the Secretary of State to additional governors appointed by him to schools under special measures.

The Schools' Financial Procedures Manual includes guidance about rates for governors' allowances.

### **11.4 Responsibility for legal costs**

Schools will not normally be reimbursed for the cost of legal actions or costs awarded against the LA where the school has not followed the advice of the LA. However, the LA may consider making a grant to meet such legal costs if the burden of such costs is likely to have an adverse impact on the ability of the school to meet its educational objectives.

This is separate from the cost of legal advice provided which may be obtained by the school either through an SLA with the LA or otherwise and will be paid for by the school

in accordance with the arrangements the school has made for obtaining its legal advice.

Governors of voluntary aided schools are reminded that no legal costs relating to the governors statutory duties for buildings can be a charge on the LA for any reason as these are not part of the costs to the LA of maintaining a voluntary aided school.

Occasions might arise where the governors believe there is a conflict of interest between themselves and the LA. Where that is the case it is for the school to discuss this view with the LA in order to reach agreement about whether such a conflict does exist or might reasonably be expected to exist. Where agreement is reached on this point, the LA will need to satisfy itself that the source of the Governor's legal advice was appropriate (the diocese for example in the case of a diocesan voluntary aided school). The LA would need good reasons for rejecting any source of advice proposed by governors. Under these circumstances the school would not automatically be deemed not to be acting in accordance with the advice of the LA with the consequences set out above. However if no such agreement were reached or the school took advice from a unsatisfactory source or did not act in accordance with the advice given by the agreed appropriate source, the school would normally be deemed to be acting contrary to the advice of the LA and the consequences set out above would apply.

### **11.5 Health and Safety**

When planning and expending the school's budget share, the Governing bodies must have due regard to their own and the LA's duties with respect to health and safety by ensuring compliance. The LA will provide advice and guidance on an appropriate response to meet statutory requirements.

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

Governing bodies are required to permit the Chief Finance Officer (CFO) of the LA, or an officer nominated by the CFO, to attend meetings of the governing body at which any agenda items are relevant to the exercise of his or her responsibilities.

The Chief Finance Officer's attendance shall normally be limited to items that relate to issues of probity or overall financial management and shall not be regarded as routine. Prior notice of attendance will normally be given except where it is impracticable to do so.

### **11.7 Delegation to New Schools**

The LA may delegate selectively and optionally to the governing bodies of schools which have yet to receive delegated budgets. By virtue of s.49 of the Act a new school must receive a delegated budget in the funding period prior to the funding period within which it opens (that is to say, the funding period during which it first admits pupils, unless the LA has obtained the Secretary of State's approval to make arrangements in place of those in the regulations.

### **11.8 Optional Delegated Funding**

Where Governors agree to take responsibility for items where delegation or devolution

is optional, they must indicate their intention to do so by 1 February (unless some later date is expressly agreed) for the following financial year. Once made, that decision cannot be altered during the financial year in question. If a school wishes to change their decision they must do so by 1 February for the following financial year.

### **11.9 Obligations with respect to special educational needs**

Governors are reminded of their statutory duties in respect of making proper provision for pupils with special educational needs and in particular the requirement to spend the resources over which they have control to secure the necessary provision for those children. Failure on the part of governors to comply with this requirement could lead to costs incurred by the LA being charged to the school's budget. If a school persistently failed to make proper arrangements for these pupils, this could be sufficient reason to withdraw delegation.

### **11.10 Interest on late payments**

Under the Late Payment of Commercial Debts (Interest) Act 1998 all small company creditors must be paid within 30 days of the receipt of the invoice, unless there has been a dispute registered with the creditor. The creditor can, after such period has elapsed, submit a surcharge, on the original amount outstanding, of the current bank rate plus 8%.

### **11.11 Whistleblowing**

Procedures are set out in the *Schools' Financial Procedures Manual* for school governors and/or people working at a school to follow should they wish to complain about financial management of financial propriety at the school. These procedures set out how such complaints will be dealt with.

### **11.12 Child Protection**

Schools are required to release staff to attend child protection case conferences and other related events. Schools will not be recompensed directly for this release but schools are reminded that pupil disadvantage is a factor in Tower Hamlets' funding formula.

### **11.13 Redundancy and Early Retirement Costs**

The 2002 Education Act sets out how premature retirement and redundancy costs should normally be funded. The local arrangements, in accordance with the act, are set out in Annex B.

## **SECTION 12: RESPONSIBILITY FOR REPAIRS AND MAINTENANCE**

### **12.1 Distinction between capital and revenue expenditure**

- 12.1.1 For the purpose of determining whether the LA or schools are responsible for funding capital or repair work the Council follows the DfE's interpretation of the CIPFA code of practice.
- 12.1.2 It is worth noting that some funding for capital work is directly allocated to voluntary aided schools by the DfE and to all schools via the Devolved Formula Capital allocation. Furthermore, the Council sometimes devolves to schools the responsibility for spending capital funds made available by the Council.

### **12.2 LA responsibilities**

- 12.2.1 Regulations require that only capital expenditure be retained by LAs. For these purposes, expenditure may be treated as capital only if it fits the definition of capital used by Tower Hamlets' Council for financial accounting purposes in line with the CIPFA Code of Practice on local authority accounting.
- 12.2.2 The de minimus limit for Tower Hamlets is £10,000. This means that expenditure that is less than £10,000 should not be treated as capital.

### **12.3 Responsibility of Governing Bodies**

- 12.3.1 Funding for revenue repairs has been delegated to governing bodies and they are responsible for undertaking all such repairs.
- 12.3.2 Funding for repairs and maintenance of kitchens and kitchen equipment has been delegated to all schools.

### **12.4 Local Authority Expectations**

- 12.4.1 Schools are expected to use their Devolved Formula Capital (DFC) allocations to undertake capital improvement projects and where appropriate, contribute their DFC to Council funded and managed improvement projects at their school.

## **SECTION 13: COMMUNITY FACILITIES POWER**

### **13.1 Introduction**

#### **13.1.1 General**

Governing bodies of maintained schools may now provide community facilities or services which will benefit pupils, their families or people living and working in the locality of the school concerned. Schools which choose to exercise the power conferred by section 27(1) of the Education Act 2002 to provide community facilities will be subject to a range of controls. Regulations made under section 28(2), if made, can specify activities which may not be undertaken at all under the main enabling power.

Under section 28(1), the main limitation and restrictions on the power will be those contained in schools' own instruments of government, if any; and in the maintaining LA's scheme for financing schools made under section 48 of the School Standards and Framework Act 1998.

Paragraph 2 of Schedule 3 to the Education Act 2002 extends the coverage of the scheme to 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 section of the scheme does not extend to joint use agreements, transfer of control agreements, or agreements between the LA and schools to secure the provision of adult and community learning.

#### **13.1.3 Mismanagement of funds**

All Governing Bodies have full responsibility for the management of the community facilities funds. Any mismanagement of funds can be grounds for suspension of the right to a delegated budget.

### **13.2 Consultation with the LA**

#### **13.2.1 Consultation with the LA**

Schools no longer need to consult the Authority when establishing community facilities nor to have regard to advice given by the Authority. However, as public bodies, schools are expected to act reasonably, and this includes consulting those affected by decisions that they make.

#### **13.2.2 Community Facilities Proposal Form**

In consulting with the Authority, Governing Bodies are asked to complete the Community Facilities Proposal Form, Annexe H and return to the Director of Children's Services, prior to contracting to let the premises or providing services.

#### **13.2.3 Availability of Advice**

Governors will receive the Authority's response within a reasonable time (4 weeks) from the LA free of charge. The LA requires that the school inform the authority of what action has been taken as a result of this response..

### **13.3 Funding Agreements**

#### **13.3.1 Third Party Agreements**

The provision of community facilities in many schools may be dependent on the conclusion of a funding agreement with a third party which will either be supplying funding or supplying funding and taking part in the provision. The LA requires all funding agreements with third parties to be agreed by the LA in line with the conditions set out on the Community Facilities Proposal Form. The Authority cannot veto an agreement. However, if an agreement has been or is to be concluded against the wishes of the LA, or has been concluded without informing the LA, which in the view of the LA is seriously prejudicial to the interests of the school or the LA, this may constitute grounds for suspension of the right to a delegated budget.

### **13.4 Other Prohibitions, Restriction and Limitations**

#### **13.4.1 Indemnity Insurance**

The LA may require that in a specific instance of use of the community facilities power by a governing body, the governing body concerned shall make arrangements to protect the financial interests of the LA 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 in question, as specified by the LA. The Authority must operate this requirement in a reasonable way and impose such a requirement only where it has good reason to believe that the proposed project carries a significant financial risk.

### **13.5 Supply of Financial Information**

#### **13.5.2 Statements of income and expenditure**

The LA requires all schools that exercise the community facilities power to provide the LA with a summary statement on a six monthly basis. The statement should include detail pertaining to 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.

All financial information relating to community facilities will be included in returns made by schools under the Consistent Financial Reporting Framework.

#### **13.5.3 Cause for Concern**

The LA may, on giving notice to the school that it believes there to be cause for concern as to the school's management of the financial consequences of the exercise of the community facilities power, require such financial statements to be supplied every three months and, if the LA sees fit, to require the submission of a recovery plan for the activity in question.

## **13.6 Audit/Access to Records**

### **13.6.1 Internal Audit**

The LA requires the school to grant access to the school's records connected with the exercise of the community facilities power, in order to facilitate internal and external audit of relevant income and expenditure.

### **13.6.2 Access to Records**

If schools conclude a funding agreement with other persons, pursuant to the exercise of the community facilities power, such agreements must contain adequate provision for access by the LA 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 LA to satisfy itself as to the propriety of expenditure on the facilities in question.

## **13.7 Treatment of Income and Surpluses**

### **13.7.1 Retention of surpluses**

Schools can retain all net income derived from community facilities except where otherwise agreed with a funding provider, whether that is the LA or some other person.

### **13.7.2 Carry forward surplus balances**

Schools are permitted to carry such retained net income over from one financial year to the next as a separate community facilities surplus, or subject to the agreement of the LA at the end of each financial year, transfer all or part of it to the budget share balance.

### **13.7.3 Retention of Income**

If the school is a community or community special school, and the LA ceases to maintain the school, any accumulated retained income obtained from exercise of the community facilities power reverts to the LA unless otherwise agreed with a funding provider.

## **13.8 Health and Safety**

The health and safety provisions detailed at section 11.5 above are also applicable to the community facilities power.

### **13.8.2 Criminal Records Bureau**

The school's governing body has responsibility for the costs of securing Disclosure and Barring Service clearance for all adults involved in community activities taking place during the school day. Governing bodies are free to pass on such costs to a funding partner as part of an agreement with that partner.

## **13.9 Insurance**

### **13.9.1 Insurance Cover**

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. This insurance should not be funded from the school budget share.

Schools proposing to provide community facilities should, as an integral part of its plans, undertake an assessment of the insurance implications and costs, seeking professional advice if necessary.

### **13.9.2 Audit of Insurance Arrangements**

The LA has the authority to 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. Such costs could not be charged to the school's budget share.

## **13.10 Taxation**

### **13.10.1 VAT**

Schools must seek the advice of the LA and local VAT office on any issues relating to the possible imposition of Value Added Tax on expenditure in connection with community facilities; including the use of the local authority VAT reclaim facility.

### **13.10.2 Employee Deductions**

Schools are reminded that if any member of staff employed by the school or LA in connection with community facilities at the school is paid from funds held in a school's own bank account (whether a separate account is used for community facilities or not – see section 11), the school is likely to be held liable for payment of income tax and National Insurance, in line with Revenue & Customs rules.

### **13.10.3 Construction Industry Scheme**

Schools are to follow the advice as set out in the Schools Financial Manual (Section 16) in relation to the Construction Industry Scheme where this is relevant to the exercise of the community facilities power.

## **13.11 Banking**

### **13.11.1 Banking Arrangements**

A school that exercises the community facilities power must maintain a separate bank account for community facilities.

### **13.11.2 Authorisation**

Regards must be made to section 3.5 and 3.5.1 above when establishing the required

bank accounts.

### **13.11.3 Loans**

Schools may not borrow money without the written consent of the Secretary of State although this does not apply to monies lent to schools by their maintaining LA.

# LONDON BOROUGH TOWER HAMLETS SCHEME FOR FINANCING SCHOOLS

## ANNEXE A

### LIST OF SCHOOLS TO WHICH THIS SCHEME APPLIES

<b><u>DfE</u></b>	<b><u>Primary Schools</u></b>		
2922	Arnhem Wharf	3540	St Matthias
2912	Bangabandhu School	3574	St Paul's (Whitechapel)
2043	Ben Jonson	3563	St Paul's with St Luke's
2917	Bigland Green	3581	St Peter's London Docks CE
2441	Blue Gate Fields Infant	3592	St Saviour's
2099	Blue Gate Fields Junior	3350	Stepney Greencoat
2056	Bonner	2569	Stewart Headlam
2091	Canon Barnett	2828	Thomas Buxton Primary
2097	Cayley	2623	Virginia
2110	Chisenhale	2631	Wellington
3332	Christchurch	2921	William Davis
2118	Columbia	2658	Woolmore
2893	Cubitt Town Infant		
2144	Cubitt Town Junior	<b><u>DfE</u></b>	<b><u>Secondary Schools</u></b>
2147	Cyril Jackson	4298	Bishop Challoner (Boys)
2378	Elizabeth Selby	4726	Bishop Challoner (Girls)
3619	English Martyrs	4024	Bow (Boys)
2254	Globe	4507	Central Foundation Girls
3346	Guardian Angels	4505	George Green's
2270	Hague	4105	Langdon Park
2916	Halley	4150	Morpeth
2281	Harbinger	4242	Mulberry (Girls)
2999	Harry Gosling	4296	Oaklands
2910	Hermitage	5400	Raine's Foundation
2341	John Scurr	4722	Sir John Cass's Foundation & Red Coat
2918	Kobi Nazrul	4297	Swanlea
2004	Lansbury Lawrence		
2377	Lawdale Junior	<b><u>DfE</u></b>	<b><u>Special Schools</u></b>
2005	Malmesbury	7168	Beatrice Tate
2533	Manorfield	7055	Harpley (Mixed)
2397	Marion Richardson	7095	Phoenix School
2402	Marnier	7196	Stephen Hawking
2406	Mayflower	7170	The Cherry Trees
2432	Mowlem	7084	Bowden House (Boys)
2059	Old Palace	1100	Pupil Referral Units
2446	Olga		
2908	Osmani		
3385	Our Lady's		
2499	Redlands		
2857	Seven Mills		
2909	Shapla		
2919	Smithy		
3397	St Agnes		
3411	St Anne's		
3431	St Edmund's		
2003	St Elizabeth		
3462	St John's		
3497	St Luke's		
3507	St Mary and St Michael		

## **Annex B: 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 or 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

## LONDON BOROUGH TOWER HAMLETS SCHEME FOR FINANCING SCHOOLS

- 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 or central 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 or has been terminated as a result of local authority or government intervention to improve standards

Costs of early retirements or redundancies may be charged to the central school services block of the schools budget, as a historic commitment, where the expenditure is to be incurred as a result of retirement and redundancy charges agreed before 1 April 2013. Costs may not exceed the amount budgeted in the previous financial year.

The local authority can retain a central budget within the schools budget to fund the costs of new early retirements or redundancies by a deduction from maintained school budgets, excluding nursery schools, only where the relevant maintained school members of the schools forum agree.

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.

### **Community Facilities.**

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—

## LONDON BOROUGH TOWER HAMLETS SCHEME FOR FINANCING SCHOOLS

(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 in England to the local 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 7(B) 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.

## **ANNEXE C**

### **BANKS RECOGNISED FOR THE PURPOSES OF THIS SCHEME**

Schools may only operate bank accounts from the list approved by the local authority. Please contact the schools finance team to obtain the latest list from the LA's Treasury Management policy.

Accounts may only be held for the purpose of receiving budget share payments.

Any school closing an account used to receive its budget share and opening another must select the new bank or building society from the approved list, even if the closed account was not with an institution on that list.

Schools are allowed to have accounts for budget share purposes that are in the name of the school rather than the LA.

The LA will continue with the arrangements negotiated with (primarily National Westminster Bank Plc but extended to include other bank's of the School's choice) whereby the accounts are in the name of the LA but specific to each school, for schools wish to use such arrangements.

The change to exclude the LA's name from the bank account title will take place following any amendment/change to the current pooled arrangement or when the school decides to open a new bank account outside that pooled arrangement.

## **ANNEXE D**

### **SWEEPING (Pooling) ARRANGEMENTS FOR SCHOOLS**

The daily balances of Schools participating in the sweeping arrangements are held in a Special Interest Bearing Deposit (SIBD) account, upon which interest will be calculated. The Schools current account will continue to be used for the receipt of budget cash advances, other income and the payment of expenditure via cheques, BACS transfers, direct debits, standing orders and any other automated transfer. The current account will be supplemented or reduced daily (from the SIBD account) to cover all transactions withdrawn or paid in during that day. The current account balance will, therefore, always be NIL.

The schools bank account balance will be held in the SIBD account and the interest will be calculated daily on that balance and credited to the SIBD account quarterly.

This arrangement has been agreed in order to secure reduced banking charges and there is no annual maintenance fee for the account. Schools within the sweeping arrangement will attract interest at 0.15% on the SIBD account.

The interest deduction from the budget share (see Annexe G) is calculated at the estimated average base rate for the year on the budget share for the year (excluding balances brought forward). If the interest received by the individual schools bank accounts exceeds the estimated interest deduction during the year; schools keep all the additional interest. If the interest received by the individual schools bank accounts is less than the estimate interest deduction during the year.

## **ANNEXE E**

### **LICENSED DEFICIT SCHEME**

The regulations governing Fair Funding do not and LMS never did permit schools to incur a deficit. However some schools have done so when recurring expenditure has exceeded recurring income. The LA is also aware that schools may wish to incur expenditure on major projects that may lead to a short term deficit.

This scheme provides two mechanisms for financing these eventualities:

- In cases where recurring expenditure exceeds recurring income a governing body may request a Licensed Deficit (see Section 4.9.1). In this instance a Licensed Deficit can be funded by a supplementary cash advance that will then be recovered by reducing later cash advances.
- In cases where schools require additional resources to spread the cost over more than one year of large one-off individual items of a capital nature the governing body may apply for a loan (see 4.10.2).

These arrangements allow schools collectively to use resources more flexibly and hence maximise the benefit to education of all the resources available to the service.

Although an individual school might be allowed in this way to overspend, the education service's budget as a whole must stay in balance. Therefore such overspending can only be permitted if other schools with credit balances are willing to allow their currently uncommitted funds to be counted against the overspending elsewhere.

Each school with a credit balance will be asked each year to agree that up to 40% of its credit balance may be used in this way for the coming financial year. Schools may agree to contribute more or less than 40% depending on their budget plans for the following year. The aggregate value of the licensed deficits and loans will be limited to about 90% of the value of the balances schools are prepared to contribute.

In general there will be no loss of interest to the school with the credit balance. Where schools participate in the pooled banking arrangement they need take no further action. Where the school with the credit balance has other banking arrangements, the interest earned will be at the rate of the pooled account. A school allowing its balances to be used in this way will not normally be able to spend that part of its accumulated reserve during the financial year in question. However should the school's circumstances change they may of course discuss with the LA withdrawing all or part of their contribution from the arrangement in year.

The school taking the licensed deficit or loan will be charged interest at the rate currently being earned by the pooled account whatever its banking arrangements might be. If any bank charges arise those too will be charged to the school. Making these arrangements is a chargeable service under the service level agreement for financial services with the authority. Schools applying for this facility will be given a broad indication of the likely cost at the time of application.

## LONDON BOROUGH TOWER HAMLETS SCHEME FOR FINANCING SCHOOLS

The LA will monitor the level of schools' cumulative balances, to ensure that they are sufficient for the scheme to operate and will manage the system within the following guidelines:

- Deficits and loans will only normally be agreed up to the value of 90% of the cumulative credit balances schools have agreed to make available.
- The maximum amount any school would normally be able to licence would be 20% of its share of the ISB.
- The period of repayment would not normally exceed 3 years. The annual repayment would be deducted from the school's annual share of the ISB before that share is placed into the school's bank account.

The first call on these resources will be the borrowing required to finance previously agreed arrangements.

The second call on these funds will be to cover new, unplanned overspending by schools. Since by definition these deficits are unplanned there are no limits on the size of the deficit covered. However repayment would be expected in a maximum of 3 years. Deficits of less than 4% of the school's budget share or £10,000 whichever is the greater will not be licenced and governors must plan to retrieve such overspending in the following financial year.

A licensed deficit may also be granted if the cumulative total of the schools' non-committed balances is sufficient and the purpose of the overspending meets the following criteria. The LA must also be of the view that the school cannot reasonably meet the cost within the financial year and would not be over-committing its future likely budget shares and hence unable to repay the borrowing in accordance with the agreed repayment schedule.

The criteria are:

1. Funding one-off projects or initiatives identified as part of a school's Action Plan following an OfSTED inspection.
2. Projects leading to clearly identifiable improvement in education standards. This should be demonstrated by schools in respect to monitoring systems and analytical data with appropriate performance targets set.
3. A school's history of willingness to participate in the scheme when it has had a surplus.

All applications for licensed deficits must be in writing from the governors to the Director of Children's Services and the Chief Finance Officer who will make the decision on whether to agree or not. The application will need to show that:

- The strategy of seeking a licensed deficit for the school is a minuted decision of the full governing body.
- That initial discussions have taken place with the relevant LA officers to ensure that the purposes of the deficit are clear, appropriate monitoring arrangements will be made and the agreed pay back period is feasible.

Governors may make a representation to the Cabinet if they believe that the Director of Children's Services has acted unreasonably when making his or her recommendation.

## **ANNEXE F**

### **HEALTH & SAFETY**

The responsibilities on schools to manage Health and Safety are set out in the DfE's 'Health and safety: responsibilities and duties for schools'.

Governors have responsibility for the duty under Section 4 of the Health and Safety at Work etc. Act 1974 as persons who have control of non-domestic premises made available as a place of work to persons who are not their employees. The duty is to take such measures as are reasonable for a person in his or her position to ensure, so far as is reasonably practicable, that the premises are safe and without risk to health.

In accordance with the School Standards & Framework Act 1998, the maintenance of premises (excluding structural repairs and capital expenditure) is the responsibility of schools. The division of responsibility between the LA and the governors is set out in Section 12 of the Scheme. Where a repair is the responsibility of the LA, governors are still responsible for notifying the authority of any hazard that comes to their attention. The cost of repairs that are the responsibility of governors is included in the individual schools budget, and allocated to schools through the formula.

Where the governing body of a school with a delegated budget fails to comply with the LA's policy on Health and Safety, the authority will arrange for the required work to be carried out, and will charge the costs to the school's budget.

## **ANNEXE G**

### **CALCULATION OF INTEREST AND DEDUCTION**

Budget instalments will be paid to schools in twelve instalments.

- 10% of the school's budget share will be paid on 1 April (or the closest banking day in April to 1<sup>st</sup> April) and 10% on 20<sup>th</sup> April.
- Ten further equal instalments of 8% of the school's budget share on the 20<sup>th</sup> of each month (or the closest banking day in the month to the 20<sup>th</sup> of the month) until 20<sup>th</sup> February following, except in December when payment will be on the 10<sup>th</sup> of the month (or the closest banking day in the month to the 10<sup>th</sup> of the month).

This pattern of funding should eliminate cash flow problems. It will enable schools to purchase early in the financial year thus taking full advantage of the resources available to them whilst helping them to ensure that they have cash in their accounts to meet any large bills including salaries. Payment will be by BACS payment to school accounts through appropriate arrangements with the Council's bankers.

The school's budget share will be its share of the ISB less any repayment of borrowing under the licensed deficit scheme, less any deficit not covered by licensed borrowing plus any devolved budget shares from grant aided or other centrally held budgets.

If grant aided or other centrally held spending becomes devolved or is withdrawn during the financial year it will be added to the school's budget share as though it had been devolved at 1 April. Also the next monthly payment will be adjusted to make the total of payments to that date equal to what they would have been by that date had the funds been devolved on 1 April.

If specific payment arrangements to schools are attached to grant aided or other centrally controlled budgets, they will not be added to the school's budget share but paid to schools in accordance with the conditions attached to the grant aided or other spending and treated by the school as other income.

Such advanced payments of devolved budgets do not relieve schools from supplying the necessary information to monitor the spending and claim grant where appropriate. Where such information is not supplied as and when required the budget will be withdrawn and the cash clawed back from the next available payment to the school's bank account.

Schools are also reminded that it is in their interest to make prompt claims for reimbursement of relevant expenditure such as VAT.

### **Interest Deduction**

Interest will be deducted from each school's budget share to reflect the estimated aggregate loss of interest to the Council of providing front-loaded cash flow to schools. The interest deduction has three elements:

The assumed cash flow for schools takes account of paying staff by direct debit on the

LONDON BOROUGH TOWER HAMLETS SCHEME FOR FINANCING SCHOOLS

10<sup>th</sup> of the month. It also assumes an expenditure profile based on established expenditure patterns in previous years. An estimate is then made of the anticipated interest earnings for the year based on that cash flow and the interest rates during the year. That potential earning is deemed to equal the interest lost by the Council in making the ISB available earlier than hitherto and that, in aggregate, is the amount that will be deducted from the ISB.

**Spend Profile:**

15 Apr 20x1	5% 15 Aug 20x1	3% 15 Dec 20x1	8%
15 May 20x1	8% 15 Sep 20x1	10% 15 Jan 20x2	7%
15 Jun 20x1	9% 15 Oct 20x1	12% 15 Feb 20x2	4%
15 Jul 20x1	10% 15 Nov 20x1	12% 15 Mar 20x2	12%

The interest rate used is the 'money market' estimate of the base rate for that financial year.

Each school's share of the ISB will be reduced by the interest deduction calculated prior to the monthly advance being made. See table below for an illustration:

	Advances	Expenditure	Payroll DD	Net Cash	Interest
1 Apr 200x1	105,000	-	-	105,000	
15 Apr 20x1	-	5,100	-	99,900	24.11
20 Apr 20x1	105,000	-	-	204,900	7.22
10 May 20x1	-	-	79,000	125,900	54.72
15 May 20x1	-	8,160	-	117,740	8.82
20 May 20x1	84,000	-	-	201,740	6.60
10 Jun 20x1	-	-	79,000	122,740	54.83
15 Jun 20x1	-	9,180	-	113,560	8.20
21 Jun 20x1	84,000	-	-	197,560	6.83
10 Jul 20x1	-	-	79,000	118,650	46.17
15 Jul 20x1	-	10,200	-	108,360	7.29
20 Jul 20x1	84,000	-	-	192,360	4.51
10 Aug 20x1	-	-	79,000	113,360	46.08
15 Aug 20x1	-	3,060	-	110,300	6.11
20 Aug 20x1	84,000	-	-	194,300	5.28
10 Sep 20x1	-	-	79,000	115,300	49.29
15 Sep 20x1	-	10,200	-	105,100	6.88
20 Sep 20x1	84,000	-	-	189,100	4.10
10 Oct 20x1	-	-	79,000	110,100	42.22
15 Oct 20x1	-	12,240	-	97,860	5.70
20 Oct 20x1	84,000	-	-	181,860	2.36
10 Nov 20x1	-	-	79,000	102,860	37.03
15 Nov 20x1	-	12,240	-	90,620	3.96
22 Nov 20x1	84,000	-	-	174,620	0.87
10 Dec 20x1	-	-	79,000	95,620	25.49
11 Dec 20x1	84,000	-	-	179,620	0.44
15 Dec 20x1	-	8,160	-	171,460	6.94
10 Jan 20x2	-	-	79,000	92,460	33.57
15 Jan 20x2	-	7,140	-	85,320	1.60

LONDON BOROUGH TOWER HAMLETS SCHEME FOR FINANCING SCHOOLS

20 Jan 20x2	84,000	-	-	169,320	0.35
10 Feb 20x2	-	-	79,000	90,320	25.66
15 Feb 20x2	-	4,080	-	86,240	1.25
21 Feb 20x2	84,000	-	-	170,240	0.17
10 Mar 20x2	-	-	79,000	91,240	22.43
15 Mar 20x2	-	12,240	-	79,000	1.74
21 Mar 20x2	-	-	-	79,000	-1.92
10 Apr 20x2	-	-	79,000	-	19.44
	<u>1,050,000</u>	<u>102,000</u>	<u>948,000</u>		<u>575.61</u>

As set out elsewhere in this scheme, schools will be able to keep all interest earned on their accounts and thus recovers the deduction from their share of the ISB.

**ANNEXE H**

**PROPOSAL FORM – COMMUNITY FACILITIES AND SERVICES**

**Name of School** .....

This agreement is made this [dd/mm/yy] \_\_\_ / \_\_\_ / \_\_\_\_\_ between  
School: [Name and Address]

Community Group: [Name and Address]

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HIRE PERIOD .....

TYPE OF SERVICE REQUIRED .....

.....

.....

.....

.....

RATE / CONTRACT PRICE.....

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**INSURANCE**

The Hirer hereby agrees that he/she shall fully indemnify the School for any and all damage to or loss of School property and any related equipment during the term of hire whether caused by fire, theft, vandalism, or any other cause, except that which shall be determined to have been caused by a fault or deficiency of the School.

**HIRE RATE**

*The Hirer hereby agrees to pay the School at the rate of £\_\_\_\_\_ per \_\_\_\_\_  
(Hour/Session/Day) for the use of said property and equipment. The hire rate includes  
all charges for heating, lighting and power.*

DEPOSIT

*The Hirer further agrees to make a deposit of £ \_\_\_\_\_ with the School. Said deposit to be used, in the event of loss or damage in respect of the hired property and any equipment during the period of hire. In the absence of any damage or loss, said deposit shall be credited toward payment of the hire fee and any excess shall be returned to the Hirer.*

TERMINATION OF AGREEMENT

*It is mutually agreed that the Hirer shall have the right to terminate this Agreement at any time although the School reserves the right to retain any deposit paid should the hirer cancel within four weeks of the letting. The School reserves the right to cancel the agreement should it become necessary, such cancellation not to be made unreasonably.*

\_\_\_\_\_  
**Hirer's Signature**

\_\_\_\_\_  
**Date**

\_\_\_\_\_  
**On Behalf of [NAME OF SCHOOL]**

\_\_\_\_\_  
**Date**