

LONDON BOROUGH OF TOWER HAMLETS

CHILDRENS, SCHOOLS & FAMILIES DIRECTORATE

LA SCHEME FOR FINANCING SCHOOLS

2015/2016

Effective from 1st April 2015

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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 LEA Budget – although at a minimum a local authority must appropriate its entire Dedicated Schools Grant to their 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 Act¹. 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 LEA 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 approved by the Secretary of State. The Secretary of State, who has power to modify schemes or impose one, must also approve all revisions to the scheme. This document forms the required scheme for Tower Hamlets.

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.

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. There is a right of appeal to the Secretary of State. A school's right to a delegated budget share may also be suspended for other reasons (s.17 of the Act) but in that case there is no right of appeal.

The LA is obliged to publish each year a statement setting out details of its planned Schools Budget and LA Budget, showing:

- the amounts to be centrally retained;
- the budget share for each school;
- the formula used to calculate those budget shares; and
- the detailed calculation for each school.

After each financial year the authority must publish a statement showing out-turn expenditure at both central level and for each school, and the balances held in respect of each school.

The detailed publication requirements for financial statements and for schemes are set out in regulations, but each school must receive a copy of the scheme and any amendment, and each year's budget and out-turn statements so far as they relate to that school or central expenditure.

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 new 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 LEA. 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, community special and foundation special schools maintained by the London Borough of Tower Hamlets (as listed in Annexe A). The scheme will also apply to any new maintained schools that open after 1 April 1999.

1.3 Publication and revision of the scheme

A copy of the scheme will be supplied to the governing body and the Headteacher of each school covered by the scheme. Headteachers and governing bodies will be consulted on any amendments to the scheme. Following approval by the Schools Forum, any approved revisions will be available on LGFL site and 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.

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. Standards Funds grants) 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 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,

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- 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 REQUIREMENTS; AUDIT

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, District Audit, Revenue & Customs).

Under Section 151 of the Local Government Act 1972, the Borough's Chief Finance Officer 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 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.

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.

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 will be used as evidence to support the compliance with the Financial Management Standard in Schools Additionally (section 2.15) and will be used to support the LA's balance control mechanism (see section 4).

2.4 Efficiency and value for money

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

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

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 Audit Commission.

Schools are required to co-operate both with auditors employed by the local authority (**internal audit**) and auditors appointed by the Audit Commission 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. 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. 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 matters². 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 good 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 in to.

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 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 vied 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 - Amended 09-0311

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.

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, nursery schools, 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 premises³ 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 current School Premises Regulations and DCSF Construction Standards, and health and safety legislation.

2.15 Financial Management Standard –deleted 09-03-2011

New 2.16 Schools Financial Value Standard (SFVS)

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

Governors must demonstrate compliance through the submission of the SFVS assessment form signed by the Chair of Governors. The form must include a summary of remedial actions with a clear timetable, ensuring that each action has a specified deadline and an agreed owner.

Maintained schools that did not achieve the Financial Management Standard in Schools (FMSiS) must submit the form to the local authority before 31 March 20xx, and annually thereafter.

New 2.17 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.

2.18 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;

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- 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 shares will be transferred to its bank account on 1st April each year (or the nearest bank day in April) and 20th April each year.
- 8% of each school's budget share will be transferred to its bank account on the 20th 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 10th (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 I.

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 E. 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 are set out in Annex D. All of these are 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 list set out in Annex D, 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 list in Annex D.

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. Details are set out in Annexe G.

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.

3.6 a Purchasing Cards

Schools are encouraged to use the LA's purchasing card scheme.

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.

Tower Hamlets schools are currently only permitted to use the "one card programme" through NatWest, providing enhanced controls, these 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 shown in the out-turn statement published by the LA under s.251 of the 1998 Act. 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 with effect from 1 April 2007:

- 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;
- 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 Standards Fund 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, 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 borrowing in accordance with the arrangements set out in paragraph 4.9 below 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 borrowing 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

Schools may apply for an advance under the LAs Licensed Deficit Scheme, where planned developments are beyond the immediate overall resources of the school. Proposals must be discussed with and supported by the relevant LA officer. In particular the LA officer must be satisfied that the deficit is necessary, that the purpose of the expenditure is satisfactory and the date by which the school will have eliminated the deficit is achievable.

The detailed arrangements are set out in Annexe F. Licence 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 licence will first take effect. Schools will be expected to manage lesser sums within the financial year.

As set out above, any school running into deficit must also use these arrangements. In effect a request will be made by the governors to licence the expected deficit. This will also require an agreed action plan to reduce recurrent expenditure and bring the school's finances back into balance over an agreed period.

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.

The action plan will also not automatically prevent schools with licensed deficits from using their Schools Standards Grant for purposes other than reducing their deficit. In fact the LA will normally agree to the use proposed for it by the Governors and will only withhold that agreement and require it to be applied to reducing the deficit if the LA forms the view that the proposed expenditure would be unreasonable given the school's financial circumstances.

4.10 Loan schemes/Credit Union

The LA may, should resources permit, make an advance from the annual budget of the LA and this may include inviting schools to contribute up to 50% of their credit balances to finance the scheme. The conditions of the advance would be as set out for the Licensed Deficit Scheme set out above.

There is one further restriction namely that the loan may only be made for expenditure that is deductible from the ISB under s.46 regulations.

There can be no guarantee that there will be any resources available in any particular year to finance this scheme.

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 Authority operates a loan scheme funded from the collective balances held by schools. All maintained schools are eligible to apply for a loan that can be for:

- the costs of restructuring or reducing staffing complement;

The maximum loan will be up to 5% of the schools budget share excluding earmarked grants, subject to a detailed budget plan the Authority may approve a loan and is satisfied that the ongoing commitment 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.

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 Corporate Director (Children, Schools and Families) 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.

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

6.2 Costs incurred in securing the termination of employment contracts

- 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 the school had not followed LA advice.

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- 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** The enhanced redundancy (ie that element beyond the statutory redundancy cost) costs of terminations of employment of school staff are charged to schools delegated budgets, spread if necessary over a number of years.
- 6.2.5** 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.
- 6.2.6** 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.
- 6.2.7** 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;*
 - 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 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.
- 6.3.2** Recovery of other expenditure incurred to secure resignations where the school had not followed LA advice.
- 6.3.3** 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.
- 6.3.4** 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.
- 6.3.5** 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.
- 6.3.6** 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.
- 6.3.7** 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;

- 6.3.8** Recovery of penalties, including any interest, imposed on the LA by the Board of Inland Revenue, 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*.
- 6.3.9** 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.
- 6.3.10** 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.
- 6.3.11** Recovery of legal costs incurred by the LA because the governing body did not accept the advice of the LA.
- 6.3.12** 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.
- 6.3.13** 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.
- 6.3.14** 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.
- 6.3.15** Costs incurred by the authority in securing provision specified in a statement of SEN where the governing body of a school fails to secure such provision despite the delegation of funds in respect of that statement;
- 6.3.16** 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.
- 6.3.17** 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.

- 6.3.18** 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.
- 6.3.19** 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.
- 6.3.20** 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.
- 6.3.21** 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.
- 6.3.22** Costs incurred by the LA as a result of withdrawal of delegation.
- 6.3.23** 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.
- 6.3.24** Recovery of any costs to the LA as a result of the governing body being in breach of the terms of a contract.
- 6.3.25** 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.
- 6.3.26** Recovery of interest claw-back due on budget shares as calculated in Annexe I.
- 6.3.28** 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.

- 6.4 Fees to be deducted from teachers' salaries and remitted to the General Teaching Council for England - *The GTC was abolished by the Education Act 2011 with effect from 1st April 2012***

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 GM or Foundation Schools funded direct by the DCSF 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. This follows the DCSF and Inland Revenue advice issued to LAs in October and December 1999 respectively.

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 (a) funding has been delegated to some schools only or (b) such discrimination is justified by differences in statutory duties.

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

The term of any arrangement with a school starting on or after 1 April 1999 to buy services or facilities from the LA shall be limited to a maximum of three years from the inception of the scheme or the date of the agreement, whichever is the later, 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.

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 starting on or after the inception of the Scheme will be reviewed at least every three years if the agreement lasts longer than that.

Services provided 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 will be set out in the *Tower Hamlets Services for School's Brochure* published annually.

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 Regulations 1997, 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 annual 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 annual 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

Amended for 1.4.12 at Schools Forum 11.1.12

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*⁴.

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 schedule 11 of the Act only allowances in respect of purposes specified in regulations 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 of the LA 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 of 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 needs⁵ 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 School Meals –deleted not relevant to a finance scheme 09-03-2011

SECTION 12: GRANT MAINTAINED SCHOOLS

This section no longer applies.

SECTION 13: RESPONSIBILITY FOR REPAIRS AND MAINTENANCE –deleted 09-03-2011

SECTION 14: COMMUNITY FACILITIES POWER –The change in Law enables the use of delegated budget for this purpose. 09-03-2011

14.1 Introduction

14.1.1 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. First, regulations made under section 28(2), if made, can specify activities which may not be undertaken at all under the main enabling power. Secondly, the school is obliged to consult its LA and have regard to the advice from the LA. Thirdly, the Secretary of State issues guidance to governing bodies about a range of issues connected with exercise of the power, and a school must have regard to that.

However, under 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 amendment extended the coverage of schemes to include the exercise of the powers of governing bodies to provide community facilities.

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.

14.1.2 Limitations on expenditure from delegated budget

14.1.3 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.

14.2 Consultation with the LA

14.2.1 Consultation with the LA prior to exercising power

Section 28 (4) of the Education Act 2002 requires that before exercising the community facilities power, governing bodies must consult the LA, and have regard to advice given to them by their LA.

14.2.2 Community Facilities Proposal Form

Governing Bodies must complete the Community Facilities Proposal Form, Annexe J and return to the Director of Children's Services, prior to contracting to let the premises or providing services.

14.2.3 Availability of Advice

Governors will receive this advice 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 such advice.

14.3 Funding Agreements

14.3.1 Third Party Agreements

The LA requires all agreements to be agreed by the LA in line with the conditions set out on the Community Facilities Proposal Form. If an agreement has been, or is, 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.

14.4 Other Prohibitions, Restriction and Limitations

14.4.1 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.

14.5 Supply of Financial Information

14.5.1 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, see Annexe K.

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

14.5.2 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.

14.6 Audit/Access to Records

14.6.1 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.

14.6.2 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.

14.7 Treatment of Income and Surpluses

14.7.1 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.

14.7.2 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.

14.7.3 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.

14.8 Health and Safety

14.8.1 Health and Safety

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

14.8.2 Criminal Records Bureau

The school's governing body has responsibility for the costs of securing Criminal Records Bureau 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.

14.9 Insurance

14.9.1 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.

14.9.2 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.

14.10 Taxation

14.10.1 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.

14.10.2 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

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National Insurance, in line with Revenue & Customs rules.

14.10.3 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.

14.11 Banking

14.11.1 Banking Arrangements

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

14.11.2 Authorisation

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

14.11.3 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.

ANNEXE A

LIST OF SCHOOLS TO WHICH THIS SCHEME APPLIES (Approved 09-03-2014)

<u>DCSF</u>	<u>Primary Schools</u>				
2922	Arnhem Wharf		2916	Halley	
2912	Bangabandhu School		2281	Harbinger	
2043	Ben Jonson		2999	Harry Gosling	
2917	Bigland Green		2910	Hermitage	
2441	Blue Gate Fields Infant		3667	Holy Family	Amalgamated
2099	Blue Gate Fields Junior		2341	John Scurr	
2056	Bonner		2918	Kobi Nazrul	
2920	Bygrove		2004	Lansbury Lawrence	
2091	Canon Barnett		2377	Lawdale Junior	
2097	Cayley		2005	Malmesbury	
2110	Chisenhale		2533	Manorfield	
3332	Christchurch		2397	Marion Richardson	
2159	Clara Grant		2402	Marnar	
2118	Columbia		2406	Mayflower	
2893	Cubitt Town Infant		2432	Mowlem	
2144	Cubitt Town Junior		2001	Old Ford	Academy
2145	Culloden	Academy	2059	Old Palace	
2147	Cyril Jackson		2446	Olga	
2378	Elizabeth Selby		2908	Osmani	
3619	English Martyrs		3385	Our Lady's	
2254	Globe		2499	Redlands	
3346	Guardian Angels		2857	Seven Mills	
2270	Hague		2909	Shapla	
			2557	Sir William Burrough	Academy

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2919	Smithy		4505	George Green's
3397	St Agnes		4105	Langdon Park
3411	St Anne's		4150	Morpeth
3431	St Edmund's		4242	Mulberry (Girls)
2003	St Elizabeth		4296	Oaklands
3462	St John's		5400	Raine's Foundation
3497	St Luke's		4722	Sir John Cass's Foundation & Red Coat
3507	St Mary and St Michael		4277	St Paul's Way
3540	St Matthias		4276	Stepney Green (Boys)
3574	St Paul's (Whitechapel)		4297	Swanlea
3563	St Paul's with St Luke's		<u>DCSF</u>	<u>Special Schools</u>
			7168	Beatrice Tate
3581	St Peter's London Docks CE		7055	Harpley (Mixed)
3592	St Saviour's		7139	Ian Mikardo High
2568	Stebon		7095	Phoenix School
3350	Stepney Greencoat		7196	Stephen Hawking
2569	Stewart Headlam		7170	The Cherry Trees
2828	Thomas Buxton Infant		7084	Bowden House (Boys)
2519	Thomas Buxton Junior		1100	Pupil Referral Units
2623	Virginia		<u>DCSF</u>	<u>Nursery Schools</u>
2631	Wellington		1040	Alice Model
2921	William Davis		1012	Childrens House
2658	Woolmore		1024	Columbia Market
			1042	Harry Roberts
			1034	Old Church
			1032	Rachel Keeling
<u>DCSF</u>	<u>Secondary Schools</u>		-----	Cambridge Heath 6 th Form.
4284	Bethnal Green Tech. College	Academy		
4298	Bishop Challoner (Boys)			
4726	Bishop Challoner (Girls)			
4024	Bow (Boys)			
4507	Central Foundation Girls			

Amend final section of Annex B- 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—

(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 (7B) is met.

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

(9)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 –Deleted 2011-12

BEST VALUE AND SCHOOLS

ANNEXE D

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 discuss the most updated 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 E

SWEEPING 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 0.45% on the SIBD account.

The interest deduction from the budget share (see Annexe I) 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 estimate 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 F

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. The LA is also aware that schools may wish to incur expenditure on major projects that may lead to incurring a deficit. The licensed deficit scheme is a mechanism for providing borrowing to finance both of these eventualities. It provides a mechanism for schools to pay off this borrowing over more than one financial year.

This arrangement allows 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 licensed 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 deficit 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 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.

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 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.

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- The period of repayment would not normally exceed 5 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 licensed deficits.

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 5 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 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. Meeting building related needs that is unlikely to be included in an LA building or refurbishment programme in the near future and is likely to lead to savings later.
3. 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.
4. 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 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 G

SCHOOL BORROWING - GUIDANCE

1. Introduction

The School Standards and Framework Act 1998 allow schools to borrow if they have the permission of the Secretary of State. This guidance is intended to assist schools, and their Local Authorities, in considering whether and how a school should make an application to the Secretary of State for permission to borrow.

2. Background

All borrowing by schools has to be accommodated within the Department's baseline - in practice the schools capital baseline - and compete with orthodox capital support. In reality, there will be few occasions when allowing a school to borrow from the market will be better value to the public purse than providing grant or credit approvals. Direct Government borrowing normally funds Grant, while credit approvals allow LAs to borrow at public sector rates. Both types of borrowing will be at rates lower than those generally available to the private sector.

3. Definition

The types of financing arrangements that would normally be classed as borrowing are:

- Loans in the broadest sense, whereby lenders make available to the school a sum of money which the school uses for specific aims. The school repays the sum of money (the principal) usually at a price (the 'interest charges) over the term of the loan;
- Finance leases, whereby the school acquires the use of an asset (e.g. a building or an item of equipment) from the supplier or lender over a specified period. At the end of the period, the school has paid the lender for the underlying cost of the asset plus interest charges;
- Certain types of Public Private Partnerships where the asset is deemed to be "on balance sheet" (See paragraph 7 below).

There are certain types of financing arrangements which for the purposes of this Guidance would not normally be classified as borrowing - for example, where a local fair funding scheme permits an LA to deal with an overspend on a school's budget share by advancing additional sums which are to be charged against future years budget shares.

There are certain other circumstances where the Department would not normally require the school to obtain permission before entering into a financial arrangement because it would not regard borrowing as taking place. For example:

- where a Diocese spends money on behalf of a Voluntary Aided school, and the Department subsequently pays grant to the diocese under paragraph 5(1)(b) of Schedule 3 to the 1998 Act;
- where an association such as a Parents' Association or Former Pupils' Association, takes out a loan to be repaid from its future fund raising, and donates the

- money to the school;
- where a school takes credit as part of a supplier's standard trading terms;
- certain types of Public Private Partnerships (see paragraph 7 below).

4. Criteria

Any Community, Foundation, Voluntary Aided, Voluntary Controlled or Special school can apply for approval to borrow. Applications should be made to the Secretary of State by an LA on behalf of the school.

Before the Secretary of State will approve a borrowing request, he will wish to be satisfied that:

- Repayments of the proposed loan (principal and interest) will be affordable to the school over the full term of the loan;
- There will be savings in finance charges over central government borrowing. Given the relatively low cost of government borrowing, the only proposals likely to succeed are those where there are no finance charges associated with the loan, and repayments are for the principal only. An example might be where a school can secure an interest-free loan from a charitable trust -, perhaps its own Foundation;
- The borrowing is to fund capital expenditure only (which may include a reasonable proportion of relevant professional fees);
- The capital expenditure will contribute directly and demonstrably to improved educational standards;
- The loan agreement between the school and the lender has been reached subject only to the Secretary of State's agreement. The Secretary of State will not consider or agree proposals in principle. However, the Department is prepared to give informal advice about the likelihood of proposals being successful;
- The proposal has the endorsement of the LA and a clear statement from the LA that the project funded is high on the list of otherwise unfunded priorities in its agreed Asset Management Plan (AMP). Where the project to be funded is elevated over other, higher - priority projects in the AMP, there needs to be a clear justification given. Consideration will not be given to proposals where DfE considers the AMP to be unsatisfactory;
- The proposed loan will not be secured on any asset of the school;
- The proposed loan will be for a defined sum, with defined repayment periods, amounts and term, and will be repaid out of the school's delegated budget.

There are limitations on certain types of borrowing. The following types of borrowing will not normally be approved:

- overdrafts;
- loans which can only be repaid by taking out a further loan or by extending the period of the original loan;
- interest only loans;
- loans in currencies other than Sterling;
- certain other types of loans will only be approved in exceptional circumstances. For example, if a loan offered interest payment holidays or was structured so that the principal was repaid at the end of the loan period, a school would have to demonstrate that the loan offered better value for money than a loan which required regular principal and interest payments and that it was setting aside sufficient funds

to meet its obligations when they fell due.

In considering applications, the Secretary of State will take into account the availability of funds in the Department's baseline and the priority of other calls on it.

5. Format and timing of applications

There is no fixed format for applications. However, proposals need to provide the information and address the criteria and issues set out above and are countersigned by the Headteacher and the Chair of Governors, as evidence of the endorsement of the Governing Body. Completed applications should be sent to the Schools Capital Policy Team, Area 3E, Sanctuary Buildings, Great Smith Street, London SW1 P 3BT.

Applications may be made at any time in the financial year when the borrowing would be drawn down, in which case they will normally be considered each quarter along with other proposals for additional funding. Proposals received in advance of the financial year in which it is intended that the loan should be drawn down will be considered only after the main capital allocations have been made. Where loans span more than one financial year, this should be stated clearly in the application.

Funds should normally be drawn down within the financial year in which approval is given unless cleared with the Schools Capital Policy Team.

Schools should confirm to the Schools Capital Policy Team in writing when loans are drawn down.

6. Contacts for queries

Queries by schools should be addressed to their LA. Any LA queries should be addressed initially through their normal LA Support Division contact.

7. Public Private Partnerships (PPPS)

PPPs provide an opportunity to increase the total resources available to maintain and improve the school building stock by bringing in private sector partnership funding on a commercial basis. PPPs allow schools and LAs to take advantage of the long-term savings that can be achieved through replacing unsound and inefficient buildings. This approach ensures that public funds achieve maximum impact, and should form a key element in every LA's capital strategy.

Because of the longer-term nature of PPPs, schools that enter into them should establish whether the commercial interest of their private sector partners constitutes a form of borrowing by the schools. In the case of, for example, a finance lease, borrowing consent would be required.

Borrowing approval will also be required if a PPP transaction is considered to be "on Balance Sheet" under the provisions of Application Note F to FRS5, "Reporting the Substance of Transactions - Private Finance Initiative and Similar Contracts".

It is strongly recommended that before a school enters into a PPP it discusses its proposals with its LA. The Department has also published Public Private Partnerships - A Guide for School Governors, which can be found on the DCSF website.

ANNEXE H

HEALTH & SAFETY

The Health and Safety Executive is working on detailed guidance for schools. In the meantime the responsibilities on schools to manage Health and Safety are set out fully in the LA's "*Health & Safety: Policy and Guidance*" manual.

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 Annexe B 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 I

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

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The assumed cash flow for schools takes account of paying staff by direct debit on the 10th 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 2008	5%	15 Aug 2008	3%	15 Dec 2008	8%
15 May 2008	8%	15 Sep 2008	10%	15 Jan 2009	7%
15 Jun 2008	9%	15 Oct 2008	12%	15 Feb 2009	4%
15 Jul 2008	10%	15 Nov 2008	12%	15 Mar 2009	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 2008	105,000	-	-	105,000	
15 Apr 2008	-	5,100	-	99,900	24.11
20 Apr 2008	105,000	-	-	204,900	7.22
10 May 2008	-	-	79,000	125,900	54.72
15 May 2008	-	8,160	-	117,740	8.82
20 May 2008	84,000	-	-	201,740	6.60
10 Jun 2008	-	-	79,000	122,740	54.83
15 Jun 2008	-	9,180	-	113,560	8.20
21 Jun 2008	84,000	-	-	197,560	6.83
10 Jul 2008	-	-	79,000	118,650	46.17
15 Jul 2008	-	10,200	-	108,360	7.29
20 Jul 2008	84,000	-	-	192,360	4.51
10 Aug 2008	-	-	79,000	113,360	46.08
15 Aug 2008	-	3,060	-	110,300	6.11
20 Aug 2008	84,000	-	-	194,300	5.28
10 Sep 2008	-	-	79,000	115,300	49.29
15 Sep 2008	-	10,200	-	105,100	6.88
20 Sep 2008	84,000	-	-	189,100	4.10
10 Oct 2008	-	-	79,000	110,100	42.22
15 Oct 2008	-	12,240	-	97,860	5.70
20 Oct 2008	84,000	-	-	181,860	2.36
10 Nov 2008	-	-	79,000	102,860	37.03
15 Nov 2008	-	12,240	-	90,620	3.96
22 Nov 2008	84,000	-	-	174,620	0.87
10 Dec 2008	-	-	79,000	95,620	25.49
11 Dec 2008	84,000	-	-	179,620	0.44
15 Dec 2008	-	8,160	-	171,460	6.94
10 Jan 2009	-	-	79,000	92,460	33.57
15 Jan 2009	-	7,140	-	85,320	1.60
20 Jan 2009	84,000	-	-	169,320	0.35
10 Feb 2009	-	-	79,000	90,320	25.66

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15 Feb 2009	-	4,080	-	86,240	1.25
21 Feb 2009	84,000	-	-	170,240	0.17
10 Mar 2009	-	-	79,000	91,240	22.43
15 Mar 2009	-	12,240	-	79,000	1.74
21 Mar 2009	-	-	-	79,000	-1.92
10 Apr 2009	-	-	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 J

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]

HIRE PERIOD

TYPE OF SERVICE REQUIRED

.....

.....

.....

.....

RATE / CONTRACT PRICE.....

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.*

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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

ANNEX K

LONDON BOROUGH OF TOWER HAMLETS

STATEMENT OF ACCOUNTS FOR COMMUNITY USE

_____ School

6 Months to September 20xx...

£ £

Balance at Beginning of Period

Add Total Income Received

Total

Less Total Expenditure

Total

Bank Balance (As per Bank Statement Attached)

LONDON BOROUGH TOWER HAMLETS SCHEME FOR FINANCING SCHOOLS

Less Total of Unpresented Cheques

Unposted Bankings

Total

PROJECTED INCOME FOR 6 MONTHS TO MARCH 20xx..

Total estimated income

Total estimated expenditure

Total