

**Proposed Amendments to the Dudley Scheme for Financing Schools
2007**

Note – italic font denotes the proposed changes

2.15 Financial Management Standard in Schools

All maintained schools must demonstrate compliance with the DfES' Financial Management Standard in Schools in line with the timetable determined by the authority (see below), and at any time thereafter.

<i>Secondary Schools</i>	<i>31st March 2007</i>
<i>50% Primary and Special Schools (largest based on budget)</i>	<i>31st March 2008</i>
<i>Remaining 50% Primary and Special Schools</i>	<i>31st March 2009</i>

As part of the agreed process in Dudley, Internal Audit will externally assess all Schools, in line with the above timetable. The cost of the external assessment will be met from the school's budget share.

The Financial Management Standard & Toolkit (FMS&T) was developed and released to schools as a self-management package in June 2004. The standard and toolkit is available at:

http://www.ipfbenchmarking.net/consultancy_dfes_update/

Dudley's Scheme

Internal Audit performs the assessment, along with an advice and supporting role.

Internal audit work with the school to achieve the Standard, working with other professional services such as Governors, Personnel, Accountancy, and School Development Advisors as necessary.

In order for the existing internal audit programme to work in conjunction with the programme required under the Standard, the current audit programme is varied in line with the conditions of the Standard, which has to be reassessed every 3 years. Thus the internal audit programme for secondary schools will be changed from every 2 years and primary/special schools from every 4 years so that all schools receive their internal audit, as well as a full

assessment against the Financial Management Standard, every 3 years.

Internal Audit will resource work on the Financial Management Standard from 1st April 2006 and will work closely with schools. This work will not only assist secondary schools to achieve compliance in 2006/2007 but will also allow internal audit to develop training, guidance and sample files of evidence that will be relevant to all other schools when they are also required to comply with the Financial Management Standard.

The DfES estimates that full assessments against the Standard will take 2 days. In addition to the assessment, which will be undertaken at the time of the internal audit work in the school, Internal Audit also intend to visit schools for 1 day during each of the intervening years as part of a 'health check' approach. The cost for this full service will be approximately £550 for each school per annum (increased annually for inflation). Due to the timescale of compliance particularly for secondary schools, it is proposed that work, initially with secondary schools, will commence by April 2006 but also, during 2006/2007, preparatory 'gap analysis' work will be commenced with the next phase of primary schools. A rolling programme of support and assessment would then be established.

The DfES advise that the LA should have systems in place to equip its officers with the necessary skills to perform the assessment. The Section 151 officer (DoF) should be confident that the persons performing the assessment have the appropriate skills and experience. Accredited officers should undergo refresher training on the Standard and Toolkit every 2 years.

Internal audit officers will acquire the knowledge and the necessary training from organisations such as the National Bursars Association (NBA). Internal Audit will then seek to arrange training for schools from the NBA.

Whilst the DfES have not included specific sanctions into the proposals for schools that do not comply with the standard, it is clear that the compliance should not be considered as optional. The objective of the standard is to enable schools to demonstrate that they manage the public funds allocated to them in a proper and accountable manner and, as in the past, a failure to properly manage the finances could result in the delegation of funds being withdrawn for a school.

3.6 Borrowing by schools

Governing bodies may not enter into any borrowing arrangements – including finance, hire purchase or other leasing deals – without the specific and written permission of the Secretary of State.

This prohibition applies whether it relates to spending for the purposes of the school or in relation to the exercise of the community facilities power by a school.

This does not, however, 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.

Any school considering such action is required to consult first the Director of Children's Services and the Director of Finance for advice. Under normal circumstances, all borrowing is undertaken by the Council centrally, which allows the Council to use its resources most effectively and obtain the most advantageous financial outcome.

From 2005/06, an LA's budget can include costs on prudential borrowing. *Prudential borrowing means borrowing money for the purpose of facilitating the modernisation and rationalisation of the school estate, where the revenue savings that will be achieved are equal to or more than the expenditure that will be incurred in borrowing the money. Regulation 1 of The School Finance (England) Regulations 2006 support new powers of Schools Forums in respect of prudential borrowing. It is important to note that any expenditure retained under paragraph 35 of schedule 2 must conform to the definition set out in regulation 1 and cannot be taken to refer to expenditure whose scope is wider than that set out in the definition. So for example, expenditure on the costs of prudential borrowing, must meet the savings test defined for them in regulation 1 and may not under any circumstance include expenditure where the savings test is not demonstrated. Schools Forum only have the power to approve expenditure items to be included in the Schools Budget which conform to the definition set out in these regulations. In addition this*

paragraph imposes limits on the amount that a local authority may retain against any of these types of expenditure.

However, it remains essential to manage all borrowing and finance deals corporately to maximise the use of resources and ensure that best value is obtained and all relevant legislation is followed.

Schools may not use credit cards, unless they are issued or approved by the Director of Finance. The use of debit cards or electronic purchase cards, however, is recommended as these are efficient methods of purchasing which offer equivalent facilities to credit cards. Any school wishing to use a credit card must first discuss this with the Internal Audit Division, which will recommend to the Director of Finance whether permission should be granted.

As with borrowing, Trustees and Foundations may use credit cards as private bodies, but any debt may not be serviced directly from the delegated budgets.

4.2.2. Controls on surplus balances

Surplus balances held by schools as permitted under this scheme are subject to the following restrictions with effect from *1 April 2007*:

The Authority shall calculate by 31 May each year the surplus balances, if any, held by each school as at the preceding 31 March. This will include all school balances at 31st March, as required by Consistent Financial Reporting and reported in the Section 52 outturn statement. For Dudley Schools this will include:

- *School budget share arising from the delegated budget;*
- *Extended school activities;*
- *Community facilities;*
- *Standards Fund;*
- *Private funds.*

The balances covered by the CFR framework intend to give an overall picture of the resources available to the school from one year to the next. These balances relate to both revenue and capital.

*This section of the scheme shall only apply to those surplus balances arising from the **school budget share maintained within the delegated budget**. The definition of a school's budget share surplus balance will include those balances accumulated in previous years and held in the reserve categories*

detailed in section 4.3 of the Scheme of Financing for Schools at the end of the financial year.

*It should be noted that funds derived from sources other than the Authority e.g. Schools Standards Grant or lettings etc, **will** be taken into account in the calculation of surplus balances if paid into the budget share account of the school, whether under provisions in this scheme or otherwise and for those funds held in relation to a school's exercise of powers under s.27 of the Education Act 2002 (community facilities) and any other activity accounted for outside of the school budget share **will not** be taken into account unless added to the budget share surplus by the school as permitted by the Authority.*

At the end of each financial year the governing body of each maintained school will be required to make a detailed return to the local authority by the early May stating how it wishes to assign its budget share surplus balances and over what period it plans to spend them. These plans will be described as 'Provisional Plans'.

Schools may wish to highlight to the Authority where there is a prior year commitment to pay for goods or services from the surplus balances identified at the year-end. A prior year commitment will include work or goods for which a purchase order has been raised, work or goods for which a contract has been entered into, or a scheme which is included on the LA's approved capital programme.

Schools Forum will be required to consider these Provisional Plans at its Summer Term meeting following the closure of the financial year. Where Schools Forum approves the provisional plans, as recommended by the Director of Children's Services, then these will be confirmed as 'Approved Plans'. Where Schools Forum has been unable to approve the plans, schools will be notified of the reason why and the next course of action. Either way, Schools will be notified of Schools Forum's response to the plans within 14 days of the meeting.

If during the course of the next financial year a school wishes to reassign its Approved Plan and/or wishes to re profile the timescale by which it intends to spend the balances, it must obtain the approval of the Director of Children's Services. To action this, schools must complete the pro forma at Annex G and return it to Children's Services Accountancy who will submit the proposals to the Director of Children's Services for consideration. A response will be given to schools within 14 days of receipt.

If at the end of the following year a school has not spent its surplus balances in line with its Approved Plans and is unable to justify this action to the satisfaction of the Director of Children's Services, then the Director may claw back school budget share reserves, as permitted by the Schools Finance Regulations 2006 and retain some or all of any unspent balances at the financial year end.

Schools will be notified of the Director of Children's Services decision to claw back any balances by Children's Services Accountancy.

The total of any amounts deducted from schools' budget share reserves by the Authority under this provision is to be applied to the Schools Budget of the Authority and allocated in accordance with School's Forum approval.

Schools Forum may invite headteachers to discuss their school's plans in detail during the course of its normal business, if required.

Schools Forum will be notified on an annual basis of the total surplus balance held by schools for all activities including; full service extended schools, community activities, Standards Fund, private and other funds.

Process & Timetable

- *Financial Year end 31st March;*
- *Unspent balances at the end of the financial year confirmed early May;*
- *Schools provide Provisional Plans for the next financial year for unspent balances held in the reserve categories listed in section 4.3. These will be sent to Children's Services Accountancy by early May;*
- *Provisional Plans to be discussed with Building & Estates – where capital works planned;*
- *Children's Services Accountancy consider how actual spend for the previous financial year match approved plans for that year;*
- *Director of Children's Services notifies schools of his intention to claw back balances from previously Approved Plans;*
- *Provisional Plans for the new financial year which include any claw back are presented to Schools Forum at the Summer Term meeting;*
- *Each school's budget share balances are either confirmed as Approved Plans (Accountancy notify school) or not approved (further discussions etc);*
- *Reassignment of plan or timescale requests, received mid year, to Director of Children's Services and schools notified accordingly;*
- *Process recommences.*

7.1 Value Added Tax

The LA is able to reclaim VAT on expenditure, including that relating to non-business activities. Schools, where they are acting on behalf of the LA, can use this concession provided it uses the established procedures in order to ensure compliance with VAT legislation and regulations.

These are set out in VAT guidelines issued by the Authority. These are available on the Dudley intranet, Inside Dudley, by going to the Directorate of Finance, ICT and Procurement home page. The VAT guide is found in the Staff Handbook (A to Z), under V. *Guidance is also available from the VAT and Tax Team.*

Schools that have exercised the community powers facility should be especially mindful of the requirement to comply with these procedures. *The procedures only apply when activities are undertaken on behalf of the LA and advice should be sought when activities are not operated by the LA because the recovery of VAT may not be allowed.*

Amounts reclaimed through VAT reclaim procedures will be passed back to the school. In the case of schools that operate independent bank accounts and/or independent financial systems, these sums will be paid into the school's bank account. In the case of schools that use both the Authority's corporate financial systems and bank account, invoices are charged to school budget codes net of VAT so that both payment and reclaim of VAT are administered centrally.

Schools which operate their own financial systems need to submit the VAT return monthly in accordance with the LA accounting periods within 3 working days of that period closing. Failure to do so may result in VAT being repaid late and penalties.

Schools are reminded that if the Council incurs financial penalties owing to a school's failure to comply with procedures the school will be liable for the cost (see section 6.2.8). Failure to comply with procedures includes submission of information by the required date for the correct periods.

11.14 Notice of Concern

From time to time there is need for local authorities to intervene in schools where they identify weaknesses in their financial management.

The LA may issue a 'notice of concern' to a governing body where, in the opinion of the Director of Finance and the Director of Children's Services, it has failed to comply with any provisions within the scheme, or where action needs to be taken to safeguard the financial position of the authority or the school.

This notice will set out the concerns of the local authority and can impose a number of requirements on the governing body which would address the concerns identified. These requirements may include:

- insisting that relevant staff undertake appropriate training to address any identified weaknesses in the financial management of the school;*
- insisting that an appropriately trained/qualified person chairs the finance committee of the governing body;*
- placing more stringent restrictions or conditions on the day to day financial management of a school than the scheme requires for all schools – such as the provision of monthly accounts to the local authority;*
- insisting on regular financial monitoring meetings at the school attended by local authority officers;*
- requiring a governing body to buy into a local authority's financial management systems; and*
- imposing restrictions or limitations on the manner in which a school manages extended school activity funded from within its delegated budget share – for example by requiring a school to submit income projections and/or financial monitoring reports on such activities.*

The notice will clearly state what these requirements are, the way in which and the time by which such requirements must be complied with in order for the notice to be withdrawn.

Where the LA issues a notice of concern the notice will be withdrawn once the governing body has complied with the requirements the LA has imposed.

If the governing body does not comply with the requirements, the LA will exercise its power to withdraw delegation.