**NEW GOVERNOR
FINANCE INDUCTION**

School Funding Team

Training Handbook

School Funding Team

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**1. Course Objectives and topics covered**

The purpose of finance induction training is to give new Governors:

* an overview of the Financial Year Cycle within maintained schools;
* an awareness of where responsibilities lie for financial management;
* guidance on how to comply with regulatory requirements;
* a view on how accountability for spending public money is achieved.

A summary of the following topics will be covered during this session. More details on these topics and other areas of finance not covered in this session can be found on the Bradford Schools Online (BSO) website.

* The Financial Year Cycle – what happens when
* Role of School Funding Team within the Local Authority
* Roles in Schools – Governing Body, Finance Committee, Head Teacher
* Funding for Schools and Pupil Premium
* Protocols
* Understanding returns to the Local Authority
* Value for Money
* School Financial Value Statement

Governors wishing to learn and understand more about school finances can book onto the Effective Financial Governance course. Contact Governor Services for information.

**2. The Financial Year Cycle**

The school funding framework is based on legislative provisions in sections 45-53 of the School Standards and Framework (SSAF) Act 1998 as amended by the Education Act 2002.\*

The Government determines a national annual budget for Local Authorities, which includes a grant for the education of children called the Dedicated Schools Grant (DSG). The Local Authority must allocate its entire DSG to their Schools Budget and distribute to individual maintained schools using a formula which accords with regulations made by the Secretary of State. This is known as the Fair Funding Formula.

This budget share is then delegated to school governing bodies through a document called the Section 251 Budget Statement.

The Scheme for Financing Schools is a legal document governing the relationship between the Local Authority and schools in the management of delegated budgets. The scheme describes the conditions for delegation of that financial and managerial responsibility to Governing Bodies of schools in order to remain accountable for public money. This explains why annual budgets and other regulatory returns need to be submitted to the Local Authority.

\* extract from Scheme for Financing Schools

**3. The School Funding Team and Schools Forum**

The School Funding Team (SFT) is a part of the Department of Finance within the City of Bradford Metropolitan District Council, but is dedicated to supporting the provision of Education Services to schools.

* SFT aims to continuously improve the financial management and controls in Bradford Schools via effective monitoring, support and challenge
* SFT aims to reduce the number of schools reporting deficits and excess surplus balances
* SFT provides a ‘helpdesk’ for schools on all aspects of school financial management and reporting
* SFT carries out school visits in line with ‘Protocol’ requirements
* SFT manages Bradford’s **Schools Forum** and the calculation of school delegated budgets

**What is the Schools Forum?**

* Bradford’s Schools Forum is a representative group of Head Teachers, Governors & non-school members, established by statutory instruments issued by the Department for Education.

**What does it do?**

* Acts as a body for Local Authorities to consult on School Budget related issues, such as formula funding and provision for the education of pupils with High Needs
* Agrees “the funding formula” and oversees formulae reviews (via the Formula Funding Working Group; FFWG and the Early Years Working Group; EYWG) and consultation with schools
* Makes recommendations on the allocation of the Dedicated Schools Grant (DSG) on an annual basis. This includes agreeing ‘topslices’ to school budgets for centrally managed funds and services that maintained schools can access
* Manages and monitors school deficit and surplus budget processes, through the Schools Financial Performance Group; the SFPG
* Consider changes in financial procedures and protocols, such as the Scheme for Financing Schools or the Financial Classification of Schools,

**4. Roles in Schools**

**Governing Body**

The role of the Governing Body is to:

* Provide “strategic direction”
* Meet statutory responsibilities
* Set the school financial (and educational) priorities
* Approve and monitor the annual budget (revenue and capital)
* Establish limits of delegated authority to the Head Teacher
* Ensure accurate financial accounts are kept
* Determine school policies
* Participate in completing the Schools Financial Value Standard (SFVS)
* Act as a ‘critical friend’ to the Head Teacher by providing advice, challenge and support

**Finance Committee**

The Finance Committee is a sub-committee of the main Governing Body. The role of the finance committee is to:

* Set financial priorities through the:
	+ School Development Plan
	+ 3 Year Financial Plan (also known as Governor Approved Budget)
	+ Annual Budget
* Propose or decide how the school’s delegated funding should be spent
* Approve and monitor the annual budget
* Administer voluntary / private / company funds
* Evaluate the effectiveness of spending decisions and value for money
* Ensure the school complies with the LA financial regulations

**5. Funding for Schools**

The funding allocated to schools each year by the Local Authority is a share of the Dedicated Schools Grant from the Government’s annual budget.

Bradford Council complies with the national funding formula which specifies how the funding is shared out amongst schools.

The document detailing how this share is calculated is issued by the Local Authority to maintained schools in February each year and is called the **Section 251 Statement**.

**How funding is calculated**

* The majority of funding a school receives is based on pupil numbers – the more pupils on roll, the higher the funding.
* Other factors contribute to a school’s funding allocation (these are shown separately on each S251 Budget Statement) and include:
	+ Deprivation levels (e.g. low income families, free school meals)
	+ High Needs
	+ Levels of mobility
	+ Pupil Prior attainment
	+ Rates (actual cost)
* Funding is grouped together in types (CFR codes):
	+ I01 – Funds delegated by the Local Authority
	+ I02 – Funding for 6th Form Students
	+ I03 – High Needs Top Up Funding
	+ I05 - Pupil Premium

**Pupil Premium**

The Pupil Premium Grant is intended to reduce achievement gaps between advantaged and vulnerable pupils. It is allocated to schools broadly on the basis of the number of pupils receiving Free School Meals. Schools are free to spend it as they wish on eligible pupils but need to be able to demonstrate the expenditure is contributing to closing the performance gaps

Schools are expected to report on how they spend their Pupil Premium Grant for each academic year by publishing a report on their website,

**Primary PE & Sports Grant**

The government is providing additional funding for 3 academic years 2013 to 2014, 2014 to 2015 and 2015-16 to improve provision of physical education (PE) and sport in primary schools. This funding can only be spent on provision of PE and sport in schools.

Schools will be expected to report on how they spend their PE & Sports Grant for each academic year by publishing a report on their website. The report must include details on the impact this funding has on pupils’ PE and sport participation and attainment.

**6. Protocols**

There are 4 main protocols in operation:

**Financial Classification of Schools**

The Financial Classification protocol is used to identify those schools facing the highest level or financial challenge. Established in July 2006, the system operates to identify the degree to which schools are vulnerable to financial difficulties or deficit and to provide a framework for support and monitoring these schools.

Under the protocol, schools are split into 4 Categories. Schools in Category A receive the highest level of support and monitoring from the School Funding Team and must also meet other requirements. Schools in Category B receive a regular level of support and must also meet other requirements similar to Category A schools. Schools in Category C receive a moderate level of support, with arithmetic checks of budget returns. Schools in Category D are subject to the lowest level of support.

The calculation is done annually and is based on information submitted by schools:

* Closing balances for last 2 financial years
* Forecast balances for next 3 financial years
* Accuracy of forecasting balance at Q3 compared to final actual balance

Although calculated annually on an academic year basis. Schools may move between categories, year on year, depending on the information they submit each year. Governors should be aware of the current classification of the school.

Once established, the Category of a school will not normally be re-calculated until the next academic year. However, where the circumstances or budget of a school significantly changes in year, the School Funding Team will assess if any additional support is required, for example, where a school submits a quarterly monitoring report, which forecasts a deficit or a very small carry forward balance (below 1% of funding or £10,000).

Appeals from schools on their category are considered on an individual case basis, on the evidence submitted by the school. Acknowledging there may be exceptions, the School Funding Team will consider any evidence a school wishes to submit.

For schools in Category A to C there is a requirement for a nominated Governor to attend the Effective Financial Governance course, where a member of a school’s current Governing Body has not been on this already, beginning from September 2013. Courses are run termly, but additional courses for specific schools can be run where requested. This course is available to all Governing Bodies regardless of Category.

The Financial Classification operates independently from the Light Touch Financial Monitoring Protocol (LTFM). The Classification allows more effective differentiation between levels of support to schools. The LTFM protocol primarily exists to provide an incentive for schools to submit required reports to the Local Authority by the stated deadlines.

**Light Touch Financial Monitoring Scorecard**

The Light Touch Financial Monitoring Scheme (LFTM; also known as ‘the Scorecard’) is a protocol that exists primarily to encourage the timeliness of reporting from schools to the Local Authority. When regulatory returns are submitted late, or if those returns are inaccurate, then points are issued to school. It is a scoring system, intended to highlight weaknesses in financial systems. It is used to distinguish between schools which can be monitored on a "light touch" basis and those schools requiring a more "watchful eye" approach.

Schools amass points, on an annual rolling programme, based on their scoring against the agreed criteria. These criteria include meeting required deadline dates for the submission of key financial returns to the LA. Points are higher dependent on the importance of the return, for example, failure to submit a monthly VAT submittal incurs a 5 point penalty, where failure to submit the Year End Bank Reconciliation Return incurs 40 points.

Schools are split into 3 categories. Those scoring less than 20 points are placed in the “Green” category and between 21 and 39 points are placed in the “Amber” category. Schools scoring 40 points or more are classed as “Red” and are subject to “watchful eye” (monthly) monitoring.

The scoring system has been designed to:

* **Be Simple**, in that the number of factors which are used to assess the “financial health” of a school are constructed in a way which enables schools to readily remember them,
* **Be Transparent,** in that each school is made aware of the scoring system and is notified regularly of its score.
* **Be Measurable,** scoring is done on an entirely objective basis to minimise disputes.
* **Allow schools to take corrective action**

Green fewer than 20 points - “light touch” monitoring operates

Amber at least 20, but fewer than 40 points - the school is notified that a critical number of points has accumulated and is advised to redress the situation

Red 40 points or more - “watchful eye” monitoring is in place

The scoring system is updated at the end of every Quarter and the scorecard is published for schools to access. As the calculation is done quarterly, the Finance Committee should expect to see the Scorecard position of the school each quarter.

**Surplus Balance Protocol (also known as Intended Use of Balances or IUB)**

It is sound financial management for schools to retain a small reserve from year to year. In tighter financial times, it is important that school budgets remain resilient. However, this must be balanced against a duty to maximise the spending of resources, targeted correctly, to improve outcomes for children.

The holding of an ‘excess’ revenue balance i.e. a balance above what is deemed an acceptable reserve, should be exceptional rather than a normal feature of a school’s budget management. The key purpose behind the approach is to require schools to maximise the spending of their revenue resources in the year in which these are allocated.

The Surplus Balances Protocol (also known as the ‘Intended Use of Balances’) describes the process to be followed by schools with carry forward balances in excess of the thresholds set by the Authority at the end of each financial year. The Scheme for Financing Schools provides for Local Authorities to clawback excessive balances from schools, where these balances have not been properly assigned.

Excess balance thresholds are calculated as a percentage of the I01 to I05 Funding received by schools in the S251 Funding Statement issued in March. From the 2013-14 financial year:

* Primary, Nursery, Special schools and Pupil Referral Units can hold up to 6% or £60,000 (whichever is greater)
* Secondary schools can hold 4%.

Ideally, schools should utilise excess funds in-year on School Development Plan priorities and resources to improve standards. However, when schools wish to carry forward excess funds to the next financial year for a specific or longer-term purpose, there are restrictions on the type of purpose permissible. An example of this would be a revenue contribution to an agreed capital scheme.

Where schools fail to utilise excess balances in year, fail to submit schemes for approval or submit schemes that do not meet the criteria for approval, the excess balance may be subject to clawback.

**Schools failing to adhere to the protocol may risk clawback of excess funds.**

**Identifying an excess balance**

To support in managing balances a letter is sent to the Head Teacher and Chair of Governors of each school in April, informing them of the maximum reserve figure for that financial year. This is based on the S251 funding.

The Governor Approved Budget template includes an alert to inform governors if the projected surplus balances exceed the threshold allowed.

The Quarterly Budget Monitoring template also includes an alert to inform governors if the projected surplus balance exceeds the threshold and by how much in terms of both percentage and value.

Governors should check these alerts when reviewing and approving returns and agree appropriate action.

**Deficit Budget Protocol**

The Deficit Budget Protocol describes the process to be followed where schools forecast they are unable to balance their budget and project a deficit position at the end of the financial year.

The Bradford Local Authority operates a ‘zero tolerance’ style stance to deficits, so if a school identifies a deficit balance at any point during the year they must contact School Funding Team immediately. If the school cannot produce a plan which achieves a balanced budget position, the LA will work with the school to produce a repayment plan which achieves a balanced budget whilst ensuring the progress of pupils is not compromised.

Where a school submits a budget to the LA which indicates a deficit, the school must apply to the Local Authority. Approval will only be given within certain parameters and the normal period for repayment is 3 years or less. Under exceptional circumstances the Authority will have the discretion to extend this period to 5 years.

During the repayment period, should there be any variations to the repayment plan, the school is required to submit a revised repayment plan to be resubmitted for approval.

The LA cannot write off the deficit balance of any school. Subject to the approval of the Schools Forum, additional funding to support schools in financial difficulty may come from a de-delegated contingency fund from the Dedicated Schools Grant for mainstream schools or from a central budget within the Dedicated Schools Grant for special schools and PRUs. At the end of any financial year, where any school has a deficit balance, this will be carried forward to the following year.

**7. Local Authority Returns**

There are many key activities and dates in any financial year as shown in the Financial Cycle. Below are the significant returns required by the Local Authority and the deadline dates by which they must be submitted:

|  |  |
| --- | --- |
| **Return** | **Date to be submitted to LA each year** |
| Governor Approved Budget | 15 May |
| Q1 Budget Monitor & Bank Reconciliation | 31 July  |
| Q2 Budget Monitor & Bank Reconciliation | 31 October  |
| Q3 Budget Monitor & Bank Reconciliation | 31 January |
| Q4/Year End Bank Reconciliation  | April (exact date confirmed Spring Term) |
| Intended Use of Balances Documents (excess surplus balance information) where requiredSchools Financial Value Standard | 31 March 31 March  |
| Consistent Financial Report (Annual Return to DFE) | June (exact date confirmed Spring Term) |

**The Budget Monitor records the following information**:

* Outturn from previous financial year
* Original Governor Approved Budget
* Governor Approved Revised Budget (if applicable)
* Spend to date (end of each quarterly period)
* Forecasted Spend
* Projected Outturn – balance remaining at the end of the financial year
* Outturn (balance) in relation to the excess surplus balance threshold

**The Governing Body should expect to see the Quarterly Budget Monitor each term before it is submitted to the LA**

**The Annual Consistent Financial Reporting (CFR) Return**

* Once the financial year has closed and the school and the LA have agreed on the closing balance, all LA Schools must submit an annual return in the CFR coding format. This is a uniform coding framework in use by all maintained schools in England.
* The return details the total funding, income, expenditure and balances recorded for the school for the financial year
* The return is submitted to the DFE via the COLLECT website
* The exact deadline for submission varies each year but usually falls in early June

**What is the CFR Return used for?**

* Both the LA and the DFE use the data to produce benchmarking information
* The LA also uses the data to determine the Financial Classification of Schools category for each Bradford School

**VAT Monthly Submittals**

Even though the responsibility for the day-to-day management of the school’s financial affairs has been devolved to Governors, the school remains part of the Council with regard to VAT accountability. As a result, a maintained school is not required to register for VAT in its own right, but shares the Bradford Council’s VAT registration.

VAT is a complex area, subject to constant legislative and case law changes. Schools are responsible for correctly recording and accounting for the differing categories of VAT on their internal financial systems. From these financial records they provide a monthly VAT return to the Local Authority, called a VAT Submittal.

Local Authorities operate under special VAT regulations contained in Section 33 of the VAT Act 1994. Most businesses can only recover VAT when it relates to their taxable business activities, but the Local Authority is able to recover all VAT relating to ‘non-business’ activities. Non-business activities are those undertaken as part of the statutory duty to provide free education to school-aged children.

The only restriction placed on the Local Authority’s recovery of VAT is on expenditure related to Exempt activities. VAT legislation allows Local Authorities ‘Partial Exemption’ if Exempt activities are less than 5% of the VAT recovered.

Examples of Exempt activities include lettings, rental or leases of land and buildings, adult education and certain sports lettings. All of the VAT incurred on purchases related to supporting these activities count towards the 5% limit. This includes capital expenditure and purchases made by central departments whose costs are re-charged to these services.

For this reason, schools must comply with Financial Regulation 11, and liaise with the Bradford Council’s VAT Office on any capital proposals (including bids for external funding and partnership working). In view of the significant potential for Exempt activities resulting from capital projects generating Exempt activities, the VAT implications for the authority and the school must be fully appraised before the project goes ahead

In addition, schools are responsible for their own ‘unofficial’ funds, as these do not fall under Bradford Council’s VAT registration. A school might find itself liable to VAT registration if its school fund income exceeds the annual VAT threshold (£82,000 at April 2015).

**8. Value for Money and Benchmarking**

With the current economic climate, the Department for Education expects schools to make savings through increased effectiveness and value for money. Further information is available on the DfE website, but the principles are:

* Schools should consider how they can collaborate with each other to help towards achieving savings. By collaborating on both a formal and informal basis, schools can raise standards and maintain local provision
* Schools working together can generate efficiencies by providing an opportunity to pool funding, purchase goods and services jointly, share staff, functions, facilities and technology across sites.
* Value for money is not simply buying goods and services for the cheapest rate. It is **maximising resources, improving efficiency and utilising budgets** effectively to directly improve the teaching and learning of pupils
* Benchmarking can help schools identify where their spend is significantly different to other similar schools and where savings and efficiencies could be introduced, thus achieving greater value for money

**Local Benchmarking**

The School Funding Team provides a local benchmarking tool which is available in the secure area of Bradford Schools Online. This consists of a spreadsheet allowing the school to view a comparison of its income and expenditure against other schools, either in pre-determined clusters, by size, phase or a specifically chosen school.

The purpose of benchmarking is to improve performance by identifying where changes can be made in either what is done or how things are done. It is not used solely to reduce costs, but to focus on continuous improvement of the effectiveness of your expenditure by allowing you to identify areas and set realistic targets for improvement.

Financial benchmarking can provide schools with the evidence they need to identify significant differences in resource management, which may suggest there is scope to do things better, to improve efficiency, reduce costs or identify potential savings.

There may be very good reasons for high or low performance figures, such as the composition of the staff, the abilities of the pupils, or the age or the quality of the premises. What is important is that school management staff and Governors review the differences between the school and other institutions, and find out the reasons for them.

**National Benchmarking**

In addition to the local benchmarking toolkit provided by School Funding Team, schools can benchmark against similar schools on a national level through the Department for Education website.

**9. Schools Financial Value Standard (SFVS)**

The Schools Financial Value Standard (SFVS) has been designed in conjunction with schools to assist them in managing their finances and to give assurance that they have secure financial management in place. Governing bodies have formal responsibility for the financial management of their schools, and so the standard is primarily aimed at governors.

The Department for Education website provides a downloadable template for the SFVS assessment form. Support Notes are available in a separate downloadable document that provides clarification of the questions and examples of good practice.

SFVS is not externally assessed, so submissions are reviewed by Bradford Council Audit team who report back to the Department for Education.

The Local Authority will use schools’ SFVS returns to inform their program of financial assessment and audit. SFVS is mandatory and all maintained schools are expected to comply. Failure to do so could lead to the issue of a Notice of Concern and to withdrawal of budget delegation.

**Maintained schools are required to complete the SFVS once a year. The completed form must be submitted to School Funding Team by 31 March each year.**

**10. How to access guidance notes and other information**

Further detailed information is available via the Bradford Schools Online (BSO) website

**Website address**: [**https://bso.bradford.gov.uk/schools/home.aspx**](https://bso.bradford.gov.uk/schools/home.aspx)

From the home page go to:

**Site Content – Finance – SFT Guidance – School Governor Induction Documentation**

We recommend you look through these in order to cement your understanding of the information provided today and expand on the session notes

You may wish to revisit information once each term to ensure you are up to date with any changes in policy. Since the introduction of the Coalition Government there have been a number of changes and we anticipate further changes will take place. We endeavour to ensure the most up to date information available is placed on BSO.

Documents available to view and download:

* Role of the Governing Body
* Governance & Accountability
* HCSS Strategic Financial Planning Guide
* Audit Commission-Keeping Your Balance
* DfE Efficiencies Report June 2013
* Benchmarking (example)
* The Effective Financial Governance Course
* Efficiency & Value for Money
* Governor Approved Budget (Example)
* CFR Report (Example)
* SFVS –Schools Financial Value Standard
* Documents to request for your school
* Glossary of Key Terms
* Useful Websites
* School Funding Team Contacts
* BSO Document Navigation
* Schools Balances Deficits & Surpluses
* Schools Forum
* Protocols & Statutory Framework
* Training Session Powerpoint presentation
* New Governor Finance Induction Training Handbook
* Accounting for VAT
* Timetable of Key Dates