5. BANKING AND FUNDING ARRANGEMENTS

5.1 Introduction

This section of the Guide provides background information about the funding options, banking arrangements and cash flow management.

Schools should be aware that section 49(5) of the Schools Standards and Framework Act 1998 states that any amount made available by the LA to the governing body shall remain the property of the LA until spent by the school and all expenditure from these funds is spent by the school as the LA's agent.

5.2 Payment of the School Budget Share

The Scheme for Financing Schools offers four options for payment of the budget share and banking arrangements. They are set out in detail in Section 3.2 of the Scheme for Financing Schools as Options A, B, C and D. The arrangements for frequency of installments, choice of bankers and payroll providers are inter related and schools should examine the four options to see which one best meets their needs. The table below demonstrates the four options

	Funding Options -			
	Option A	**Option B**	**Option C**	**Option D**
LBB Contracted Banker	**X**			**X**
LBB Payroll	**X**		**X**	
External Banker		**X**	**X**	
External/Own Payroll		**X**		**X**

No later than 28 February each year the Governing Body must inform the Chief Finance Officer in writing of the arrangements for the payment of installments of the budget share and banking for the forthcoming financial year. In the event of the failure of a Governing Body to notify the Chief Finance Officer of its preferred option for the forthcoming financial year, arrangements will be put in place that most closely reflect those of the previous year.

5.3 Banking

Introduction

Opportunities and requirements relating to banking are set out in sections 3.5 and 3.6 and Annex C of the Scheme.

Schools should find that banks and building societies are keen to bid for their business and that accordingly special arrangements may be negotiable. Schools should be aware of the various services available when choosing their banks/building societies. Individual circumstances at schools will dictate which banking arrangements are best suited for each school. The school should investigate fully its requirements and match these to services available.

Copies of instructions to the Bank such as bank mandates and direct debits etc should be retained for audit purposes.

Selection of Banker
Choosing a banking service is no different to many other purchasing decisions where a number of financial and non-financial factors have to be investigated and evaluated. A specification should be produced before evaluating the various factors to produce a recommendation.

Schools should consider aspects such as cost (bank charges), type of accounts available, interest, information provided to the school and the cost of this provision when selecting their bank or building society. Schools may wish to consider services such as BACS payments and on-line computer banking including balance updates and automatic transfer of funds to interest bearing accounts.

Unless a school chooses the Council's banker, for which a competitive tendering process has already been undertaken, schools will be expected to carry out a review of banking services to make an objective decision. Where the value of the "contract" is in excess of £10,000 a school is required to obtain at least two competitive written quotations in accordance with Contract Standing Orders for Schools.

Schools not wishing to use the Council's banker must choose from the banks approved under the Scheme for Financing Schools, details of local facilities of the organisations can be found by carrying out some research via an internet search engine.

Schools not using the Council's banker must write to their selected bank informing them that the school's accounts must not be overdrawn, the right of the Chief Finance Officer/Internal Audit to information and documents directly from the bank and the need for any interest paid to be paid gross. The letter must instruct their banker to inform the Schools Accountancy Section in the event of an account falling overdrawn.

Producing a specification
Schools should review current operations, estimating number and type of current transactions in a financial year, consider the options under the Scheme and decide the number and types of accounts required e.g. –

- "current" account (for School Budget Share)
- "deposit" account (for Reserve Account)
- unofficial funds account

Schools should determine the purpose and facilities/service required of each account and any control arrangements e.g. two signatures on cheques over £500 (or limit to be set and agreed by governing bodies), frequency of statements etc.

Most banks and building societies now offer a choice of accounts for businesses. These will include

Cheque Account

The Budget Share and other income would be paid directly into this account. Interest may be paid on cleared balances i.e. balances, which the school could withdraw instantly.

Deposit Accounts
Surplus funds would initially be paid into the deposit account, which would be interest bearing.

Notice Accounts
These are normally higher interest accounts where a notice period for withdrawal of the funds would be required. The school would suffer a loss of interest should the funds be required and withdrawn early. Typically these earn higher interest because of the withdrawal notice period, and may require a minimum value of deposit to achieve higher rates of interest. If schools are aware that there are amounts of cash which will not be required on a day to day basis, (e.g. reserves being accumulated for a capital project), use may be made of these longer term or high interest bearing accounts.

Evaluation of Banking Services

Financial factors

Cost of operating the account:

- Charge (if any) for each standard transaction e.g. cheques, direct debits, standing orders, BACS payments
- Charge (if any) for each non standard transaction the school may wish to use e.g. stopped cheques, additional statements, notifying overdrawn balances,
- Account fee (if any)

Interest arising from an account – interest gained on credit balances, may be different for different levels and for different notice periods for access to funds.

Access to funds/Flexibility – ability to move funds to an interest bearing account or to move funds to ensure credit balance in School Budget Share Account (as required by Scheme)

Non Financial Factors:

- Access to paying in and cash withdrawal facilities
- Ease of access/communication to resolve any account queries
- Quality of service given or anticipated, service assurances offered.
- On line banking

5.4 Cash Flow Management

Introduction

The profiling of budgets is a valuable tool in the management of cash flows. Schools, particularly those on monthly funding arrangements, should prepare cash flow forecasts to ensure that they will have sufficient funds available to pay for their operations.

If significant cash balances can be foreseen, steps should be taken to invest the extra funds (e.g. by transferring funds to an interest bearing bank account).

Budget Share Income
For schools on Banking & Funding Options B and D, payment of the school's Budget Share will be made in twelve monthly installments. The LA will pay a standard instalment amount of one twelfth of the school's Budget Share. The April instalment includes an extra payment equivalent to one thirty-sixth of the Budget Share, whilst a corresponding reduction is made to the March installment. For schools on Banking & Funding Option C, payment of the school's Budget Share less estimated salary costs will be made in twelve monthly installments. The LA will pay a standard installment amount of one twelfth of the school's Budget Share less estimated salary costs. The April installment includes an extra payment equivalent to one thirty-sixth of the Budget Share less estimated salary costs, whilst a corresponding reduction is made to the March installment.

The school should formulate its own profile of cash requirements. If it becomes clear that the standard funding profile is significantly different from the school's forecasts, and this will cause difficulties at the school, the LA may consider a change to the existing monthly payment in order to overcome any difficulty.

Schools must inform the LA of the dates each month on which staff salaries are paid. Monthly installments of budget share will be paid into the school's nominated bank account three working days prior to these dates.

Other Income
Schools should determine the nature of any other income and the possible patterns of its receipt by the school. Identification of income sources may assist in determining the profiling of receipts. The nature of expected income will also assist in the formulation of budget forecasts.

Schools should also develop a credit control policy for the collection of monies due. That is, there should be a system in place to ensure that all monies due to the school are recorded, debtors are invoiced promptly and payments are received. In particular schools should obtain payments in advance for activities such as lettings.

When developing a system, schools should consider the benefits of advance payments against the cost of collecting debts. The cost of collection will include the costs of stationery (such as invoices), postage, and the cost of time involved in preparation of invoices, as well as credit control for outstanding debts and any losses which are written off as irrecoverable. The prior approval of the LA is required before any debts over £500 can be written off as stated in the Scheme for Financing Schools.

Expenditure
Once spending plans have been agreed, it should be possible to profile budgeted expenditure on a month on month basis for the year using previous years' financial

information. Cash payments profile should take account of any large payments due e.g. insurance, operating leases, etc and direct debits and standing orders.

Cash flow should be reviewed on a regular basis, e.g. monthly, to ensure the school can meet its short term liabilities as well as maintain a healthy cash flow in the medium to long term.

Salaries

Salaries and wages account for a high proportion of the school's total annual revenue expenditure. These costs can be controlled and forecast with some certainty, because actual staff numbers and salary rates will be known. The main variables will be any pay increase settlement, new recruits and supply / temporary staff. This high degree of certainty will allow schools to estimate cash requirements.

Schools should also be aware of other staff costs e.g. Income Tax, National Insurance and pensions, which, although part of the salary calculations, may be paid in arrears and have different payment dates from the salaries themselves. However a payroll provider may require one payment of gross salaries inclusive of Pay As You Earn and National Insurance.

Other Expenditure

When considering the month by month cash profiles schools should consider the effects of periodic peaks and troughs in spending in areas other than salaries, in particular the effects of utilities, educational supplies and services, and other supplies and services.

- Utilities are normally paid on a quarterly basis, (although this can be changed to a monthly basis by contacting the supplier if the school considers it more appropriate) and costs for heating and lighting will be weighted more to the winter months

- Educational supplies and services are often required earlier in the academic year.

- Similarly other supplies and services, such as catering, do not accrue evenly throughout the year (e.g. there will be no requirement for catering whilst the school is closed through the summer and reduced costs during other holiday periods), and therefore cash requirements will not flow evenly.

Payment Practice

The Scheme requires all invoices and accounts to be paid promptly and in time to avoid penalty or to obtain any discount.

Schools may make use of normal credit terms offered by the supplier. Often 30 days are allowed before payment is required. Making use of this normal credit period is not regarded as borrowing. However deferred payment terms, particularly if there is a financial charge implicit in the agreement, may constitute borrowing.

The Late Payment of Commercial Debts (Interest) Act 1998 applies to contracts between a local authority (including schools) and a small business supplier (one with 50 or fewer employees). The Act provides for interest to be chargeable by the small business supplier in the event of late payment. The cost of any interest incurred will normally be met by the school.