

# Schools Financial Regulations and Standing Orders

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London Borough of Richmond

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# Governance

The governing body is collectively responsible for the overall direction of the school and its strategic management. This involves determining the guiding principles within which the school operates and then making decisions about, for example, how to spend the school's budget. Effective governance stems from corporate decision-making based on comprehensive and accurate information about the school. Effective governance also results in clear public accountability for the performance of the school. Weak governance reduces accountability, removes checks and balances and denies the school a potentially valuable source of guidance.

The governing body has a strategic role and has responsibility for setting educational and financial responsibilities, and for ensuring the budget is managed effectively. It is also responsible for ensuring the school meets all its statutory obligations and, through the Headteacher, complies with the LA's financial regulations and standing orders.

The governing body is responsible for ensuring all business is conducted in accordance with the LA's Financial Regulations and that all appropriate employees and agents are aware of the regulations.

## 1.1 Roles and responsibilities

These terms of reference of committees should be agreed and be set out in writing and reviewed annually.

The roles and responsibilities of the governing body, its committees, the Headteacher and other staff in relation to financial decision-making and administration should be set out in writing in the school's "Scheme of Delegation". These terms of reference should be agreed and reviewed annually by the governing body.

## 1.2 Finance committee

Each school should have a finance committee to consider strategic financial issues on behalf of the governing body and its remit and membership should be reviewed annually.

### LA Guidance

The finance committee should consist of at least 3 non-staff governors plus the Headteacher, and should meet at least termly.

## 1.3 Limits of delegated authority

The governing body should establish financial limits of delegation.

### LA Guidance

The Headteacher of a primary school would usually have delegated authority up to a limit of £3,000 and £5,000 in Secondary schools.

The finance committee would usually have delegated authority up to a limit of £20,000.

#### 1.4 Financial information for governors

The governing body should agree with the Headteacher the minimum level of detail and general format of the financial information to be provided to it, especially in relation to budget monitoring reports. Any budget monitoring reports must provide a clear projection of the school's year end expenditure and income.

##### LA Guidance

For ease of monitoring the budget it is recommended that reports to the finance committee and governing body should as a minimum level of detail, be in the format of Consistent Financial Reporting.

#### 1.5 Minutes

Minutes should be taken of all meetings of the governing body and its committees and include all decisions and by whom action is to be taken. The minutes should be signed and dated as a true record of the meeting by the Chair of the respective committee.

The minutes of governing body meetings must be retained indefinitely, and the minutes of committees for at least 6 years.

#### 1.6 Register of business interests (Appendix 1)

Each school's governing body is required to establish a register of business interests for each member of the governing body and all staff with financial responsibilities and/or budget holders. The register should list any business interests that they or their immediate families have. The register should be kept up to date and should be reviewed annually. The register should be available for inspection by governors, staff, parents and the LA (Template provided at appendix 1).

*Further information is provided in the Scheme for Financing Schools*

# Financial Planning

Financial planning is an essential part of good financial management. It provides a school with a clear view of how it intends to use its resources. It has two interlaced elements: the school's development plan and the school's budget.

The school's development plan forms a major building block for constructing the budget. It identifies the school's educational priorities and usually has a strong focus on raising standards (or maintaining high standards). It is important, therefore, that the school development plan indicates the resource implications of each priority to guide decisions on the school's budget. An evaluation framework should also be built into school development plans to assess the success of each initiative. A summary of ongoing spending also needs to be included in the development plan so that there is a clear link between the school's priorities and spending plans.

Budgeting is essential to good financial management. The budget sets out how resources are allocated and provides a mechanism for monitoring expenditure through the year. It should be the definitive expression of the school's development plan. Clearly identified links are needed between the school's annual budget and its development plan.

## 2.1 School development plan - educational goals

The school should have a school development plan (SDP) which includes a statement of its educational goals to guide the planning process.

## 2.2 School development plan - should cover a minimum of three years

The school development plan should cover in outline the school's educational priorities and budget plans for at least the next three years, showing how the use of available resources is linked to the achievement of the school's goals.

## 2.3 School development plan - one year detailed objectives

The school development plan should state the school's educational priorities in sufficient detail to provide the basis for constructing budget plans for the next financial year.

## 2.4 Cost/benefit appraisal of new initiatives

Any new initiatives should be carefully appraised in relation to all likely costs and benefits and their financial sustainability before being approved by the governing body.

## 2.5 Continuing commitments costed

The school development plan should also state intended expenditure on continuing commitments, including a short commentary on any significant changes from the previous financial year.

## 2.6 Financial planning timetable

A formal timetable and procedures should be drawn up for constructing the school development plan and budget to ensure that the governors have time to consider all relevant factors.

This timetable should cover the whole planning process, including both the SDP and the budget. The timetable should ensure that the governors are provided with timely information needed to evaluate the options which will form the basis of the SDP and budget so that a draft budget can be approved by 31 March and a final budget approved and signed by 30 June.

The timetable should map information requirements and allocate responsibilities to staff where their input to the budgeting process is required.

Information requirements may involve analysing any benchmarking information provided by the LA or the DfE on their Benchmarking Website:  
(<https://www.education.gov.uk/sfb/login.aspx>)

The timetable should also include provision for consultation with staff and parents where appropriate. Consultation should make plans more realistic and increase accountability.

## **2.7 School development plan - budget link**

There should be a clear, identifiable link between the school's annual budget and its development plan.

It should be possible for anyone reading the SDP to locate in the budget for the same year the proposed expenditure for continuing commitments and new initiatives. The exercise of linking the two documents is intrinsically useful as it allows consideration of how improvements are to be funded, thus ensuring that the budget and the SDP relate to each other. There is no one way of linking spending priorities with the budget. New initiatives will often span several budget headings.

## **2.8 Balanced budget based on income / expenditure**

The school's budget should be based on realistic estimates of all expected expenditure and income, including grant income, so that planned expenditure does not exceed the available resources.

The available resources constitutes the school's delegated budget for the year adjusted for any surplus/deficit from the previous year, income receivable, provisions for pay or price increases and other contingencies. If a deficit budget is required to be set, it will require the explicit approval of the LA (See the Scheme for Financing Schools, regulation 4.5). In practical terms, realistic budgeting means looking at what was spent last year, adjusting for inflation/pay increases and any planned changes in provisions. Realistic estimates are just as important for the income side and should be based on pupil number projections and other anticipated income, such as lettings. Where there is uncertainty in estimating likely income, the school should err on the side of caution.

## **2.9 Periodic review of main budget headings**

The governing body should ensure that the main elements of the school's budget are periodically reviewed to ensure that historic spending patterns are not unhelpfully perpetuated.

This involves building up the budget from a zero base rather than simply carrying forward the budget from one year to the next. Its value lies in challenging existing patterns of expenditure which may have become obsolete over time. It could, for instance, reveal anomalies between subjects in terms of responsibility points, number of teachers or Learning resources. This will help the school to show that it is complying with the 'challenge' element of best value.

This type of budgeting can be time-consuming and so should prioritise major budget headings.

### **2.10 Profiled budget**

The School Business Manager and/or Headteacher should profile the budget and forecast cash flow to take account of likely spending patterns.

For example, it is likely that the energy budget would be profiled to account for higher energy consumption in the winter months.

Profiling allows more effective budget monitoring: a budget deficit in a particular month may be the product of a one-off expenditure item. Conversely, a surplus may merely reflect clustering of expenditure in future months.

A cash flow forecast will assist the school to identify whether the budget as currently profiled is likely to be covered by funds available in any given month.

### **2.11 Earmarking of surpluses**

Any budget surpluses should be earmarked for specified future needs to ensure that pupils benefit from a planned approach to spending that does not deprive them of resources in a given year.

Governors should be informed about the intended use of all money carried forward in balances. Balances should be clearly linked to the School Development Plan and broken down into items such as redecoration, repairs and replacements, large purchases, capital projects, provisions for roll fluctuations etc. in order to show that these savings do not represent unnecessary under-resourcing in the current year.

*Further information is provided in the Scheme for Financing Schools, regulation 4.1.*

### **2.12 Approval of the budget**

The governing body can delegate responsibility to the finance committee for approving the draft and final school budget shares, unless the school is planning to set a deficit budget or the school has an agreed recovery plan with the LA. Where responsibility for approving the budget has been delegated to the finance committee this delegation must be minuted by the governing body and the decisions of the finance committee must be reported to the full governing body.

The governing body or finance committee should, after careful consideration and before the beginning of the relevant financial year, approve the school's draft budget and school development plan.

The school's budget must be approved by the governing body or finance committee by the 30 June in the relevant financial year.

*Further information is provided in the Scheme for Financing Schools, regulation 2.3.*

### **2.13 Information to the LA**

The Headteacher, or the Chair of Governors should promptly forward details of the approved budget and any subsequent budget changes to the LA.

Each school must submit by the 31 March of the previous financial year a provisional school budget plan to the Director of Finance & Corporate Services. The budget plan must be approved by either the governing body or finance committee and signed by both the Headteacher and the Chair of Governors or Chair of the finance committee.

Each school must submit as early as possible, and no later than by the 30 June of the relevant financial year, a Standard School Budget Plan to the Director of Education and Children's Services (the Schools Finance Team). The budget plan must be approved at a full governing body meeting, minuted as such, and signed by both the Headteacher and the Chair of Governors.

For the Local Authority to manage its responsibilities to "make arrangements for the proper administration of their financial affairs" (Section 151 of the Local Government Act 1972), a school may be required to provide further information to support their School Budget Plan.

***Further information is provided in the Scheme for Financing Schools, regulation 2.3.***

#### **2.14 Setting a deficit budget**

Governing bodies must not set a deficit budget except with the express written permission of the Director of Education and Children's and only when:

- the school is due for closure; or
- the school has had a reduction in their gross School Budget Share of 5% or greater from one financial year to the next; or
- other exceptional circumstances.

***Further information is provided in the Scheme for Financing Schools, regulation 4.5.***

#### **2.15 Borrowing by Schools**

Schools must not enter into any borrowing agreement unless the written permission of the Secretary Of State has been obtained. This provision relates to borrowing from external financial institutions and not to internal loan schemes or borrowing from the Council as part of an agreed recovery plan.

#### **2.16 Corrections of Errors**

At the point that any error is identified in a school's accounts, the error must be corrected without delay.

If the authority identifies any such error the Director of Finance & Corporate Services will notify the school (Headteacher and Chair of Governors) in writing along with the action that must be taken to correct the schools accounts.

Should a school identify an error in their accounts they must notify the Director of Finance & Corporate Services in writing so that any necessary action can be agreed in order to correct the schools accounts.

# Budget Monitoring

Regular monitoring of income and expenditure against the agreed budget is central to effective financial management. It allows governors, the Headteacher and staff to maintain financial control by reviewing the current position and taking any remedial action necessary. But budgets are not set in stone. The original budget may need regular updating, following consultation with governors, to take account of in-year developments.

In practical terms, budget monitoring involves producing monthly monitoring reports and drafting proposed plans of action to tackle any significant variances. This process should be carried out at all levels to include any devolved budget elements. Expenditure on individual initiatives should also be tracked to enable the school to assess their cost and effectiveness against the criteria set out in the school development plan. By receiving regular accurate reports, the governing body can feel secure about the way their decisions are being implemented and take actions where it is needed to bring about changes. Budget monitoring becomes an important guide when setting the budget for the following year.

## 3.1 Monthly budget monitoring

The Headteacher/School Business Manager should produce monthly budget monitoring reports for income and expenditure, including sums committed but not yet paid and outturn forecasts against the approved budget. These reports should be reconciled with the school's accounting records and signed by the Headteacher as evidence that the budget monitoring report has been reviewed.

## 3.2 Regular monitoring reports to governing body

The Headteacher must provide budget monitoring reports to the finance committee and the governing body at least once a term. These must show any significant variances against the budget with explanatory notes, and, where necessary, remedial action plans including virements.

Significant variances might be expressed in terms of a percentage variance from the budget or, in the case of large budget heads such as salaries, a monetary variance.

Budget monitoring needs to be reinforced with plans of action to tackle any significant budget variances as early as possible. The plan should specify how any overspend is to be addressed, within what timeframe and who is to be responsible. The governors should also be consulted on how best to deploy any budget surplus.

### LA Guidance

Reports to the governing body should, as a minimum, be based on the headings used for Consistent Financial Reporting. However, the governing body may request for additional information to be provided e.g. departmental budgets, cash flow, etc.

## 3.3 Reviewing devolved budget elements

The Headteacher should also monitor expenditure on the initiatives set out in the school development plan.

With Consistent Financial Reporting the headings in standard budget monitoring reports do not allow the tracking of expenditure on individual initiatives, since they may cut across several categories. This exercise should be undertaken in parallel with mainstream budget monitoring if necessary. This will:

- allow the school to monitor expenditure on the initiative against the budget
- provide the financial information necessary to assess the cost effectiveness of the initiative

### **3.4 Departmental budget**

If budget elements have been devolved, for example to departments or key stages, budget holders should receive and review regular reports comparing the amount spent or committed to date against their budgets. The Headteacher should monitor these reports periodically and take action where necessary.

Your departmental budget holders may be able to access or request budget monitoring reports at any time. If this is the case, the Headteacher should periodically monitor the reports to ensure that the appropriate action is being taken where necessary.

### **3.5 Cash flow forecasting**

The Headteacher should produce a cash flow forecast to ensure that the school does not go overdrawn since schools cannot borrow without the approval of the Secretary of State.

In circumstances where a school expects that they may go overdrawn, in exceptional circumstances the Director of Finance & Corporate Services may consider an additional advance.

### **3.6 Virements**

The governing body shall set clear financial limits upon the value of any virement that can be agreed by the Headteacher, the finance committee and that that must be agreed by the governing body. These should be set out in the school's Scheme of Delegation.

A virement is deemed as any change of budget allocation where the budget will be used for a different purpose.

#### **LA Guidance**

The Headteacher of primary and special schools would usually be given a virement limit of £5,000 while Headteacher of secondary schools having a virement limit of £10,000. These should be reported to the finance committee.

A written record of the agreed virement limits must be kept e.g. minutes of the governing body meeting and the schools financial accounts should be updated promptly.

Where any expenditure heading is likely to be exceeded, or income is unlikely to be achieved by the end of the financial year, the appropriate course of action will be:

- Where the amount is up to and including these limits, the Headteacher or finance committee may approve financing of this excess expenditure, or income shortfall, by virement of an equivalent sum from another budget heading or the school's unallocated reserve.

- Where the amount is over the limit delegated to the Headteacher or the finance committee, the virement must be agreed by the governing body.

# Purchasing

It is vital that schools achieve the best value for money they can from all their purchases, whether they are of goods or services. In this context, value for money is about getting the right quality at the best available price. This often means looking further ahead than the immediate purchase, especially when selecting equipment, and taking into account associated costs such as supplies and maintenance.

Many of the standards in this section are there to protect individuals and to ensure that public money is spent without any personal gain. Purchasing procedures are needed to prevent waste and fraud.

***More comprehensive guidance on contracts and tendering is provided in Annex 1 – Contracts and Tendering.***

## **4.1 Seek value for money when purchasing**

The school should always consider price, quality and fitness for purpose when purchasing goods or services.

## **4.2 Expenditure limits - governors' authorisation**

Prior approval from the governing body should be obtained for all expenditure above the delegated authority given to the Headteacher or finance committee.

## **4.3 Expenditure limits - quotations (Annex 1)**

No specific number of verbal quotations are required for expenditure up to £1,000 although verbal quotations must be documented in writing as evidence that the procedures have been followed. An official order must be completed.

Two or more written quotations should be obtained for all expenditure between £1,001 and £3,000 unless it is impracticable to do so. An official order must be completed.

Three or more written quotations should be obtained for all expenditure between £3,001 and £10,000 unless it is impracticable to do so. An official order must be completed.

Four or more written quotations should be obtained for all expenditure between £10,001 and £50,000 unless it is impracticable to do so. An official order must be completed.

In circumstances where it has been impracticable to obtain the required number of quotations, the reasons for not doing so must be reported to the finance committee and/or the governing body and be minuted.

## **4.4 Reporting when quotation accepted is not the lowest**

Where a quotation other than the lowest is accepted, the reasons for this decision must be reported to the governing body and included in the minutes of the relevant meeting. It will be necessary for the school to be able to demonstrate that best value has been achieved.

#### 4.5 Expenditure limits – tendering (Annex 1)

All purchases estimated to exceed £50,000 should be put out to tender.

#### 4.6 Contracts specification defines service

Contract specifications should define the service to be provided in terms of its nature, quality standards, information and monitoring requirements and contract review procedures.

A tightly drawn up contract specification is the best way for the school to ensure that it receives the service it was expecting. It is the basis on which the school can seek redress for service quality or quantity if it falls below the level specified and therefore provides a framework against which the success of the contract can be measured.

A contract specification should contain the following elements:

- contract duration
- definitions
- contract objectives
- services to be provided
- service quantity
- service quality standards (could include customer satisfaction surveys, number of user complaints, inspection checks)
- contract value and payment arrangements
- information and monitoring requirements
- procedure for dealing with disputes
- review and evaluation requirements

**Further guidance can be found on the DfE website for schools - Buying Goods and Services.**

#### 4.7 Approval for agreements with capital implications

Any financial agreement with capital implications should be linked to the priorities set out in the Asset Management Plan.

***Further information is provided in the Scheme for Financing Schools, regulation 2.14.***

#### 4.8 Use of written pre-numbered purchase order forms

Written (or computerised) orders ensure that the school has a precise record of what has been ordered which can then be compared against delivery. Pre-numbered orders deter fraudulent orders as a break in the order sequence is identifiable.

Official, pre-numbered purchase orders should be used for all goods and services except utilities, rents, rates and petty cash payments. Where urgency requires a verbal order, this should be confirmed, promptly, by a written order.

All orders should be stored in a secure location to prevent unauthorised access.

#### **4.9 Orders only used for school purposes**

Orders should be used only for goods and services provided to the school. Individuals must not use official orders to obtain goods and services for their private use.

#### **4.10 All orders signed by authorised signatory**

All orders must be signed by a member of staff approved by the governing body and the school should maintain a list of such staff.

#### **4.11 Responsibilities of signatory**

The signatory of the purchase order should be satisfied that the goods or services ordered are appropriate and needed, that there is adequate budgetary provision and that quotations or tenders have been obtained if necessary.

Ideally, purchase orders should be authorised by budget holders since this aligns authorisation with responsibility and enables budget holders to track expenditure more easily.

#### **4.12 Orders entered as commitments on budget**

When an order is placed, the estimated cost should be committed against the appropriate budget allocation so that it features in subsequent budget monitoring.

#### **4.13 Receipt of goods and services**

The school should check goods and services on receipt to ensure they match the order and the order should be marked accordingly. This should not be done by the person who signed the order.

#### **4.14 Payment on proper invoices only**

Payment should be made within the time limits specified (usually 30 days) for the payment of debts and only when a proper invoice has been received, checked, coded and certified for payment.

These checks should confirm:

- Receipt of goods or services, cross-referenced to the order number
- Expenditure has been properly incurred and that payment has not already been made
- Prices accord with quotations, tenders, contracts or catalogue prices and arithmetic is correct
- Correct accounting treatment for VAT
- The invoice is correctly coded
- Discounts are taken where available

The school should not make any payment on the basis of a photocopied invoice or a statement from a supplier.

**4.15 Approved staff should certify invoices for payment**

A member of staff approved by the governing body as set out in the Scheme of Delegation, should certify invoices for payment. This should be neither the person who signed the order nor the person who checked the receipt of goods or services.

**4.16 Certification of invoices for payment**

The school should maintain a list of staff authorised to certify orders, invoices, payroll and personnel forms. In respect of staff authorised to certify payroll and personnel forms a copy of the list should be provided to your service provider.

**4.17 Paid invoices marked "Paid" and stored securely**

All paid invoices should be easily identifiable as paid e.g. marked as 'Paid', dated and endorsed with the cheque number. They should be securely stored in order for easy accessibility and audit.

# Financial Control

Schools have many systems for processing and recording financial transactions e.g. petty cash, purchasing, payroll, contracting services and income collection systems. By building internal financial controls into systems, governors and staff should be confident that transactions will be properly processed and that any errors or fraud will be detected quickly.

Examples of internal controls are:

- internal checks - one person checking another person's work;
- separation of duties - distributing the work so that key tasks are assigned to separate members of staff;
- systems manuals - clear, readable descriptions of how systems work and who does what;
- a system of authorisations - each transaction is authorised before passing on to the next stage of the process.
- a clear audit trail covering all stages of a transaction, for example from copy order to invoice, to accounts, to cheque, and in reverse.

There may be a particular issue for small primary schools in the separation of duties. Many such schools have been creative in the way they have allocated responsibilities to staff, for example by involving governors, so that they are within the spirit of a standard even if complete implementation cannot be applied.

## 5.1 Written descriptions of financial systems

The governing body should ensure that the school has written descriptions of all its financial systems and procedures. These should be kept up to date and all appropriate staff should be trained in their use.

## 5.2 Financial control when staff absent

The Headteacher should ensure that financial control is maintained in the absence of key personnel through staff training or by arranging job shadowing.

## 5.3 Separation of duties

The Headteacher should ensure that duties related to financial administration are distributed so that at least two people are involved. The work of one should act as a check on the work of the other and all checks should be fully documented.

## 5.4 Maintaining proper accounting records and systems

The school should maintain proper accounting records as approved by the Director of Finance & Corporate Services and retain all documents relating to financial transactions for at least the period recommended by the LA (see Annex 2).

The schools accounting records and systems will be subject to audit by the LAs auditors (see chapter 15).

**5.5 Traceability of transactions**

All financial transactions must be traceable from original documentation to accounting records and vice versa.

**5.6 Rules for document alteration**

Any alterations to original documents such as cheques, invoices and orders should be clearly made in ink and initialled.

**5.7 Security of accounting records**

All accounting records should be securely retained when not in use and only authorised staff should be permitted access.

**5.8 Earmarked funding**

The Headteacher should ensure that all expenditure from sources of earmarked funding is accounted for separately and that the funding is used for its intended purpose.

# Income

Income is a valuable asset and is therefore vulnerable to fraud. It is vital that appropriate controls are in place to ensure its security. It is also important that the school does not exceed its insurance or LA limits on holding cash on school premises.

Income can come from a variety of sources, including grant funding, school dinner money and lettings. The governing body should establish a charging policy and review it every year. The Headteacher is responsible to the governing body for accurately accounting for all income due and cash collected.

This section covers general income controls. These include establishing procedures that ensure that income is banked regularly and that the amount banked is reconciled to the amount receipted in the cashbook. Frequent and regular checking against bank records is important to ensure that all income is secure. The person who sent out the invoice should not collect the income.

## 6.1 Governors' charging policy

The governing body should establish a charging and remission policy for the supply of goods or services. This policy should be reviewed annually by the full governing body.

The school's charging policy must be approved by the full governing body, not by a committee. The charging policy will cover lettings and charges for the use of school facilities or equipment.

A charging policy should ensure that the school has a rational approach to setting charges for the use of its facilities. In developing the policy governors must be aware if the school budget share is subsidising community activities or use. Governors should also decide on the level of surplus (if any) desired and the suitability of charges in relation to other providers.

## 6.2 Records kept of all income due

Proper records should be kept of all income due.

## 6.3 Lettings authorised by Headteacher

All lettings must be authorised by the Headteacher within a framework determined by the governing body and should be formally recorded in a diary or register.

## 6.4 Separation of responsibilities

The responsibility for identifying sums due to the school should be separated from the responsibility for collecting and banking such sums.

## 6.5 Invoices issued within 30 days

Where invoices are required they should be issued within 30 days.

## 6.6 Issuing of receipts

The school should always issue official, pre-numbered receipts or maintain other formal documentation for all income collected is this true for school meals. Receipts should be stored securely in order.

Only a member of staff duly authorised by the Headteacher shall issue receipts for money received.

## 6.7 Security of cash and cheques

Cash and cheques should be locked away to safeguard against loss or theft.

## 6.8 Paying into bank

All income should be paid into the appropriate bank account promptly and in full. Bank paying-in slips must show clearly the split between cash and cheques and list each cheque individually.

Paying-in slips should show clearly the split between cash and cheques and list each cheque individually to enable the school to identify the source of any discrepancy between the bank balance and accounting records.

## 6.9 Income collection not used for payments

Income collections should not be used for the encashment of personal cheques or for other payments.

## 6.10 Reconciliation of collections and deposits

The school should reconcile monthly the sums collected with the sums deposited at the bank.

This reconciliation involves matching income receipts/other documentation to accounting records on the one hand and bank statements and paying-in slips on the other.

The cash/cheque split on paying in slips will allow the school to ensure that staff have not been encashing personal cheques against income collected. If any income is unaccounted for, the separate listing of all individual cheques on the paying-in slip allows the identification of the missing income element.

The person carrying out this reconciliation should not be the person who banked the income. These reconciliations should be reviewed by someone independent of income processing

## 6.11 Chasing invoices and writing off debts

The school should have procedures for chasing any invoices which have not been paid within 30 days. Debts should only be written off when it is highly unlikely that the debt will be paid or it is no longer economical to continue to pursue payment.

Where write off is considered appropriate the following limits should be applied:

Approval by the Headteacher for any debts of less than £100

Approval by the Finance Committee for any debts between £100 and £500

Approval by the Governing Body for any debts over £500

**6.12 Machine cash handling by two people**

The Headteacher should ensure that all machines taking money, such as vending machines and telephones, are emptied and the cash counted by two people.

**6.13 Recording transfers of money between staff**

The school should ensure that transfers of money between staff are recorded and signed for.

# Chapter 7 Banking

The proper administration of bank accounts is at the heart of financial control. In particular, regular bank reconciliation's are essential. They prove that the balances shown in the accounting records are correct and provide assurance that the underlying accounts are accurate.

The standards in this section cover bank account and cheque controls. Failure to keep to these standards leaves areas of the school's finances open to potential error or fraud and indicates a possible breakdown in the school's internal control systems.

## 7.1 Bank account name

The name of the school and the London Borough of Richmond upon Thames must appear on the title of the bank account and be printed on each cheque.

## 7.2 Regular bank statements and reconciliation

The headteacher should obtain bank statements at least monthly and these should be reconciled with their accounting records. Any discrepancies should be investigated.

Bank reconciliation's are a key element of financial control, since they can prove the accuracy of the accounts. A "bank reconciliation" involves comparing what is in the school's financial records with the bank statement relating to the same period. If the two records do not match (bar un-cleared cheques), the discrepancies should be investigated. This process can uncover any fraud or mistakes in the accounts.

## 7.3 Reconciliation's reviewed and countersigned

All bank reconciliation's should be signed by the person performing the reconciliation. They should also be reviewed and countersigned by someone who understands the reconciliation process.

## 7.4 Separation of duties

Where possible staff responsible for undertaking bank reconciliation's should not be responsible for the processing of receipts or payments.

## 7.5 Optimal investment of surpluses

All funds surplus to immediate requirements should be invested to optimal effect e.g. high interest accounts. However, schools cannot invest surplus funds in investments without the written permission of the Director of Finance & Corporate Services. Where schools have bank accounts that are part of the Borough's consolidated accounts the Director of Finance & Corporate Services will invest balances to optimal effect on behalf of schools.

## 7.6 No use of private bank accounts

Individuals should not use their private bank accounts for any payment or receipt related to the school's budget.

**7.7 No overdrafts**

Schools may not arrange overdraft facilities or go overdrawn without the written permission of the Director of Finance since approval may be required from the Secretary of State for Education.

**7.8 Approval of non-LA loans**

The school should not enter into any loan agreements, other than with the LA, without the prior approval of the Secretary of State for Education and Skills.

*Further information is provided in the Scheme for Financing Schools, regulation 3.6.*

**7.9 Cheque stationery**

Schools should normally use pre-printed cheque stationery but a manual cheque book should be held to cover situation where it is not possible to use cheque stationery.

**7.10 Two signatures needed on all cheques**

School procedures must stipulate that all cheques must bear the signatures of two signatories approved by the governing body, who must be employees of the school. There should be a minimum of three authorised signatories for the school and would not usually be more than six.

For schools opting for a Council consolidated bank account, the bank signatories mandate form should be sent to Schools Finance Team.

**7.11 Supporting vouchers for cheque signatories**

School procedures should ensure that supporting vouchers are made available to cheque signatories to safeguard against inappropriate expenditure.

**7.12 All cheques crossed**

School procedures should stipulate that all cheques drawn on the account(s) are crossed 'account payee only' to avoid the possibility of improper negotiation of the cheques.

**7.13 Cheque signature requirements**

School procedures should stipulate that only manuscript signatures are used and cheques should not be pre-signed.

**7.14 Security of cheque books and cheque stationery**

Cheque stationery/books should be held securely when not in use, ideally in a safe. However, should the school's safe not be large enough to store all the cheque stationery it can be stored in a locked filing cabinet where the cabinet is in an area of restricted access, the keys are only held by staff involved in cheque controls and the keys are held on the person.

Copies of authorised cheque signatories should be held securely and separately from all cheque stationery/books in order to minimise the risk of forgery.

**7.15 List of bank accounts and signatories**

The Headteacher should maintain a list of all bank and building society accounts held and the authorised signatories for each.

**7.16 Spoilt or cancelled cheques**

Spoilt or cancelled cheques must be crossed through and clearly marked “cancelled” and retained for audit purposes with the counterfoil/advice slips.

# Payroll

In most schools staff costs make up about two thirds of the entire budget. Schools are able to buy their payroll, personnel and other services from an external provider. However, contracting another organisation to administer payroll and personnel does not relieve the governing body and Headteacher of the responsibility for ensuring that payroll and personnel controls are in place.

Schools need to be aware of a number of areas where Inland Revenue regulations may affect or determine the way payments are made. For example, there are strict rules about payments to individuals who claim to be self-employed. Schools are advised to seek advice from payroll in such cases.

## 8.1 Procedures for personnel/payroll matters

The governing body should establish procedures for the administration of personnel activities, including appointments, terminations and promotions, as well as authorising the personnel establishment for the school.

## 8.2 Separation of duties – decisions

The Headteacher should ensure that, where practicable, the duties of authorising appointments, making changes to individuals' conditions or terminating the employment of staff are separated from the duties of processing claims.

## 8.3 Separation of duties – process

The Headteacher should ensure that at least two people are involved in the processes of completing, checking and authorising all documents and claims relating to appointments, terminations of employment and expenses.

## 8.4 External payroll administration

Where the payroll is administered by the LA or a bureau, the school should send in the names and specimen signatures of certifying officers.

## 8.5 Access to personnel files

The Headteacher should ensure that only authorised staff have access to personnel files and that arrangements for staff to gain access to their own records are in place.

## 8.6 Proper payroll transactions

Payroll transactions should be processed only through the payroll system.

## 8.7 Regular updating of staff employed

The Headteacher should maintain a list of staff employed. School procedures should ensure that this list is updated promptly to reflect new starters and leavers.

## 8.8 Regular payroll checks

The Headteacher should obtain regular reports on the content of payroll transaction reports and check them against the school's documentation on staffing and pay to ensure that they match.

Checks should be carried out between payroll reports and school documentation to ensure:

- there are no ghost employees;
- staff are being paid the correct rates and allowances; and
- ex-employees have been removed from the payroll.

The papers should be annotated and signed as evidence that the checks have been made.

### LA Guidance

For those schools using the Council's payroll service, the Finance Department will provide schools with monthly reports of salaries.

## 8.9 Authorised signatories

The headteacher should maintain a list of approved signatories for all payroll and personnel paperwork and ensure that the payroll and personnel sections have a copy of this approved list.

## 8.10 Working time directive

Schools are required to abide by the European Community (EC) Working Time Directive. The basic rights and protections of the Working Time Directive are a limit of an average of 48 hours a week and regular rest periods.

***More comprehensive guidance on the European Community (EC) Working Time Directive is provided in Annex 5.***

# Petty Cash

Petty cash is useful for making small purchases with a minimum of fuss, particularly if the signatories of the main bank account are not available. Since, however, cash is portable and desirable it is important that proper controls are in place to prevent its abuse or loss.

These standards contain petty cash controls covering authorisation, documentation and secure storage of cash.

## 9.1 Agreed level of petty cash

The governing body's Scheme of Delegation should set out in writing an appropriate level for the amount of petty cash to be held. This amount should represent a balance between convenience and the risk of holding cash on the premises.

## 9.2 Security of petty cash

The Headteacher should ensure that the petty cash fund is held securely and that only authorised staff has access to it.

## 9.3 Proper use of petty cash

Payments from the petty cash fund should be limited to minor items, which have been approved in advance by an authorised member of staff.

## 9.4 All expenditure supported by receipts

All expenditure from the fund must be supported by receipts, identifying any VAT paid. It must be signed for by the recipient and countersigned by an authorised member of staff.

## 9.5 Proper accounting records kept

Proper records should be kept of amounts paid into and taken out of the fund.

## 9.6 Monthly independent check on petty cash

The amount in the petty cash fund should be checked monthly against the accounting records and reviewed by an independent member of staff. A reconciliation report should be prepared and signed.

## 9.7 No personal cheques should be en-cashed

Personal cheques should not be en-cashed from the petty cash fund.

## Chapter 10 Tax

The Governing Body is responsible, through the Headteacher, for ensuring that the school complies with all VAT and other tax regulations.

VAT is a complicated area and the following controls merely set out the minimum control framework and further guidance is contained in Annex 4 - VAT. Similarly, if required, schools should follow the requirements for the Construction Industry Scheme (as at April 2013 schools have been exempt from this scheme).

### 10.1 Relevant staff aware of tax regulations

The Headteacher should ensure that all relevant finance and administrative staff are aware of Value Added Tax (VAT) and Income Tax regulations.

### 10.2 Payment only on VAT invoices

School procedures should stipulate that only proper VAT invoices are paid, as the school will not be reimbursed in the absence of such documentation.

A proper VAT invoice is the only basis on which VAT can be reclaimed. It must contain the following elements:

- the supplier's name, address and VAT registration number
- the date goods/services were supplied
- the name and address of the school
- the goods or services supplied
- amount payable excluding VAT
- amount of VAT
- VAT rate

If the total invoice cost, inclusive of VAT, is less than £100, less detail is required.

### 10.3 Procedures for VAT on business activities etc

School procedures should set out how VAT on business activities, school trips and other taxable activities should be accounted for, both within the delegated budget and in voluntary funds.

# Voluntary Funds

Voluntary funds often provide schools with a substantial additional source of income. Although such funds are not public money, the standards for the guardianship of these funds need to be as rigorous as those for the administration of the school's delegated budget. Parents, pupils and other benefactors are entitled to receive the same standards of stewardship for the funds to which they have contributed.

Voluntary fund accounts must be certified by a competent person who is completely independent of the school and, in maintained schools, the resulting audit certificate must be sent to the Director of Finance & Corporate Services. Schools will also need to ensure that any voluntary funds with income or expenditure over £1,000 are registered with the Charity Commission.

This section applies to all voluntary funds that belong to the school (Community and Voluntary Aided schools) and not, for example, to funds held by other organisations, such as PTAs, which have a connection with the school.

## 11.1 Separate accounting from school budget

With the introduction of Consistent Financial Reporting (CFR) it is no longer a requirement to separately account for voluntary funds and all expenditure and income relating to the operation of the school should be included within the schools CFR return at the end of the financial year.

## 11.2 Registration with the Charity Commission

The governing body should ensure that any relevant voluntary funds are registered with the Charity Commission.

## 11.3 Treasurer appointed to oversee the fund

The governing body should ensure that a treasurer has been appointed to oversee the funds.

## 11.4 Independent auditor appointed

The governing body should appoint an auditor who is independent of the school. The auditor should not be a member of the governing body.

If the total fund income or expenditure (whichever is higher) is less than £15,000 and the end of year bank balance does not exceed £1,500, the auditor simply needs to be someone with sufficient experience in financial matters to carry out the audit but does not need to be a qualified accountant.

If the fund income, expenditure or year end balance exceeds these thresholds, the auditor must be a qualified accountant.

## 11.5 Same accounting standards as for school budget

The Headteacher should ensure that the same standards of financial accounting which apply to income and expenditure for the school's delegated budget are applied to the voluntary funds.

**11.6 Use for voluntary funds only**

Any income which properly relates to the school's delegated budget should not be credited to a voluntary fund.

**11.7 Audited accounts to governing body annually**

The Headteacher should present the audited accounts, the auditor's certificate and a written report of the accounts to the governing body as soon as possible after the end of the accounting year.

**11.8 Audited accounts copied to the LEA**

The Headteacher should ensure that the audited accounts are copied promptly to the Director of Finance & Corporate Services after the governing body has accepted them.

**11.9 Procedures for signing cheques**

The Headteacher should ensure that every cheque drawn against the voluntary fund bank account is signed by two signatories authorised by the governing body.

**11.10 At least monthly banking**

Any voluntary fund income should be paid into the relevant bank account at least once a month.

**11.11 Procedures for issuing receipts**

Receipts should always be issued for any donations or income entering voluntary funds.

This is to provide audit evidence and to reduce the possibility of theft. This is particularly important in the case of donations, as there may be no other proof that the income existed, thus facilitating fraud. The receipts should be numbered and copies kept.

**11.12 Regular reconciliations with bank statements**

The Headteacher should ensure that regular reconciliations between the accounting records and bank statements are undertaken and independently reviewed.

**11.13 Insurance cover for voluntary funds**

The governing body should ensure that voluntary funds are covered by insurance, including fidelity guarantee insurance.

# Assets

Schools often have attractive and portable items of material and equipment ranging from library books to computers, video recorders and televisions. These assets need to be kept securely and recorded in an asset register/inventory.

Headteachers should make the necessary arrangements to identify such items as school property, to record where they are located and to insure them for on-site and off-site use, as appropriate. It is equally important to maintain records of stocks of materials and other useable resources to ensure that educational work is not delayed because of their unavailability and to guard against waste and loss.

It is important that schools have a clear view of how they wish to use their premises resources and will therefore need a plan for the use, maintenance and development of their buildings. This plan is usually considered to be part of the school's development plan. Where the governors own the school's buildings, the building development plan will take on a different dimension. In all cases, however, a school's own plan will need to match the LA's asset management plan in relation to that school.

For PFI schools the assets are owned and managed by the PFI contractor for the life of the contract. Schools should clarify procedures with their PFI contractor.

## 12.1 Maintenance of stock levels

The Headteacher should ensure that stocks are maintained at reasonable levels and subject to a physical check at least once a year.

## 12.2 Security marking and asset inventories

Up-to-date inventories should be maintained of all items of equipment with a value above £250 and have an estimated life over 12 months. Such items should be identified as school property with a security marking. Such items might include computers, videos, cameras and televisions. The register should contain details covering asset cost, identification number and location within school.

It is vital that the inventory is kept up to date. School procedures should ensure that every time an asset is purchased, disposed of or becomes obsolete the inventory is automatically updated.

This inventory will help the school plan its equipment replacement programme. It may also provide evidence in the case of an insurance claim.

## 12.3 Check on inventories annually

The Headteacher should arrange for inventories to be checked at least once a year against physical items and the outcome reported to the Governing Body. All discrepancies should be investigated and any over a pre-determined sum reported to the governing body.

## 12.4 Procedures for property taken off site

Whenever school property, for example musical instruments or computers, is taken off the school site it should be signed for and a register noted accordingly.

## 12.5 Authorisation of write-offs and disposals

Items lost, stolen or damaged beyond economic repair shall be written off as follows;

- 1 Below £250 may be written off by the Headteacher.
- 2 Below £2,000 may be written off by the finance committee
- 3 Above £2,000 may be written off by the governing body
- 4 Capital assets require authorisation by the Director of Finance and the Director of Education

All items written off and disposed off should be reported to governors for reference and the school's inventory updated.

Separate procedures may be applicable to assets purchased using grant funding.

## 12.6 Manner of disposal

Schools have a responsibility to ensure that the disposal of assets seeks to achieve best value and is environmentally sound.

## 12.7 Security of safes and keys

Safes and similar deposits should be kept locked and the keys removed and held in a different location.

Key holders should normally carry keys on their person and keys should not be left in the vicinity of the secure area. The loss of any keys should be reported immediately to the Headteacher and the schools insurers.

## 12.8 Plan for use, maintenance and development of buildings

The governing body should have a plan rolling forward over a number of years and closely linked to the school development plan, for the use, maintenance and development of the school's buildings. It should prioritise maintenance and development projects, drawing on the information contained in the condition and suitability surveys on each school that form part of the LA's Asset Management Plan (AMP). It should take account of the aims and objectives in the AMP Local Policy Statement, for example the development of ICT, and the extended use of the school premises by the community. The buildings plan should also link closely to the Accessibility Plan for improving accessibility to buildings.

# Insurance

All schools have risks against which they should be protected by insurance. Such risks may include third party liability, property, money, personal accident, motor vehicles and fidelity guarantee insurance (to cover the loss of assets due to fraud or dishonesty on the part of employees).

It is important that schools review their exposure to such risks to ensure that cover remains adequate.

*Further information is provided in the Scheme for Financing Schools, regulation 10.1.*

## 13.1 Annual review of risks

The school should review all risks annually, in conjunction with the Director of Finance where appropriate, to ensure that the sums insured are commensurate with the risks.

## 13.2 Additional insurance cover where appropriate

The governing body should consider whether to insure risks not covered by the LA, voluntary body or foundation. The cost of such premiums should be met from the school's delegated budget.

## 13.3 Notification procedures for new risks/changes

The school should notify its insurers, the LA or other agent as appropriate of all new risks, property, equipment and vehicles which require insurance or of any other alteration affecting existing insurance.

## 13.4 No indemnity to third parties without authorisation

The school should not give any indemnity to a third party without the written consent of its insurers.

## 13.5 Notification of insurance losses and claims

The school should immediately inform its insurers of all accidents, losses and other incidents which may give rise to an insurance claim.

## 13.6 Insurance of property taken off site

Insurance arrangements should cover the use of school property, for example musical instruments or computers, when off the premises.

# Data Security

Most schools are now fully reliant on computers to process and record personal, financial and other management data. Most of the controls in this section therefore cover access to data held on computers. It is important that management information is properly protected from unauthorised access and that it is backed up regularly. It is also important that the school has a recovery plan to ensure continuity of financial management in the case of an emergency.

The Data Protection Act 1998 is designed to protect the rights of individuals in relation to the personal information that is held about them. It sets out requirements about the processing, storage and disclosure of that information and extends the coverage of the previous legislation from data handled electronically to certain manual record systems.

As schools process personal information (including pupils' electronic and paper records) they are required under the Data Protection Act 1998 to register a notification with the Information Commissioner.

## 14.1 Security of assets

Computer systems used for school management should be protected by password security to ensure that only authorised staff have access. Passwords should be changed regularly and changed when staff leave.

For some computer systems it may be necessary to have passwords giving individuals' different "privilege" levels of access to data so ensuring that no one has inappropriate access. Such access could, for instance, allow a member of staff to read but not alter records.

## 14.2 Back-up procedures

The Headteacher should ensure that data is backed up regularly, records maintained of the backups and ensure that all back-ups are securely held in a fireproof location, preferably off site. It is also important to check that the backed up data can be restored.

## 14.3 Recovery plan for emergency

The Headteacher should establish a recovery plan to ensure continuity of financial administration in the case of emergency.

## 14.4 Protection against computer viruses

To prevent viruses being imported, only authorised software should be used. Software and data can be protected against viruses in two main ways:

- by installing and regularly updating anti-virus software
- by blocking the use of unauthorised software

## 14.5 Data Protection Act notification (see also the Data Protection website)

The governing body should ensure that the Information Commissioner is notified in accordance with the Data Protection Act 1998 and that the school's use of any electronic or relevant manual systems to record or process personal information, and any use, disclosure or deletion of that information, complies with the legislation.

# Audit

The Director of Finance & Corporate Services shall be responsible for maintaining a continuous internal audit of the financial records, operations and systems of the school.

## 15.1 Access to schools records

The Director of Finance & Corporate Services or his/her authorised representatives shall have authority at all reasonable times to visit the school and have access to all records, correspondence and property of the school and may require such additional information or explanation thereof as considered necessary.

## 15.2 Audit process

Schools are audited on the basis of risk assessment on a 5-6 year rolling programme of systems based, regularity and control risk self assessment audits.

### Audit recommendations

The Headteacher should consider and respond promptly to recommendations in audit reports and report to the governing body the results of audits and any action to be taken by the school.

Whenever the Director of Finance & Corporate Services identifies any matter whether arising out of internal audit or otherwise, which appears to be irregular, he/she shall as soon as practicable will notify, in writing, the Director of Education and Children's Services and the Headteacher of the school together with recommendations as to the appropriate remedial, disciplinary or other action which should be taken. The Chair of Governors shall also be notified.

## 15.3 Reporting irregularities

Whenever any matter comes to notice which involves or is thought to involve irregularities concerning the implementation of these regulations, cash, stores or other property of the school, the Headteacher shall forthwith notify the Director of Finance & Corporate Services and the Chair of the Governors. The Director of Finance & Corporate Services shall in turn notify the Director of Education and Children's Services.

**Chapter  
16**

# Self Evaluation

The Government has established a system for schools to self-evaluate their controls of their finances, known as the Schools Financial Value Standard (SFVS) which can be found on their web site at:

[www.education.gov.uk/schools/adminandfinance/financialmanagement/SchoolsFinancialValueStandard](http://www.education.gov.uk/schools/adminandfinance/financialmanagement/SchoolsFinancialValueStandard)

The 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.

Local authority (LA) maintained schools are required to complete the SFVS once a year.

You can download two versions of the SFVS assessment form from this page, one with the support notes embedded in it and one without. Schools are free to use either version

The outcome of the annual assessment must be returned to the Schools Finance Team in time for final sign off by internal Audit by 31 March.

## 16.1 What is the tool about?

The self-evaluation tool sets out standards of financial management and control for schools. The tool allows schools to probe their compliance with the standards through a series of self-evaluation questions. It also provides good practice guidance, feedback tables and a prioritised action plan.

## 16.2 Why is financial management important?

Financial management is a generic term which covers issues from drawing up the annual budget to safeguarding petty cash. It helps schools to ensure that:

- the appropriate people are making and approving financial decisions
- the budget reflects the school's objectives and is realistic
- the school's financial position is regularly monitored to maintain financial control
- that income and expenditure transactions are protected from fraud and loss
- that the financial records accurately reflect the school's position.

## 16.3 Who is the tool for?

The tool is for all those involved in financial management in primary, secondary and special schools, especially:

- Headteachers
- Bursars
- Governors
- Secretaries and administrative assistants
- Staff with financial management responsibility

#### 16.4 How can the tool be used?

The tool can be used in several different ways:

- To allow the Headteacher, governors, bursar, secretary or other member of staff to assess the quality of financial management in their school
- As a Learning tool for those involved in financial management, especially newly-promoted Headteachers, deputy Headteachers or candidates for NPQH.
- to help newly appointed Headteachers make an initial assessment of the financial management processes in place to check on progress in improving financial management processes between audits
- to help schools prepare for an audit or inspection

#### 16.5 What does the tool contain?

The tool is based on the standards set out in the revised version of 'Keeping your Balance'. These standards are based either on statutory regulations or established audit practice. The tool contains:

- a series of scored questions grouped under each standard
- good practice guidance relating to individual standards
- guidance designed to assist small schools with the separation of duties
- guidance on school documents which would provide evidence of compliance
- 'comments boxes' after each set of questions so that schools can note down any points which come to mind whilst answering the questions
- feedback tables noting scores and any comments at varying levels of detail
- a prioritised action plan based on the school's scores; this can be filled in by the school and downloaded into Excel.
- a facility whereby, with the consent of the school, the LA can access participating schools' scores in order to help focus Internal Audit and Education Finance resources according to schools needs. This optional facility can be activated by entering the school's LA number on the entry screen.

**Chapter  
17**

# Capital Projects

Due of the complexity involved in contracts for building and construction works, Governing Bodies are recommended to seek legal and expert advice before proceeding.

## 17.1 Capital Accounting

Schools are required to account for capital expenditure and income separately to their revenue expenditure and income.

## 17.2 Revenue Contributions to Capital

Schools governing bodies are allowed to use their budget shares to meet the cost of capital expenditure on the school premises. These must be shown in the schools accounts as a revenue contribution to capital.

## 17.3 Asset Management Plans

On an annual basis schools will be required to report to the LA on how they intend to spend their devolved capital and any other funds available for capital works.

## 17.4 Responsible Officer

All capital projects need a named responsible officer who will act as the key contact for all purposes relating to the project. The named responsible officer must be a member of the School leadership Team.

The school can employ an agent to undertake the management of the project. However, this does not negate the need for a member of the School leadership Team to be the named responsible officer.

## 17.5 Funding for Capital Projects

An estimate of anticipated cost must be prepared in advance and no project should be entered into without ensuring adequate funding is in place. The ongoing revenue implications of any capital project should also be considered.

A cash flow analysis should also be undertaken to ensure that adequate funds are available to pay the contractor on time as appropriate.

## 17.6 Statutory Permissions

All statutory permissions must be in place prior to tendering e.g. Planning Permission, Building Regulations

## 17.7 Risk Assessment & Tendering Financial Limits - Community Schools

For all contracts over £50,000 a risk assessment must be completed before inviting tenders to identify how to protect the school, governing body and the Council against downside risks, contract slippage and overrun. Full details are contained in Annex 1 – Contracts and Tendering.

# Contracts and Tendering

## Introduction

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The purpose of this section is to guide Governing Bodies in dealing with contracts of differing values. The letting of contracts and tendering processes are described and the required conduct of Governors, employees or other agents outlined.

This guidance is written with the principle of allowing Governing Bodies maximum freedom to act to the benefit of their school whilst drawing to the attention of Governing Bodies the need for proper actions and accountability in the handling of Public money.

This guide seeks to provide best practice, which, if followed, will ensure a system of openness, integrity and accountability where the probity and transparency of the process will be beyond reproach. In turn this will lead to better value for money, give confidence to all concerned that the school is fulfilling its fiduciary responsibilities and also contribute to the achievement of the principles of Best Value. **The Council therefore strongly recommends that these Standing Orders are adopted by Governing Bodies and followed whenever a contract is entered into.**

There are EU Regulations, which require specific categories of contracts to be advertised in the EC Journal (OJEC) when over certain values and further details are provided in this annex.

These Standing Orders do not apply in the following special circumstances:

- where contracts relating to the supply of goods, services and works are corporately tendered and managed by means of:
  - a purchasing consortium
  - another local authority
  - a government department or purchasing agency
  - a statutory body
- in cases of civil or war emergency, natural or any other disaster where the school needs to obtain goods or supplies or materials and/or carry out any work by contract, in order to save or preserve life or property, or to carry out the discharge of its public responsibilities.

In these circumstances, the Headteacher may place an order for goods, supplies or work as the circumstances require, either having previously obtained the authority of the school governors if the situation allows; if it does not, then they may take action immediately. In this case, a report must be made to the next Governor meeting of the action so taken and the expenditure incurred.

- where goods and services are only sold by a single supplier. Specifications must not be written in such a way as to exclude suppliers and create a sole supplier.

In all the above instances documented evidence must be kept to validate these cases.

**The Council will monitor the exercise of delegated powers to ensure their conformity to the requirements of public accountability. Any variance from the standards laid down in these Standing Orders shall be subject to the specific approval of the Governing Body.**

## Types of Contract

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The contracts let under these Standing Orders may be for the supply of individual items, or for ranges of items, or for the supply of services.

Due of the complexity involved in contracts for building and construction works, Governing Bodies are recommended to seek legal and expert advice before proceeding.

## Definitions

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For the purpose of these Standing Orders the following definitions apply:

**Contract:** an agreement, (even if, exceptionally, not in writing) between the school and a contractor or consultant for the execution of goods, works or services or other such bargain as the school may require, including all documents to which reference may properly be made in order to ascertain the rights and obligations of the parties to that bargain. This includes contracts where (i) the school is acting on behalf of a third party and (ii) the goods, works or services are funded from external sources.

**Quotation:** a verbal or written offer to carry out work or supply goods and services at a specified price up to the value of £50,000. Written quotations are required for all contracts in excess of £1,000.

**Tender:** a formal written competitive bid to carry out work or supply goods or services, as stated in the clients specification (the client is the Governing Body) to a value of £50,000 or more.

**Specification:** a statement by the client giving as much detail as possible of the goods, services or work required , and any particular standards to be achieved. This is to be available to any would be tenderer, and should be sufficient for them to base and submit as accurate a tender as possible.

## Contract Specification

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A specification is a statement by the client giving as much detail as possible of the goods, services or work required, and any particular standards to be achieved. This is to be available to any would be tenderer, and should be sufficient for them to base and submit as accurate a tender as possible.

A typical specification for a service should include:

- **school's details**  
including full contact and tender return details
- **duration of the agreement**  
Detail contract duration and possible extension period including the notice required for termination;
- **services or goods to be provided**  
clearly define user requirements including quantities
- **obligations of both parties**  
e.g. notice of visits, what should be provided by the school to enable the supplier to fulfil their obligations;

- **location where the service will be provided;**  
Including any access restrictions
- **performance quality standards**  
Outline the service quality standards and outputs/outcomes that will be delivered, express how the delivery of the service specification will be monitored and measured (e.g. response times). It should also include the review and evaluation requirements that will be carried out towards the end of the contract. Mention British or European Standards where appropriate.
- **process for agreeing variations to the agreement;**
- **complaints and disputes resolution procedure,**  
including any escalation and arbitration arrangements and mechanisms for dealing with significant problems, such as imposing financial penalties;
- **expected frequency and time inputs**  
to be delivered by the service provider where this will be useful as a performance indicator;
- **price schedule ,**  
including the financial payment arrangements, specifying the frequency of payment (e.g. hourly, daily rates) and method of payment (e.g. direct debit, invoice etc.). If the contract is for more than one year, it may be necessary to outline how it will incorporate the need for adjustments to financial payment arrangements, such as the rate of inflation;
- **form of tender, tender document and certificate of bona fide tender**
- **return date**  
Date and time for the return of quotes/tenders prior to opening

## General

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Before dealing in detail with the methodology of contracting through quotations, Governing Bodies should note the following points:

- If quotations are invited by telephone a record must be kept of the names of the contractors/suppliers telephoned and their responses.
- A Governing Body may dispense with the need to obtain competitive quotations where urgent supplies are necessary to protect life or property, or to maintain the functioning of the school.
- A Governing Body may access the Council's own contract arrangements for the supply of goods and services. Corporate Contracts offer a series of framework agreements where the prices and terms and conditions have already been agreed. A list of current Corporate Contracts is available to Schools on request from Schools Finance.
  - a) Schools must comply with the terms of the contract negotiated by the Council. Any variations required must be approved by the appropriate Council Officer.
  - b) Using a Corporate Contract would negate the requirement to obtain additional competitive quotations.

- c) Schools accessing these contracts would be responsible for their own payments
- d) If using the Council's Corporate contracts, there would be no requirement to apply this guidance beyond this point.

## **Contracts under £1,000**

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For all orders under £1,000 there is no minimum requirement for the number of quotations required. However all orders should be accompanied by an official purchase order and details of any quotes received should be retained for Audit purposes.

## **Contracts over £1,000**

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**Unless the Governing Body has opted to access the Council's own contract arrangements for the supply of goods and services the Governing Bodies should have regard to the remainder of these Standing Orders.**

To this end contracts can be defined according to their monetary value. Their monetary value then dictates the action required in inviting tenders. Before this stage is reached however the Governing Body must have prepared its specification for the work required/goods to be supplied and this must be supplied to would be tenderers.

### **Contracts between £1,001 and £3,000**

Two or more written quotations should be obtained for all expenditure between £1,001 and £3,000 unless it is impracticable to do so. An official order must be completed.

### **Contracts between £3,001 and £10,000**

For proposed contracts between £3,001 and £10,000, at least 3 written quotations should be obtained from reputable suppliers/service providers unless the Governing Body considers this inappropriate in the interest of efficient management of the school. The quotations should be received and opened by the Headteacher, deputy or another senior member of staff. The Headteacher can decide on the appointment of contractor unless this is beyond their delegated powers given to the Head teacher by the Governing body.

If 3 written quotations cannot be obtained then a record of the reasons for this must be kept at the school for audit purposes.

### **Contracts between £10,001 and £25,000**

For proposed contracts between £10,001 and £25,000 at least 4 written quotations should be obtained from reputable firms. The selection of companies to be approached should be agreed by the Headteacher and a member of the senior management team.

The quotations should be received and opened by the Headteacher and a member of the senior management team.

The Governing Body or Finance Committee must approve the final contractor and the decision must be reported to the Governing body. If 4 written quotations cannot be obtained then a record of the reasons for this must be kept and recorded in the appropriate Governing Body minutes.

### **Contracts between £25,001 and £50,000**

For proposed contracts between £25,001 and £50,000 at least 4 written quotations should be obtained from reputable firms. The Headteacher or a member of the senior management team must prepare an estimate.

The selection of companies to be approached should be agreed by the Headteacher and Chair of Governors or Finance Committee. Quotations to be received in plain sealed envelopes and opened by the Headteacher and Chair of Governors or Finance Committee

The Chair of Governors or Finance Committee must approve the appointment of contractor with the decision reported and minuted at the next Governing body meeting.

If the lowest quotation exceeds the tender estimate by 10% or more then the Governing body shall determine whether the quote can be accepted or not.

Schools should seek legal advice before agreeing and signing contracts.

### **Contracts over £50,000**

For proposed contracts in excess of £50,000 a risk assessment must be completed before inviting tenders to identify how to protect the school, governing body and the Council against downside risks, contract slippage and overrun. Further details are contained later in this annex.

If EU regulations apply, then adherence to publication dates is essential.

The Headteacher or a member of the senior management team must prepare an estimate and a timetable for the tendering process should be drawn up and key tasks allocated to responsible officers.

Legal advice should be sought on the process to be followed to obtain tenders and the appropriate documentation to be used and standard tender documents are available from the Council's Corporate Procurement Section.

It is strongly recommended that the Council's standing orders for receipt, custody and opening of competitive tenders must be followed. Again, advice can be provided from the Council's Corporate Procurement Section.

Tenders must be received in plain sealed envelopes and opened in a formal manner by the Headteacher and Chair of Governors.

Potential contractors must be financially and technically vetted before any tender can be awarded and this must be formally documented. This can be undertaken by Corporate Procurement on behalf of schools.

The evaluation process of the tenders received must be clearly documented and take both cost and quality into consideration.

The Director of Finance must be notified prior to appointment of contractor by the Governing body and the Director of Finance may request inspection of the supporting documentation to provide confidence that the correct procedures have been followed.

The Governing body must approve the appointment of contractor and the decision must be minuted and legal advice should be sought before signing contracts.

Where the estimated contract value is exceeded by more than £10,000 or 10%, or where the school wished to accept a tender other than the lowest, the decision must be taken by the Governing body and minuted following consultation with the Director of Finance.

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## Risk Assessment

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For all contracts over £50,000 a risk assessment must be completed before inviting tenders to identify how to protect the school, governing body and the Council against downside risks, contract slippage and overrun. The following should be considered:

- **Performance Bond** - A bond is a legally enforceable financial guarantee given by a third party (the guarantor) to a purchaser (the client) to guarantee the obligations of a supplier of goods, works or services (the supplier / contractor) under a contract. The value of the bond must be related to the extra costs which would be incurred in remedying defects in the event of failure, possibly by finding another contractor to do the work.
- **Parent Company Guarantee** - This form of guarantee is given by a parent company (or holding company) to guarantee the proper performance of a contract by one of its subsidiaries, and can only be given where the supplier / contractor is wholly owned by a parent company or is part of a larger group of companies.
- **Insurance Cover** - A separate insurance scheme could be taken out by the Council against a supplier / contractor going into liquidation. There is also the option of the Council operating a scheme of self insurance for smaller contracts with low value financial risks. These options would require detailed discussions with the Council's Insurance officer and / or the Director of Finance & Corporate Services.
- **Liquidated Damages** - A contract condition can be included to provide for the payment of liquidated damages by the contractor should the contractor default on its obligations. Liquidated damages are a form of compensation for losses or additional expenses incurred, but there must be a genuine and realistic pre-estimate of the loss.
- **Deposit of Funds** - In exceptional cases, the deposit of money in lieu of a bond might be acceptable. The money must be held in separate identifiable account, and the parties need to agree whether or not interest will be payable at the end, and at what rate.

All contracts over £500,000 must have a performance bond.

Further advice and guidance can be provided by the Council's Corporate Procurement Section.

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## Financial and Technical Vetting

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Prior to awarding contracts potential contractors must be financially and technically vetted as part of the evaluation process.

Where potential contractors are included in the Council's Approved List (currently the Sinclair Vetted Directory) then the technical and financial vetting has been carried out by the Council's approved list provider.

Where the Sinclair Directory does not include the relevant category, or when the Open or Restricted Tendering, or Negotiated Procedure routes are used, then the Corporate Purchasing Manager can be contacted to arrange for the financial vetting to be carried out. The school will need to arrange for the technical vetting to be carried out by either the school or an appointed Governor/Council officer.

A risk assessment must be made for all contracts and every contract must include an appropriate provision to protect the school against all potential downside risks. Ways of protecting the school's interests include the following, and at least one of these measures must be applied in all contracts:

- ensuring goods / services are to a satisfactory standard before payment
- performance bond
- parent company guarantee
- use of manufacturer's guarantees or insurance cover
- liquidated damages
- deposit of funds

As part of the evaluation criteria schools are recommended to issue a questionnaire which will cover the requirements to enable the detailed vetting of potential suppliers based on the finances, technical ability, equal opportunities and health and safety policies and reference sites. A copy of the standard Council questionnaire is available on the Corporate Procurement Intranet pages.

## European Procurement Directives

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The EU Procurement legislation is based on the principles of non-discrimination and equality of opportunity on grounds of nationality, transparency and competitive procurement. The rules require contracts to be advertised in the Official Journal of the European Communities (OJEC) when the contract values reach specific thresholds.

Compliance with EU rules is mandatory, and in cases of conflict they take precedence over National legislation or schools own Contract Standing Orders.

The EEC Treaties and various Directives set out a legal framework, which has been implemented in UK law by Regulations. These Regulations apply where contracts either exceed estimated thresholds or to contracts which are not specifically excluded (e.g. on grounds of national security).

Contracts must not be artificially split in order to avoid compliance with these Regulations. Furthermore, authorities must aggregate the value of contracts for similar goods or services over the previous 12 months and allow for changes over the next 12 months, or forecast the value of purchases in the coming year, to determine if the Regulations apply.

### Advertising requirements

The UK Regulations require advertisements in OJEC (The Official Journal of the European Communities). These are known as Notices.

Advertisement is required at three stages of the procurement activity:

- at the beginning of the relevant year (a Prior Indicative Notice (PIN). Authorities must make known their intended total procurement in each identified category which they envisage awarding during the subsequent 12 months, where the total estimated value is not less than ECU 750,000 (£464,024).
- to commence the exercise (a Contract Notice)

- to record the award (a Contract Award Notice).

The format of the relevant advertisement is laid down in the appropriate set of UK regulations, and must be adhered to. In particular, requirements for Bonds and Guarantees must be disclosed on the Contract Notice.

The wording of the Contract Notice is binding and, especially for Services Contracts, it is essential to have detailed legal advice first.

No UK advertisement must be published before the OJEC Notice, nor must greater detail be included in the UK advertisement.

In procuring Services, Priority Services require all three Notices, but for Residual Services, only a Contract Award Notice is required.

All Notices should be passed to the Corporate Purchasing Manager who will post, and keep a record of, all Notices to OJEC.

If in doubt with regards to any aspect of the use of the EC Procurement Directives please contact either Legal Services or Corporate Procurement.

### Timescales

The UK Regulations require adherence to a number of timescales. The following timescales apply to the procurement of Goods, Works and Priority Services:

- The Prior Information Notice must be sent to OJEC as soon as possible after the Council has determined to proceed with the procurement activity. This will normally be at the beginning of the relevant financial year.
- Contract notices should meet the following timescales:
  - (i) Open Procedure - allow at least 52 days for responses from the date of despatch (36 where a PIN has been published)
  - (ii) Restricted Procedure - allow at least 37 days for response from the date of despatch (or 15 days in the case of genuine emergency), for interested parties to express an interest in being selected to tender. Allow a minimum of 40 days (or 26 where a PIN is published in the case of Works) for parties to tender. In cases of genuine emergency, this period may be reduced to 10 days.
  - (iii) Negotiated Procedure - allow at least 37 days for interested parties to express an interest in being selected to negotiate.
- A Contract Notice must be sent to OJEC no later than 48 days after a contract has been awarded.

### Award procedures

For Goods, Works and Priority Services, only three award procedures are allowed. These are:

**Open Procedure** - all interested parties respond to a public advertisement with a priced tender

**Restricted Procedure** - all interested parties respond to a public advertisement, the School draws up a select list and only invites those on that list to tender

**Negotiated Procedure** - the school negotiates with parties of its choosing

Schools may choose freely between the open and restricted procedures, but the negotiated procedure is the subject of very stringent controls and is unlikely to be used very often. In all cases where it is proposed to use the negotiated procedure it is recommended a school seek legal advice or from the Council's Corporate Purchasing Manager.

### Selection procedures

The UK regulations require the setting of objective and pre-determined selection criteria for selecting firms who wish to provide goods, works or priority services to the School. Only these criteria may be used, and these criteria must be prior disclosed in the relevant OJEC notice.

The criteria permit rejection on three grounds:

- rejection of unsuitable applicants (e.g. those who are bankrupt or convicted of a criminal offence)
- those who lack the necessary financial and economic standing and
- those who lack the necessary technical capacity or for services, the ability, to carry out the requirements of the School.

The evidence which the School is permitted to consider for selection is detailed in the UK Regulations, which also provide for notification and de-briefing of those who are not selected.

Only the permitted selection criteria and evidence may be utilised and Schools must keep a detailed written record of the procedure used for selection.

### Award criteria

The contract notice should indicate the relevant criteria to be applied in awarding the contract. Only those criteria that have been previously disclosed may be used in the tender evaluation, and all documentation must consistently reflect this.

The relevant award criteria must not be confused with the selection criteria.

Unsuccessful tenderers are entitled to be de-briefed.

### General requirements

Under the Restricted Procedure and the Negotiated Procedure, there must be sufficient parties for genuine competition. This will normally be a minimum of three, unless the tender documents specify a different figure.

The UK Regulations provide various information requirements, including record keeping, Contract Award Notices and the de-briefing of unsuccessful applicants and/or tenderers. They also require information to be supplied to Government Departments and the EU Commission. Further advice on this may be obtained from the Head of Legal Services or the Corporate Purchasing Manager.

Specifications must not discriminate on grounds of nationality, even indirectly. They may with some exceptions be based on a British Standard implementing a European standard, where such a standard exists. Specifications must not include references to particular makes, sources or processes which have the effect of favouring some suppliers or of eliminating others. Where it is considered essential to refer to a trade mark, patent origin or process, then this must be qualified by the words "or equivalent".

The UK regulations provide stringent sanction powers for breach of the EU rules. These could include judicial review, action for breach of statutory duty, or action by the EU commission against the UK Government.

### Special Rules

Special rules apply to a number of aspects of the EU rules. In particular, further guidance is likely to be necessary in the following areas:

- (a) Use of Framework Agreements/Call-off contracts
- (b) Regular/renewable supply contracts (the aggregation rules)
- (c) Calculating Thresholds (aggregation rules)
- (d) Consortia bids or associated company bids
- (e) Exceptions to the rules, e.g. Service concession contracts
- (f) The use of the negotiated procedure
- (g) The scope for moving from a Restricted to a Negotiated procedure (e.g. if tenders are over budget).
- (h) Subsidised Works Contracts
- (i) Design contests
- (j) Public Housing Scheme works
- (k) Abnormally low tenders
- (l) Use of discrete operational units (e.g. awards to DLO's / DSO's)
- (m) Urgency procedures (2 separate procedures)

In any of these instances, guidance and advice should be sought from the Head of Legal Services.

Contract Thresholds at and above which the UK Regulations apply can be found at Appendix 2.

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## Approved Lists

The Authority maintains an approved list of contractors which covers a range of categories of work. The list is provided by an external provider and is known as the Sinclair Vetted Directory.

The contractors/suppliers from the approved list have been vetted on their financial, technical abilities. Companies are also checked for their Equal Opportunity and Health and Safety policies to ensure they meet the minimum standards required by the Council. Companies on the list are continually monitored with the Council being notified of any impending problems with a particular supplier.

Details of contractors (i.e. for contracts involving labour) on the approved list can be obtained from Corporate Procurement.

Suppliers not currently on the approved list would need to apply to join. Schools can recommend contractors for inclusion on the approved list. Only companies which meet the minimum criteria can be included.

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## Invitation to Tender

Tender documents sent to potential contractors should include the following:

- Invitation to tender (letter)
- Specification
- Tender return label
- Questionnaire (if appropriate)

The invitation letter, tender return label and questionnaire can be downloaded from the Corporate Procurement intranet pages.

## Receipt of Tenders

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Envelopes containing tenders should be dated upon receipt at the school. They should be kept sealed and in a secure place until the date for opening.

Tenders should be opened at a pre-determined date and time by the Chair of Governors and in the presence of the Headteacher.

### Tender Checklist

#### Tender returns must include:

- Signed and completed Form of Tender. An unsigned form of tender will make the tender invalid
- Completed questionnaire and enclosures (where applicable)
- Full pricing details and/or completed pricing schedule

Details of all tenders received, giving the name of the tender and the amount of the tender should be recorded and retained on file for audit purposes.

**Late Tenders:** Under no circumstances shall a tender received after the due time be considered. Any tender received late should be endorsed "Late Tender", together with the time and date of receipt. In the event of queries arising, these should be raised with Internal Audit's Special Investigations Unit for guidance on how to proceed.

## Errors in Tenders

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Where examination of a tender reveals errors or discrepancies which would appear to affect the tender figure, the Chair of Governors (in their absence the Vice - Chair) with the agreement of the Head Teacher (in their absence the Senior Deputy Head) should adopt one of the following courses of action;

- i) the tenderer shall be given details of the error(s) found during the examination of the tender and shall be given the opportunity of confirming the tendered price without amendment or withdrawing the tender, or
- ii) amending the tender to correct genuine arithmetic error(s) provided that in this case, apart from these genuine arithmetic errors, no other adjustment, revision or qualification is permitted. No other details may be varied

Where EU regulations apply, post tender negotiation is only available in extremely limited circumstances and legal advice must be sought in all cases, before proceeding with any discussions or negotiations.

No post tender discussions should be conducted by a single person and all tenders must be treated the same. Any invitations for revision must be in writing and a written record maintained of all post tender discussions and meetings must be kept.

Tender documents must state which method will be used for dealing with errors in tenders.

If the errors discovered are such that the Chair of Governors and Headteacher (or in their absence their stated authorised deputies) considers they invalidate the tender they shall disregard the tender.

The detail of any action taken shall be reported to the Governing Body and minuted.

## Acceptance of Tenders

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Once the tenders have been received and opened in accordance with the agreed procedures and any errors have been resolved a report shall be made to the Governing Body and the Governing Body shall award the contract.

If the Governing Body awards the contract to other than the lowest tender, the reasons for this shall be recorded in the minutes.

**Governors are here advised of the benefit of signing a contract "under seal". This allows legal redress on a contract up to 12 years after the contract has been signed, as opposed to 6 years for a contract NOT signed under seal. If a Governing Body wishes to take advantage of this they should seek legal advice.**

In the interests of best practice and courtesy the unsuccessful tenders should be informed as soon as possible, in writing, that their tenders have been unsuccessful.

Under the Local Government Act 1988 and EU rules, if an unsuccessful contractor requests information on the reasons they were unsuccessful, you must respond within 15 days of receipt of the request. However, it is recommended that the information supplied does not include commercially confidential information with regards to bids from other suppliers.

## Breach of Contract

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Once a contract is let the Governing Body will be bound by the conditions of it. If the Governing Body falls into breach of contract, which involves the incurring of costs by the Council, then the Council shall have the right to charge those costs to the school, including any administration and legal costs (See regulation 6.2.18 of the Scheme for Financing Schools).

## Contract Documents

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Advice on how documents inviting tenders and final contract should be worded can be obtained from Legal Services for those schools purchasing their Service Level Agreement. Schools not subscribing to the Legal Services SLA should still seek legal advice.

Downloadable forms of tender documents are also available from the Corporate Procurement Intranet site.

## Interpretation

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The interpretation of these Standing Orders shall be settled by Director of Finance and Corporate Services.

# Annex 2 Document Retention

<b>Payment of Creditors</b>	<b>6 Years</b>	<b>2 Years</b>
Paid Accounts – Invoices (VAT invoices to be kept by the School)	yes	
Petty Cash vouchers (VAT vouchers to be kept by the School)	yes	
Official Copy Orders		yes
Delivery Notes and Goods Received Notes (where provided)		yes
Paid cheques (i.e. presented cheques where returned to the School by bank) filed with their counterfoils		yes
Signed cheque listings		yes
<b>Bank Account Records</b>		
Bank Statements	yes	
Evidence of Bank Reconciliation's		yes
Cheque Advice Slips/Cancelled or Spoilt cheques		yes
Bank Paying-in Books	yes	
Deposit Books		yes
Direct Debit Notification Slips		yes *
Completed Copy Receipts and Authorisations		yes
<b>Other Financial Records</b>		
Invoices raised by the School	yes	
Cheque Control Sheets		yes
Computerised Accounting Detailed Reports	yes	
Contracts	yes **	

## **Pupil Records**

All pupil records should be kept at least until pupils reach 22 years of age. This is on the basis that there is, legally, an allowance of 3 years in which to bring claims. If not brought by a parent or guardian, the pupil can bring a claim themselves, but only after they reach the age of 18.

The main exceptions to this rule are SEN records, records for those pupils with an exclusion or truancy history, incidences of bullying and safety incident reports which should all be kept indefinitely.

**Notes**

\* the last direct debit payment is made, but with the date of cancellations clearly marked on the notification slip.

\*\* In the case of contracts by means of a deed, records should be kept for 12 years.

# Bank Account Scheme

The bank account scheme applies to all London Borough of Richmond upon Thames schools with delegated budgets.

## Options available to schools

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Two options for operating bank accounts are available to schools.

### Option A – Council Consolidated Bank Account

Hold an independent current bank account at The Co-operative Bank, 17 High Street, Kingston, KT1 1LP that does not accrue interest to the individual account but to the Borough's consolidated account and this is allocated to schools at year end.

### Option B – Fully Independent Account

Hold a fully independent account or set of accounts with any financial institution approved by the Director of Finance & Corporate Services set out in Appendix 2 of the Scheme for Financing Schools.

The following points of the Bank Scheme will apply to both options unless specifically stated.

## Transactions to be met by the School Bank Account(s)

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The school shall meet any expenditure included in its official delegated budget except any payments made to employees through the payroll system.

The school must not meet any payroll costs through its bank account (i.e. employees' salaries, subsistence payments, car allowances, staff allowances, parents' meeting expenses, governors' clerking expenses, etc.) since they have tax implications.

Cash advanced for discretionary and mandatory items must be spent in accordance with the rules under which they were delegated.

The school may only have monies credited to its bank account(s) from the following sources:

- Advances from the London Borough of Richmond upon Thames (LBRUT)
- VAT reimbursements from LBRUT
- Any income generated by the School
- Refunds from suppliers
- Donations

## Cash advances to schools

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### Monthly instalments of total budget share i.e. including employee costs

Cash advances will either be paid as equal twelfths of the school net delegated budget, or a 4% payment of the net delegated budget will be paid at the start of April, followed by twelve payments of 8% of the net delegated budget.

If salaries are still provided by LBRuT monies for salaries will be debited on 26 of the month, or the last working day before the 26<sup>th</sup> if this falls during the weekend or on a public holiday. This process will be done by direct debit and controlled by the Finance Department.

If salaries are not provided by LBRuT monthly cash advance payments will be equal to equal twelfths of the school net delegated budget.

### Year End Employee Adjustment

At the year end, the Schools Finance Team will calculate any final adjustments necessary between the NER budget amount advanced to the school and the employee related budget amount not advanced to the school. This will take account of the actual expenditure during the year. Schools will be sent a statement showing this calculation. Any sums due to the school will be paid as a separate advance in September. Any sums to be repaid will be deducted from the schools bank account in September.

## Banking arrangements

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### Options for Bank Accounts

The options available to all schools operating under delegated powers

### Opening of Accounts

All bank accounts in the Council Consolidated Bank Scheme must be opened by the Finance Department.

Schools will be entitled to review their option once a year by completing the standard form to be sent out by the Schools Finance Team.

The form or written notification of the school's intentions for the forthcoming year must be received by the Schools Finance Team on or before the second Monday in January in each year to ensure that the request can be actioned in time for the start of the next financial year.

In exceptional circumstances, a school may request in writing to change their banking arrangements part way through the year. The Director of Finance & Corporate Services may approve or not approve the request depending on the circumstances. Where the request is refused, a reason will be stated.

In exceptional circumstances, the Director of Finance & Corporate Services may have to direct a school to alter their banking arrangements part way through the year or alter their choice at year end. Should such a situation arise, the school(s) involved will be given a full explanation by the

Finance Department. Such action will only be taken where it is felt that there is a real risk to the future security of the Council's cash.

**Banking Charges**

Schools will be liable for all charges incurred upon their bank account(s) except if they arise due to the late receipt of the termly advances from the LBRUT and this is the fault of the Finance Department and not the school.

**Overdrafts, Credit Arrangements, etc**

Schools will not be permitted to make arrangements for overdrafts, loans or any other form of credit or deferred purchase.

Schools may set up direct debits/standing orders for the following items provided that they keep an accurate list of these payees and correctly account for such payments:

- Gas
- Electricity
- Water
- Telephones
- Rates
- PFI Contracts

## Introduction

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The following information is intended for general guidance on VAT matters related to schools. The guide has deliberately been kept brief for ease of use. If further information is required on any VAT issue (whether or not it is covered by the guide), please contact either of the following officers:

**Malcolm Smith**  
Senior Accountant  
Tel: 020 8891 7249  
Fax: 020 8891 7708  
London Borough of Richmond upon Thames  
Accountancy Section,  
Room 50  
York House  
Richmond Road  
Twickenham  
TW1 3AA

**It is very important to check any areas of uncertainty, rather than to guess or to make an assumption. This is especially true if the matter relates to a significant sum of money (e.g. in excess of £1,000) and/or to a matter that will be ongoing. Customs & Excise carry out regular inspections of the Council's VAT procedures and can impose penalties if errors in the treatment of VAT are discovered with any such penalty would be chargeable to the school.**

## General Background and Record Keeping

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Local Authorities are granted special status under VAT legislation and are able to recover all VAT incurred in the course of carrying out their statutory duties. In certain areas local authorities will also charge VAT on goods and services that they themselves supply. The Council has a single VAT registration which covers all of its activities (including schools). Each month a single re-imbursment claim is submitted to Customs & Excise for the difference between VAT paid on supplies ("input tax") and VAT charged by the Council on goods and services provided to customers ("output tax").

Schools receive a monthly VAT repayment issued by the Finance Department. The value of the payment is added to the Council's overall monthly VAT re-imbursment claim.

All records relating to VAT should be kept for six years. For schools, this represents invoices for goods and services purchased and invoices issued by the school for goods and services supplied.

## Types of Supply

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Generally, goods and services purchased by schools will be subject to VAT at the “standard rate” of 20%. (If the supplier has an annual turnover of less than £52,000, however, they may not be registered for VAT and none will be charged.) A further type of supply is termed “exempt”. Supplies that are exempt include education services provided by the private sector and property lettings. No VAT is charged on exempt supplies. Certain supplies such as food, printed matter and children’s clothes are deemed to be “zero rated”, which means that they qualify as taxable supplies but are not subject to VAT when sold to the consumer. The term “non-business activities” or “outside the scope” is often used with regard to supplies made by a local authority. This generally describes activities of a non-commercial nature which are carried out as part of the authority’s statutory duties. VAT does not apply to these activities.

### **VAT on Purchases (“Input Tax”)**

In order for the Council to recover VAT, a tax invoice must be obtained from the supplier of the goods or services, assuming that they are registered for VAT. A tax invoice must include:-

- an invoice number;
- a date of supply (this can be the basic invoice date, but may be shown separately and referred to as the “tax point date”);
- the supplier’s name, address and VAT registration number;
- the Council’s name and address;
- a description of the goods or services;
- for each description, the rate of VAT and the amount payable excluding VAT;
- the total amount payable excluding VAT;
- the total amount of VAT payable.

In the majority of cases, the supplier’s usual invoice will meet the above requirements. The following should not be treated as tax invoices (with the exception of a certified copy):-

- copy invoices (including photocopies), unless certified by the supplier;
- invoices marked “this is not a tax invoice”;
- amended invoices (a credit note and replacement invoice or supplementary invoice should be obtained);
- statements.

If retail supplies (or supplies ordered by credit card) to the value of £100 or less (including VAT) are purchased, VAT can be reclaimed using what is termed a “less detailed tax invoice”. This must include:-

- the supplier’s name, address and VAT registration number;
- the date of supply;
- a description of goods or services supplied;
- the total amount payable including VAT and the VAT rate charged.

Please note that not all retailers’ till receipts conform to the requirements of a “less detailed tax invoice”. Where they do not, the retailer should be asked to supply a VAT invoice, which they are legally obliged to do.

There are two specific exceptions where VAT can be recovered on expenses without the existence of a tax invoice. These are:-

- telephone call box charges paid in cash;
- off street car parking charges paid in cash.

In both cases, there is a limit of up to £25 (including VAT) per recovery.

Where petty cash or some other payment method has been used, please note that in order for the VAT to be reclaimed the re-imburement would need to be processed through the school's payment system as if a normal supplier's invoice including VAT were being paid.

The proportion of VAT included in the total can be obtained by multiplying the total value by 20/120. For example:-

Charge inclusive of VAT = £60.00  
 VAT = £50.00 X 20/120 = £10.00  
 Net Value = £60.00-£10.00 = £50.00

Net Value = £50.00  
 VAT = £ 10.00  
 Total = £ 60.00

Please note that where purchases are made for the school's private fund operations (e.g. supplies for a tuck shop), **VAT cannot be recovered**, and the supplies should not be purchased through the schools official accounts bank account. (See also the section on private funds below.)

### VAT on Sales (“Output Tax”)

Where a supply of goods or services is made by the school (or income is received), it is necessary to decide whether or not VAT should be charged. In general, if a service is being provided in competition with the private sector or the aim is to make a profit then VAT should be charged. If, however, the supply is to another part of the Council (e.g. another school, Council department etc) then VAT should not be charged.

If it is necessary to produce an invoice for goods or services provided by the school, this should conform to the requirements of a tax invoice and should carry the Council's VAT registration number which is 222 8069 76.

If VAT is to be charged, 17.5% should be added to the net value of the charge as follows:-

Net Charge = £60.00  
 VAT = £60.00 X 20/100 = £12.00

Net Value = £60.00  
 VAT = £ 12.00  
 Total = £72.00

If it is necessary to calculate VAT on income received gross, the calculation shown in the section on input tax would apply (i.e. VAT = 20/120).

Listed below are areas related to schools' income where attention should be paid to the treatment of VAT.

## Sales to Pupils

### “Classroom” Sales

By a special concession, curriculum-related items sold to pupils or below cost are not subject to VAT. These are termed “classroom sales”, and fall into two broad categories:-

- sales representing the cost of materials for items made in class e.g. woodwork or pottery items. These are by their nature curriculum-related and the sale is not subject to VAT.
- Sales of other items such as pens, calculators and musical instruments.

In order for the sale of items such as pens, calculators and musical instruments not to be subject to VAT, the following conditions have to be met:-

- the supplies are made “in-class” (see below) by the school to its local authority pupils;
- the goods are sold at or below cost;
- the goods are incidental to the provision of education forming part of the normal school curriculum and required for “regular classroom use” (see below);
- the goods are not clothing (see separate section) or sports equipment;
- bags sold in this way should be of the flat A4 size “book bag” type only. No other types of bags (whether or not they carry the school logo) cannot be sold without the addition of VAT.

“In class” means via the teacher or headteacher, and not by a separate entity such as a school shop or direct to the pupil from an outside trader. In all cases, the supplies should be purchased by the school and re-sold to pupils. VAT can be recovered by the school on items purchased. “Regular classroom use” means that the item can be taken home if required but needs to be brought to school at least on a weekly basis. There is no specific monetary limit on individual items that can be supplied, but items such as particularly expensive musical instruments (for which a less expensive but adequate substitute is available) should not be supplied in this way. These rules are to prevent unfair competition with normal commercial outlets who sell similar items.

### **Sales of Clothing**

Sales of clothing cannot be made under the “classroom sales” rules and are subject to normal VAT regulations, where the VAT liability as between zero and standard rated is determined by the size of the articles concerned. The only exception to this is that all primary school uniform items bearing the school logo can be zero rated irrespective of size. Please note that if the school is supplying uniform items, VAT can be recovered on supplies purchased but must also be charged (where appropriate) on the sales. If the items are being sold through the private fund, no VAT can be recovered.

### **Sales of Food and Drink**

The following brief guide applies to food and drink supplied by a local authority or an external contractor acting on its behalf as its agent.

The basic VAT treatment of supplies of food and drink is as follows:-

- supplies to students and pupils in the main canteen or cafeteria are not subject to VAT;
- supplies to staff and visitors in the main canteen or cafeteria are subject to VAT (these now have to be separately treated even if “point of sale” information does not exist, by estimate if necessary);
- supplies made outside the main canteen or cafeteria are subject to VAT, unless the supply is by a shop run by the school’s private fund;
- if vending machines operated by the local authority are located in the main canteen or cafeteria, the supplies are not subject to VAT;
- if vending machines operated by the local authority are located elsewhere, VAT should be charged.

### **Charges for Private Use of Telephones and Photocopiers**

VAT should be accounted for on charges made for the private use of telephones and photocopiers. VAT should also be added to call charges recouped from employees whose domestic telephone bills are paid by the school.

## **Organised School Visits/Journeys**

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### **Curriculum-related Visits provided at Cost (or below)**

As long as school visits are curriculum-related and pupils are charged no more than the net cost incurred, VAT is recoverable on costs and no VAT needs to be added to the charge made to the pupil. It is important therefore to determine the cost to be charged to pupils by reference to the net cost (i.e. VAT-exclusive). The headteacher must sign a document certifying that the visit is curriculum-related. The fact that a trip is not undertaken by all pupils does not prevent it being classed as curriculum-related as the term does not imply that it is a mandatory part of the curriculum.

Please note that the former requirement of a subsidy from school funds of at least 10% of the cost no longer applies.

### **Non-Curriculum-related Visits or any Visit provided at Above-Cost**

In either of these circumstances, no VAT is recoverable on costs. If a charge above-cost is made to pupils, then the Tour Operators' Margin Scheme applies. Under this scheme, VAT should be charged on the margin above cost only.

## **Charging of VAT on Income Received**

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### **Lettings (Other than Sports Facilities)**

Generally, hall or room hire is exempt from VAT and no VAT is chargeable. Where an optional service subject to VAT (e.g. catering) is supplied along with the room hire, VAT should only be added to the charge for the additional service, with the room hire charge remaining exempt.

If tea and coffee and the use of equipment (e.g. an overhead projector) is provided with the room hire, this can be included in the exempt room hire charge unless a separately identifiable charge is made for the additional facilities, when VAT would need to be added to this element.

Where a service subject to VAT is a mandatory part of the room booking, e.g. room hire is not provided without a combined catering supply from the same source, VAT must be added to the **whole charge**.

### **Lettings of Sports Facilities**

Lettings of sports facilities (e.g. pitches, sports halls) are subject to VAT unless the letting is for a period exceeding 24 hours or qualifies as a "series of lets" (often termed a "block booking"). A "series of lets" is defined as:-

- 10 or more;

- where each letting is for the same activity;
- there is no more than 14 days between each letting;
- an agreement detailing the series of lets is in place at the outset (or payment is made in advance);
- the let is to a club or association.

### **Advertising or Sponsorship**

Income from the sale of advertising space or from sponsorship (where the sponsor's name or product is promoted) is subject to VAT.

### **Donations**

Donations (including those from the school's private fund) are not subject to VAT.

### **Creche Fees**

Creche fees are exempt from VAT provided that the creche is registered under the provisions of the Children Act.

### **Private Funds**

Income from fund-raising activities paid into the school's private fund is not subject to VAT. Annual "taxable" income to private funds, however, should not exceed £54,000 per year. If this occurs, the private fund itself may need to be separately registered for VAT. Taxable income is income from supplies that would be subject to VAT if made by a business registered for VAT. An example would be confectionery sold by a school shop run by the private fund.

# Working Time Directive

## Introduction

The European Community (EC) Working Time Directive became European law during November 1996. The regulations applied to employees of the London Borough of Richmond upon Thames, including school based employees became law in the United Kingdom on 1 October 1998.

## The Basic Regulations

**Weekly Working Time** – Employees are not to exceed an average 48 hour working week, the average is taken over a 17 week period, called a reference period. Employees may exclude themselves from this limit by completing the necessary exception form, available from Personnel.

**Daily Rest** – Employees are entitled to have 11 hours of consecutive rest in each 24 hour period. When this is not possible owing to shift changes or similar circumstances, then compensatory rest periods should be allowed. Exceptions are allowed for staff working on split duties.

**Weekly Rest** – Adult employees are entitled to an uninterrupted rest period of 24 hours in each seven day period, however this can be taken over a 14 day period to allow one 48 hours rest period instead of two separate 24 hours breaks. A younger worker (aged 15-17) is entitled to a 48 hours rest period during a seven day period.

**Rest Breaks** – Adult employees are entitled to a rest break if they work more than six hours per day, the break should be at least 20 minutes and the worker can spend it away from their work station. A younger (aged 15-17) working more than four-and-a-half hours should have a break of 30 minutes.

**Night Work** – A night workers normal hours cannot exceed an average eight hours for each 24 hours in the 17 week reference period. Night workers are entitled to have a free health assessment at regular intervals, this will be undertaken by the Council's Occupational Health Unit.

## Enforcement

Where the employees consider that daily rest, daily breaks and weekly rest periods are being infringed and they cannot seek agreement for changes with their employer, they may apply to an employment tribunal who will consider the case and may order the employer to pay compensation.

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## Register of Business and Pecuniary Interests for School Staff & Governors

This register applies both to staff and governors. The disclosures should also include business and pecuniary interests of relatives and other individuals who may exert influence over the school.

The register of interests would help to avoid any conflict between ones' business, personal interests and affairs and the interests of the school. It is meant to protect both the public funds against corruption and oneself against any such possible charges.

Items to be included:

**Business and Pecuniary interests** to be mentioned only when it affects or influences dealings with the school.

**School Interests** include, but are not limited to:

Directorships, share holdings or other appointments of influence within a business which may directly influence dealings with the school.

A declaration of interest must also be made where other appointments of influence with a business or other organisation may influence dealings with a school.

Examples of such cases:

*Where one may be invited by the school to tender for a certain job.*

*Where one is involved in purchases made by the school.*

*If one is a bank manager at a bank where the school may be banking.*

*If, as an accountant, one audits the schools' accounts.*

*If one is running the payroll of the school.*

**Finances** only where directly relevant to the school.

*See next page for statement of interest form to be completed by each governor and member of staff annually.*

**Statement of Business and Pecuniary Interests for School Staff & Governors**

\_\_\_\_\_ School

I have read the attached notes and confirm that interests which may compromise my independence and/or position are listed below:


**or**

I have no pecuniary interests

(pLase tick if appropriate)

Name: .....

Position: .....

Signature: .....

Date: .....

PLase return to the Headteacher for confidential filing.

## Appendix

## 2

# EU Contract Thresholds

Contract Thresholds at and above which the UK Regulations apply, as at 1 January 2014. The financial thresholds are set out below. (All values exclude VAT).

	<b>SUPPLIES</b>	<b>SERVICES</b>	<b>WORKS</b>
Contract threshold	£172,514	£172,514	£4,322,012
	Euro 207,000	Euro 207,000	Euro 5,186,000
Prior Indicative Notices (PIN)	£625,050	£625,050	£4,322,012
	Euro 750,000	Euro 750,000	Euro 5,186,000

Contract Thresholds at and above which the UK Regulations apply, as at 1 January 2016. The financial thresholds are set out below. (All values exclude VAT).

	<b>SUPPLIES</b>	<b>SERVICES</b>	<b>WORKS</b>
Contract threshold	£106,047	£106,047	£4,104,394
	Euro 135,000	Euro 135,000	Euro 5,225,000
Prior Indicative Notices (PIN)	£589,148	£589,148	£4,104,394
	Euro 750,000	Euro 750,000	Euro 5,225,000

**EU Contract Thresholds are detailed within the “Scheme for Financing Schools” document. This should be checked in conjunction with these details.**