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▼ Menu



[Home](#) > [School and college funding and finance](#) > [Schemes for financing schools](#)



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for Education](#)



[Education & Skills
Funding Agency](#)

Statutory guidance

Schemes for financing local authority maintained schools 2023 to 2024

Updated 31 March 2023

Applies to England

Contents

1. Summary
2. The outline scheme
3. Introduction
4. Financial controls
5. Instalments of the budget share and banking arrangements
6. The treatment of surplus and deficit balances arising in relation to budget shares
7. Income
8. The charging of school budget shares
9. Taxation
10. The provision of services and facilities by the local authority
11. Private finance initiative (PFI) and public private partnerships (PPP)
12. Insurance
13. Miscellaneous
14. Responsibility for repairs and maintenance
15. Community facilities
16. Changes from Issue 14 of this guidance
17. Annex A: The funding framework main features
18. Annex B: Responsibility for redundancy and early retirement costs
19. Annex C: Application of schemes for financing schools to the community facilities power
20. Annex D: Earlier directed revisions

 [Print this page](#)

1. Summary

1.1 About this guidance

This is issue 15 of statutory guidance given by the Secretary of State pursuant to s.48(4) and paragraph 2A(2) of Schedule 14 to the School Standards and Framework Act 1998, [School Standards and Framework Act 1998](#).

Local authorities are required to publish schemes for financing schools, setting out the financial relationship between them and the schools they maintain. This guidance lists the provisions which a local authority's scheme must, should or may include. Schemes need not follow the format used in this guidance, except for the text of directed revisions.

In making any changes to their schemes, other than directed revisions, local authorities must consult all maintained schools in their area and receive the approval of the members of their schools forum representing maintained schools. Local authorities must take this guidance into account when they revise their schemes, in consultation with the schools forum.

Find out what has changed in this [issue](#).

1.2 Directed revisions

The Secretary of State may by a direction revise the whole or any part of the scheme as from such date as may be specified in the direction. In order to make a directed revision to schemes, the Secretary of State is required, by provisions in the School Standards and Framework Act 1998, to consult the relevant local authorities and other interested parties.

There are no new directed revisions in this issue. For previous revisions see annex D.

1.3 Other important changes to the guidance

Paragraph 7.4: Income from the sale of assets

Further guidance on retention of funds from the sale of land assets.

2. The outline scheme

We use the following references throughout this statutory guidance:

- “the act” is the [School Standards and Framework Act 1998](#)
- “the authority” is the local authority
- “the regulations” are [School and Early Years Finance \(England\) Regulations 2023](#)

The regulations state that schemes must deal with the following matters:

- the carrying forward from one funding period to another of surpluses and deficits arising in relation to schools' budget shares

- amounts which may be charged against schools' budget shares
- amounts received by schools which may be retained by their governing bodies and the purposes for which such amounts may be used
- the imposition, by or under the scheme, of conditions which must be complied with by schools in relation to the management of their delegated budgets and of sums made available to governing bodies by the local authority which do not form part of delegated budgets, including conditions prescribing financial controls and procedures
- terms on which services and facilities are provided by the local authority for schools maintained by them
- the payment of interest by or to the local authority
- the times at which amounts equal in total to the school's budget share are to be made available to governing bodies and the proportion of the budget share to be made available at each such time
- the virement between budget heads within the delegated budget
- circumstances in which a local authority may delegate to the governing body the power to spend any part of the authority's non-schools education budget or schools budget in addition to those set out in section 49(4)(a) to (c) of the 1998 act
- the use of delegated budgets and of sums made available to a governing body by the local authority which do not form part of delegated budgets
- borrowing by governing bodies
- the banking arrangements that may be made by governing bodies
- a statement as to the personal liability of governors in respect of schools' budget shares having regard to section 50(7) of the 1998 act
- a statement as to the allowances payable to governors of a school which does not have a delegated budget in accordance with the scheme made by the local authority for the purposes of section 519 of the 1996 act
- the keeping of a register of any business interests of the governors and the head teacher
- the provision of information by and to the governing body
- the maintenance of inventories of assets
- plans of a governing body's expenditure
- a statement as to the taxation of sums paid or received by a governing body
- insurance.
- the use of delegated budgets by governing bodies so as to satisfy the local authority's duties imposed by or under the Health and Safety at Work etc Act 1974
- the provision of legal advice to a governing body
- funding for child protection issues
- how complaints by persons working at a school or by school governors about financial management or financial propriety at the school will be dealt with and to whom such complaints should be made
- expenditure incurred by a governing body in the exercise of the power conferred by section 27 of the 2002 act

3. Introduction

3.1 The funding framework

The scheme should have an introductory section which describes the main features of the current funding framework.

A specimen description is at [Annex A](#). This may be amended, added to or replaced by a different version, but the scheme should aim for at least this level of detail. In particular, it should be made clear where the funding formula and details of centrally retained expenditure are set out, since these are no longer in the scheme.

3.2 The role of the scheme

The scheme should contain a paragraph which explains the role of the scheme itself. This should explain that the scheme sets out the financial relationship between the local authority and the maintained schools which it funds. It should make it clear that the scheme contains requirements relating to financial management and associated issues, binding on both the local authority and on schools.

3.3 Application of the scheme to the local authority and maintained schools

As a description of its institutional coverage, the scheme should state that it applies in respect of all community, nursery, voluntary, foundation, community special or foundation special schools and pupil referral units (PRUs) maintained by the local authority. The schools which the local authority will be maintaining should be listed for information in an annex to the scheme.

The scheme applies to all community, nursery, special, voluntary, foundation (including trust), foundation special schools and PRUs maintained by the local authority, whether they are situated in the area of the authority or situated elsewhere. It does not apply to schools situated in the local authority's area which are maintained by another authority. Nor does it apply to academies.

3.4 Publication of the scheme

The publication requirements are contained in the regulations. They make clear that, as a minimum, the scheme must be published on a website which is accessible to the general public and that any revised version must be published by the date the revisions come into force, together with a statement that the revised scheme comes into force on that date.

3.5 Revision of the scheme

The scheme should contain a statement that any proposed revisions to the scheme will be the subject of consultation with the governing body and the head teacher of every school maintained by the local authority before they are submitted to the schools forum for their approval.

All proposed revisions must be submitted to the schools forum for approval by members of the forum representing maintained schools. Where the schools forum does not approve them or approves them subject to modifications which are not acceptable to the local authority, the authority may apply to the Secretary of State for approval.

It is also possible for the Secretary of State to make directed revisions to schemes after consultation. Such revisions become part of the scheme from the date of the

direction.

3.6 Delegation of powers to the head teacher

The scheme should require the governing body to consider the extent to which it wishes to delegate its financial powers to the head teacher, and to record its decision (and any revisions) in the minutes of the governing body.

The scheme should state the responsibilities of the head teacher and governing body in respect of the annual budget plan; the first formal budget plan of each financial year must be approved by the governing body, or by a committee of the governing body.

It is open to the local authority to suggest to schools what might be a desirable level of delegation to head teachers, but the scheme must not seek to impose any particular level of delegation.

3.7 Maintenance of schools

The scheme should have a provision stating that the local authority is responsible for maintaining the schools covered by the scheme, and this includes the duty of defraying all the expenses of maintaining them (except in the case of a voluntary aided school where some of the expenses are, by statute, payable by the governing body). Part of the way a local authority maintains schools is through the funding system put in place under sections 45 to 53 of the School Standards and Framework Act 1998.

4. Financial controls

4.1 General procedures

Application of financial controls to schools

The scheme should contain a general provision requiring schools, in the management of their delegated budgets, to abide by the local authority's requirements on financial controls and monitoring, not only those in the scheme but also those requirements contained in more detailed publications referred to in the scheme.

The local authority's requirements can differ for schools with their own bank accounts.

Provision of financial information and reports

The scheme should contain a provision requiring schools to provide the local authority with details of anticipated and actual expenditure and income, in a form and at times determined by the authority. However, the scheme should not require submission of such details more often than once every three months except for those connected with tax or banking reconciliation; unless the local authority has notified the school in writing that in its view the school's financial position requires more frequent submission or the school is in its first year of operation.

The scheme should also make clear that the restriction to a minimum three month interval does not apply to schools which are part of an on-line financial accounting system operated by the local authority.

The form determined by the local authority for submission of information should so far as possible take account of the consistent financial reporting framework and the desirability of compatibility with that framework.

This is different from a requirement for annual budget plans.

Payment of salaries and payment of bills

The scheme may have a provision which applies separately published administrative procedures for these. Those procedures will vary according to the position on delegation of funds and any buyback of services which is in place.

Control of assets

The scheme should have a provision requiring each school to maintain an inventory of its moveable non-capital assets, in a form to be determined by the local authority, and setting out the basic authorisation procedures for disposal of assets.

However, schools should be free to determine their own arrangements for keeping a register of assets worth less than £1,000. The scheme should encourage schools to register anything that is portable and attractive, such as a camera. They should keep a register in some form.

Although local authorities can determine the form of inventory for items above the £1,000 threshold, they may instead determine simply that schools should follow guidance, rather than a rigid format.

Accounting policies, including year-end procedures

The scheme should have a provision requiring schools to abide by procedures issued by the local authority for this.

Writing off of debts

The scheme may authorise governing bodies to write off debts up to a stipulated level, with brief details of the procedure to be followed for larger debts.

4.2 Basis of accounting

The scheme may contain a provision requiring that reports and accounts furnished to the local authority be on either a cash or accruals basis; but the scheme must not seek to impose either system on schools' internal systems.

The intention behind this provision is to ensure that although local authorities should be able to have reports furnished on the basis they need, they should not be able to dictate to schools how they organise their accounts. This means in particular that schools should be able to use what financial software they wish, provided they meet any costs of modification to provide output required by the local authority.

4.3 Submission of budget plans

The scheme should contain a provision requiring each school to submit a plan to the local authority by a stipulated date showing its intentions for expenditure in the current financial year and the assumptions underpinning the budget plan. The provision may

require the submission of revised plans throughout the year.

The scheme should also contain a provision binding the local authority to supply schools with all school income and expenditure data which it holds which is necessary for efficient planning by schools, and supply schools with an annual statement showing when this information will be available at times through the year.

The scheme should contain a provision which allows schools to take full account of estimated deficits and surpluses at the previous 31 March in their budget plan.

The form determined by the local authority for submission of budget plans should so far as possible take account of the consistent financial reporting framework and the desirability of compatibility with that.

Local authorities may insert in their schemes a requirement that provisional budget plans be submitted by a certain date; but these should be differentiated from the formal budget plan which should not be required before 1 May.

The school's formal annual budget plan must be approved by the governing body or a committee of the governing body.

The stipulated date for the initial submission of the plan should not be earlier than 1 May or later than 30 June.

The intervals at which revisions may be required should not be more often than once every three months.

The format of the plan should be specified by the local authority in a separate publication. Local authorities may wish to give guidance to schools on assumptions likely to be the same for all schools; inflation, for example.

Submission of financial forecasts

From the 2021 to 2022 funding year each school must submit a three-year budget forecast each year, at a date determined by the local authority between 1 May and 30 June.

Local authorities should consider the extent to which such forecasts may be used for more than just confirming schools are undertaking effective financial planning or not. For instance, they could be used as evidence to support the local authority's assessment of schools financial value standards or used in support of the authority's balance control mechanism.

Local authorities must inform schools of the purposes for which they intend to use these 3-year budget forecasts: such a forecast may be used in conjunction with an authority's balance control mechanism.

4.4 School resource management

The scheme must include the following provision, which imposes a requirement on schools to manage their resources to maximise pupil outcomes.

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

It is for heads and governors to determine at school level how to optimise the use of resources and maximise value for money.

There are significant variations in the effective management of resources between similar schools, and so it is important for schools to review their current expenditure, compare it to other schools and think about how to make improvements.

4.5 Virement

The scheme should contain a provision allowing schools to vire freely between budget heads in the expenditure of their budget shares.

4.6 Audit: general

The scheme should contain a provision which places schools within an audit regime determined by the local authority as regards internal audit, and the authority's external audit regime as determined by the Local Audit and Accountability Act 2014, and requires them to co-operate with it.

Local authorities should ensure that the wording of the general audit provision includes a requirement to provide access to the school's records for both internal and external auditors.

The scheme may provide for different local authority audit arrangements for schools having their own bank account, compared with non-bank account schools.

4.7 Separate external audits

The scheme should contain a provision which specifically allows a governing body to spend funds from its budget share to obtain external audit certification of its accounts, separate from any local authority internal or external audit process.

There is no expectation by the Secretary of State that routine annual external audit at school level of budget share expenditure should be a usual feature of the funding system, merely that schools should not be prevented from seeking an additional source of assurance at their own expense.

The local authority's audit regime may include sample visits to schools by the authority's external auditors. There is no need to specifically allow for this in the scheme since the general provision covers it.

4.8 Audit of voluntary and private funds

A scheme should contain a provision requiring schools to provide audit certificates in respect of voluntary and private funds held by schools, and of the accounts of any trading organisations controlled by the school.

The purpose of such a provision is to allow the local authority to satisfy itself that public funds are not being misused.

Local authorities must not seek to impose through the scheme a right to audit such funds themselves or otherwise access the accounts of private funds. We do not believe that such access is required, or that the scheme can bestow it.

A school refusing to provide audit certificates to the local authority as required by the

scheme is in breach of the scheme and the authority can take action on that basis. Access to the accounts of such funds by other agencies is a matter for them. Any other requirement as to audit of such funds is a matter for those making the funds available, and any Charity Commission requirements.

4.9 Register of business interests

The scheme must contain a provision which requires the governing body of each school to have a register which lists for each member of the governing body and the head teacher:

- any business interests they or any member of their immediate family have
- details of any other educational establishments that they govern
- any relationships between school staff and members of the governing body

And to keep the register up to date with notification of changes and through annual review of entries, to make the register available for inspection by governors, staff and parents, and the local authority and to publish the register, for example on a publicly accessible website.

The local authority may issue more detailed guidance on the maintenance of such a register.

4.10 Purchasing, tendering and contracting requirements

The scheme should contain a provision which requires schools to abide by the local authority's financial rules and standing orders in purchasing, tendering and contracting matters. This should include a requirement to assess in advance the professional competence of any contractors in areas such as compliance with health and safety regulations, safeguarding practices and so on, taking account of the local authority's policies and procedures.

However, the scheme should also contain a provision which has the effect of disapplying from schools any provision of those rules or standing orders which would require them:

- to do anything incompatible with any of the provisions of the scheme or any statutory provision
- to seek local authority officer countersignature for any contracts for goods or services for a value below £60,000 in any one year
- to select suppliers only from an approved list
- or would permit schools to seek fewer than three tenders or quotations in respect of any contract with a value exceeding £10,000 in any one year, subject to specific listed exceptions

The fact that a local authority contract has been let in accordance with procurement procedures does not in itself make it possible to bind a school into being part of that contract. For the purposes of the procurement procedures, schools are viewed as discrete contracting authorities.

The countersignature requirement should be applied sensibly by local authorities and schools alike, avoiding attempts to artificially aggregate or disaggregate orders to avoid or impose the requirement.

Schools may seek advice on a range of compliantly procured deals via [buying for](#)

4.11 Application of contracts to schools

The scheme should contain a provision which makes clear the right of schools to opt out of local authority arranged contracts.

The scheme should include a provision which makes clear that although governing bodies are empowered under paragraph 3 of schedule 1 to the Education Act 2002 to enter into contracts, in most cases they do so on behalf of the local authority as maintainer of the school and the owner of the funds in the budget share (this is the main reason for allowing authorities to require authority counter-signature of contracts exceeding a certain value).

The provision should also however make clear that other contracts may be made solely on behalf of the governing body, when the governing body has clear statutory obligations; for example, contracts made by aided or foundation schools for the employment of staff.

4.12 Central funds and earmarking

The scheme must contain a general provision authorising the local authority to make sums available to schools from central funds, in the form of allocations which are additional to and separate from the schools' budget shares.

The scheme should stipulate that such allocations should be subject to conditions setting out the purpose or purposes for which the funds may be used; and while these conditions need not preclude virement (except where the funding is supported by a specific grant which the local authority itself is not permitted to vire), this should not be carried to the point of assimilating the allocations into the school's budget share.

Such allocations might, for example, be sums for SEN or other initiatives funded from the central expenditure of a local authority's schools budget or other authority budget.

The scheme should contain a requirement that such earmarked funding from centrally retained funds is spent only on the purposes for which it is given, or on other budget heads for which earmarked funding is given and is not vired into the budget share. There should be an accounting mechanism for schools to be able to demonstrate that this requirement has been complied with.

The local authority may include a requirement that earmarked funds must be returned to the authority if not spent within any period stipulated by the authority over which schools are allowed to use the funding.

The scheme should include a provision barring the local authority from making any deduction, in respect of interest costs to the authority, from payments to schools of devolved specific grant.

4.13 Spending for the purposes of the school

Although section 50(3) of the School Standards and Framework Act allows governing bodies to spend budget shares for the purposes of the school, this is subject to regulations made by the Secretary of State and any provisions of the scheme.

As well as the various standard provisions local authorities may wish to propose their own restrictions on this freedom, arising from local circumstances. By virtue of section 50(3A) (which came into force on 1 April 2011), amounts spent by governing bodies on community facilities or services under section 27 of the Education Act 2002 will be treated as if spent for any purposes of the school.

Under section 50(3)(b) the Secretary of State may prescribe additional purposes for which expenditure of the budget share may occur. They have done so in the School Budget Shares (Prescribed Purposes) (England) Regulations 2002 (SI 2002/378), which have been amended by the School Budget Shares (Prescribed Purposes) (England)(Amendment) Regulations 2010 (SI 2010/190).

These allow schools to spend their budgets on pupils who are on the roll of other maintained schools or academies.

4.14 Capital spending from budget shares

The scheme should contain a provision specifically allowing governing bodies to use their budget shares to meet the cost of capital expenditure on the school premises. This includes expenditure by the governing body of a voluntary aided school on work which is their responsibility under paragraph 3 of Schedule 3 to the act.

However, the local authority may if it wishes stipulate that if there is expected capital expenditure from the budget share the governing body must notify the authority; and that it must take into account any advice from the Director of Children's Services as to the merits of the proposed expenditure if it exceeds the figure of £15,000 (or some higher sum).

The scheme may specify that if the premises are owned by the local authority, or the school has voluntary controlled status, then the governing body should seek the consent of the authority to the proposed works, but such consent can be withheld only on health and safety grounds.

The reason for these provisions is to help meet responsibilities with the School Premises (England) Regulations 2012, the Workplace (Health, Safety and Welfare) Regulations 1992, the Regulatory Reform (Fire Safety) Order 2005, the Equality Act 2010, and the Building Regulations 2010.

Where any cash values appear in schemes local authorities may wish to update them when they revise the scheme.

These provisions would not affect expenditure from any capital allocation made available by the local authority outside the delegated budget share.

4.15 Notice of concern

The scheme should include a provision that allows the local authority to issue a notice of concern to any of its maintained schools. Model text is provided below but alternative wording could be used, including any additional conditions, prohibitions or limitations a local authority considers to be relevant in support of a notice of concern.

The local authority may issue a notice of concern to the governing body of any school it maintains where, in the opinion of the Chief Finance Officer and the Director of Children's Services, the school has failed to comply with any provisions of the scheme, or where actions need to be taken to safeguard the financial position of the authority or the school.

Such a notice will set out the reasons and evidence for it being made and may place on the governing body restrictions, limitations or prohibitions in relation to the management of funds delegated to it.

These may include:

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

The notice will clearly state what these requirements are and the way in which and the time by which such requirements must be complied with in order for the notice to be withdrawn. It will also state the actions that the local authority may take where the governing body does not comply with the notice.

The purpose of this provision is to enable a local authority to set out formally any concerns it has regarding the financial management of a school it maintains and require a governing body to comply with any requirements it deems necessary.

The principal criterion for issuing a notice, and determining the requirements included within it, must be to safeguard the financial position of the local authority or school.

It should not be used in place of withdrawal of financial delegation where that is the appropriate action to take; however, it may provide a way of making a governing body aware of the local authority's concerns short of withdrawing delegation and identifying the actions a governing body should take in order to improve their financial management to avoid withdrawal.

Where a local authority issues a notice of concern the scheme should provide for the notice to be withdrawn once the governing body has complied with the requirements it imposes.

In placing this provision in their scheme, a local authority may wish to consider the way in which a dispute between it and the school it is issuing a notice to regarding any aspect of the notice may be resolved.

4.16 Schools financial value standard (SFVS)

All local authority maintained schools (including nursery schools and PRUs that have a delegated budget) must demonstrate compliance with the SFVS and complete the assessment form on an annual basis. It is for the school to determine at which time of the year they wish to complete the form.

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

specified deadline and an agreed owner. Governors must monitor the progress of these actions to ensure that all actions are cleared within specified deadlines.

For the financial year 2023 to 2024, schools should submit their SFVS to their local authority no later than 31 March 2024.

Local authorities should submit their assurance statement to DfE within 6 weeks, no later than 31 May 2024.

4.17 Fraud

All schools must have a robust system of controls to safeguard themselves against fraudulent or improper use of public money and assets.

The governing body and head teacher must inform all staff of school policies and procedures related to fraud and theft, the controls in place to prevent them and the consequences of breaching those controls. This information must also be included in the induction for new school staff and governors.

5. Instalments of the budget share and banking arrangements

Local authorities having adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Local Authorities' may wish to refer in the scheme to the fact that they have done so.

For the purposes of this section, budget share includes any place-led funding for special schools or PRUs.

5.1 Frequency of instalments

The scheme should contain a provision which sets out the frequency with which the budget share will be made available to governing bodies. This should be at least once a term. Furthermore, the scheme should require the local authority to make available budget share instalments on a monthly basis to schools which so request it; but the request should be made prior to the start of the relevant financial year.

Top up payments for pupils with high needs should be made on a monthly basis unless alternative arrangements have been agreed with the provider.

Some local authorities have asked why there should be budget share instalments for schools with no bank accounts. Section 50(2) of the Act provides that local authorities shall make budget shares available at times and in such a manner as prescribed by the scheme. Some local authorities do make funds available on a termly basis even if there is no bank account.

If a local authority wishes to provide that in effect a non-bank account school may draw on its entire budget share from the start of the year (although in practice this would not happen), it should say so in the scheme.

If a local authority is administering payroll for a school, the authority can ask the school concerned to consider whether it actually needs to take up the option, granted under the scheme, of receiving funds gross of salary costs.

5.2 Proportion of budget share payable at each instalment

The scheme should make clear on what basis the proportion of the budget share will be made available to schools, both in relation to the inclusion of estimated pay costs and any weighting which means that instalments are not of equal size.

Where monthly instalments are made available, the scheme should allow schools to opt for instalments of the total budget share to be made available to them by payment into a school bank account, although budget shares net of estimated pay costs can be offered monthly as well.

The scheme should also set out the way in which the local authority will calculate the initial estimate of pay costs. This can be different for different sizes of school or for primary and secondary schools, but may not differentiate between categories of school, except where the estimate takes account of information supplied by individual schools.

Any differential weighting of termly or monthly instalments is a matter for local authority discretion provided the weighting is reasonable.

Schemes may make different provisions as to frequency and proportion of instalments for schools with bank accounts and those without.

5.3 Interest clawback

The scheme may provide for the local authority to deduct from budget share instalments an amount equal to the estimated interest lost by the authority in making available the budget share in advance.

Where such provision is made the scheme should explain the justification for a clawback and clearly show the calculation basis of the deduction, taking account of the frequency options offered by the scheme.

The precise methodology for clawback calculations is for the local authority to determine; any reasonable basis will be approved provided it is simple to understand and does not go further than recovering lost interest. Where the whole budget share is to be paid into accounts on a monthly basis, payment at a date close to that on which salaries are due will act to reduce loss of interest.

5.4 Interest on late budget share payments

The scheme should include a provision requiring the local authority to add interest to late payments of budget share instalments, where such late payment is the result of authority error.

The interest rate used should be that used for clawback calculations or if no such clawback mechanism is in place, at least the current Bank of England base rate.

5.5 Budget shares for closing schools

The scheme may provide for budget shares of schools for which approval for discontinuation has been secured, to be made available until closure on a monthly basis net of estimated pay costs, even where some different basis was previously

used.

5.6 Bank and building society accounts

The scheme should permit all maintained schools to have external bank accounts into which their budget share instalments (as determined by other provisions) are paid.

The scheme should also provide that where schools have such accounts they shall be allowed to retain all interest payable on the account unless they choose to have an account within a local authority contract which makes other provision.

Local authorities may provide that schools without bank accounts cannot have one until any deficit balance is cleared; and that any school requesting a bank account at a later date shall not be able to have one until any deficit is cleared.

Schemes should include a provision stipulating that if a school opens an external bank account the local authority must, if the school desires, transfer immediately to the account an amount agreed by both school and authority as the estimated surplus balance held by the authority in respect of the school's budget share, on the basis that there is then a subsequent correction when accounts for the relevant year are closed.

Schemes can require all schools to have such accounts, but there is no expectation that this would normally be the case.

Bank accounts as referred to here do not include imprest accounts, although there is nothing to prevent local authorities offering imprest accounts to schools as an alternative.

5.7 Restrictions on accounts

The scheme should specify which banks or building societies accounts may be held with for the purpose of receiving budget share payments. The approved list should be consistent with the local authority's treasury management policy.

The scheme should allow schools to have accounts for budget share purposes which are in the name of the school rather than the local authority. However, if a school has such an account the scheme should require that the account mandate provides that the local authority is the owner of the funds in the account, that it is entitled to receive statements, and that it can take control of the account if the school's right to a delegated budget is suspended by the authority.

The authority can continue to have arrangements negotiated with certain banks whereby the accounts are in the name of the local authority but specific to each school, and offer such arrangements to schools.

Budget share funds paid by the local authority and held in school accounts remain authority property until spent (section 49(5) of the act).

Schemes may contain a provision restricting the signatories for bank accounts, but such provisions should allow at least local authority employees and school employees to be signatories.

Such a provision should not be limited to local authority employees only, because this is not practicable for foundation or aided schools. Schemes may bar governors who are not members of staff from being signatories.

The scheme should not contain provisions restricting the use of direct debits or standing orders for a bank account operated by a school, except where the account is part of a local authority contract.

5.8 Borrowing by schools

The scheme should contain a provision reminding schools that governing bodies may borrow money (which includes the use of finance leases) only with the written permission of the Secretary of State. The Secretary of State's general position is that schools will only be granted permission for borrowing in exceptional circumstances. From time to time, however, the Secretary of State may introduce limited schemes in order to meet broader policy objectives.

The scheme must contain a provision that allows schools to use any scheme that the Secretary of State has said is available to schools without specific approval.

Schemes may explicitly bar schools from using interest bearing credit cards and overdrafts, which are regarded as borrowing. However, they should encourage the use of procurement cards by schools, as these cards can be a useful means of facilitating electronic purchase. Schemes may also permit the use of credit or charge cards. However, no interest charges should be incurred by the school, with balances fully cleared on a monthly basis.

The restrictions do not apply to Trustees and Foundations, whose borrowing, as private bodies, makes no impact on government accounts.

These debts may not be serviced directly from the delegated budget, but schools are free to agree a charge for a service which the trustees or foundation are able to provide as a consequence of their own borrowing.

Governing bodies do not act as agents of the local authority when repaying loans.

This provision does not apply to loan schemes run by the local authority. The introduction of IFRS 16 has been postponed in relation to 2023 to 2024.

5.9 Other provisions

Schemes may apply separate detailed rules and guidance in respect of other aspects of banking arrangements, provided no aspect of those rules and guidance conflicts with the scheme's own requirements.

Such additional rules and guidance may relate in particular to types of account as well as operating procedures.

6. The treatment of surplus and deficit balances arising in relation to budget shares

6.1 Right to carry forward surplus balances

The scheme must contain a provision which allows schools to carry forward from one financial year to the next any shortfall in expenditure relative to the school's budget share for the year plus/minus any balance brought forward from the previous year.

The scheme should explain the basis on which the amount of any balance to be transferred to a school's bank account would be calculated on a provisional basis for a school having a new bank account, and the date by which the transfer would occur, pending a later reconciliation.

The amount of a surplus balance would be shown in the relevant outturn statement published in accordance with directions given by the Secretary of State under section 251 of the Apprenticeships, Skills, Children and Learning Act 2009; although there may be commitments against any figure shown in such a statement.

6.2 Controls on surplus balances

The scheme may contain a mechanism to claw back excess surplus balances.

Any mechanism should have regard to the principle that schools should be moving towards greater autonomy, should not be constrained from making early efficiencies to support their medium-term budgeting in a tighter financial climate, and should not be burdened by bureaucracy.

The mechanism should, therefore, be focused on only those schools which have built up significant excessive uncommitted balances or where some level of redistribution would support improved provision across a local area.

6.3 Interest on surplus balances

Schemes must contain a provision which makes it clear whether balances held by the local authority on behalf of schools will attract interest. If such balances do attract interest the scheme itself may show the basis of calculation, or there may be reference to separate guidance issued from time to time.

6.4 Obligation to carry forward deficit balances

The scheme must contain a provision which has the effect of carrying forward deficit balances, by providing for deficits to be deducted from the following year's budget share.

The deficit balance would be shown on the outturn statement published in accordance with directions given by the Secretary of State under section 251 of the Apprenticeships, Skills, Children and Learning Act 2009; although this might be shown gross of committed expenditure and therefore appear lower than would otherwise be the case.

6.5 Planning for deficit budgets

Schools must submit a recovery plan to the local authority when their revenue deficit rises above 5% at 31 March of any year. Local authorities may set a lower threshold than 5% for the submission of a recovery plan if they wish. The 5% deficit threshold will first apply when deficits are measured as at 31 March 2023.

6.6 Charging of interest on deficit balances

The scheme may contain a provision permitting the local authority to charge interest on deficit balances. If so the basis on which interest is charged must be made clear in the scheme itself.

6.7 Writing off deficits

The scheme should contain a provision which makes it clear that the local authority cannot write off the deficit balance of any school.

If a local authority wishes to give assistance towards elimination of a deficit balance this should be through the allocation of a cash sum, from the authority's schools budget, taken from a centrally held budget specified for the purpose of expenditure on special schools and pupil referral units in financial difficulty or, in respect of mainstream maintained schools, from a de-delegated contingency budget where this has been agreed by schools forum.

6.8 Balances of closing and replacement schools

Where in the funding period, a school has been established or is subject to a prescribed alteration as a result of the closure of a school, a local authority may add an amount to the budget share of the new or enlarged school to reflect all or part of the unspent budget share, including any surplus carried over from previous funding periods, of the closing school for the funding period in which it closes.

6.9 Licensed deficits

A local authority may include in its scheme provision for an arrangement whereby schools are allowed to plan for a deficit budget.

Such an arrangement is normally funded by the collective surplus of school balances held by the local authority on behalf of schools, although it is open to an authority with no such surplus to make alternative arrangements if it can do so within the relevant local authority finance legislation.

Although such a provision may refer to other guidance on the operation of the deficit arrangement, the scheme itself should specify the:

- maximum length, not to exceed 3 years, over which schools may repay the deficit (reach at least a zero balance), with appropriate mechanism to ensure that the deficits are not simply extended indefinitely
- purposes for which the deficit arrangement may be agreed
- maximum size of the deficits which may be agreed; this may be by reference to the size of the budget share or in cash terms or some combination
- maximum proportion of the collective balances held by the local authority which will be used to back the arrangement
- role of the Director of Children's Services and the Chief Finance Officer of the Local Authority in agreeing any arrangements for individual schools

It is open to a local authority to extend such an arrangement by inviting schools holding balances in external bank accounts to use some or all of those balances to back the arrangement; if so the scheme should make clear the basis on which this

would occur.

Balances held by a school in an external bank account remain the property of the local authority, if made available by the authority initially, and therefore may legally be taken into account by the authority in assessing the total level of licensed deficit which it might wish to make to schools.

However, the Secretary of State believes that it is right that schools be asked to give a view as to whether the local authority should take them into account in this way, and that this provides assurance for the authority as well as schools.

Under a licensed deficit scheme the only effect on budget and outturn statements is that in the latter, the balance goes into deficit because expenditure is at a higher level than the budget share, but this deficit reduces to zero by the end of the repayment period because the school has to constrain its expenditure to effect the repayment. No 'payment' to the school is recorded.

In circumstances where a school requires a budget share advance in order not to be overdrawn at their bank, this should be treated as a cash advance and not a loan. This will have no effect on the school's budget and outturn statements.

6.10 Loan schemes

It is open to a local authority to include in its scheme a form of loan arrangement for schools that does not operate by way of a licensed deficit, but rather by way of actual payments to schools or expenditure by the authority in respect of a particular school on condition that a corresponding sum is repaid from the budget share; if so, the same parameters for the arrangement should appear in the scheme as listed above for licensed deficits.

Again, a local authority may wish to invite schools with balances in external accounts to use some or all of those balances to back a loan scheme, and the scheme should make clear on what basis this would occur.

If there is a loan scheme on this basis the local authority must show in its budget statements the amount centrally retained for what would be a devolved payment to schools, and the payment should appear in the outturn statements.

Loans must only be used to assist schools in spreading the cost over more than one year of large one-off individual items of a capital nature that have a benefit to the school lasting more than one financial or academic year.

Loans must not be used as a means of funding a deficit that has arisen because a school's recurrent costs exceed its current income.

If loans are made to fund a deficit, the Secretary of State will consider using the power under paragraph 13(4)(d) of Schedule 1 to the Academies Act 2010 to make a direction to the effect that such a loan does not transfer, either in full or part, to the new academy school in individual cases.

Credit union approach

In some areas, as an alternative if no other scheme is available, schools may wish to group together to utilise externally held balances for a credit union approach to loans. If so, the local authority should include provision in its scheme to require audit certification, if the authority does not itself act as administrator of the arrangement.

7. Income

The basic principle to which schemes should adhere is that schools should be able to retain income except in certain specified circumstances.

7.1 Income from lettings

The scheme should contain a provision which allows schools to retain income from lettings of the school premises which would otherwise accrue to the local authority, subject to alternative provisions arising from any joint use of private finance initiative (PFI) or public private partnerships (PPP) agreements.

The scheme should expressly allow schools to cross-subsidise lettings for community and voluntary use with income from other lettings, provided the governing body is satisfied that this will not interfere to a significant extent with the performance of any duties imposed on them by the education acts, including the requirement to conduct the school with a view to promoting high standards of educational achievement.

However, schools should be required to have regard to directions issued by the local authority as to the use of school premises, as permitted under the act for various categories of schools.

Income from lettings of school premises should not normally be payable into voluntary or private funds held by the school. However, where land is held by a charitable trust, it will be for the trustees to determine the use of any income generated by the land.

7.2 Income from fees and charges

The scheme should contain a provision allowing schools to retain income from fees and charges except where a service is provided by the local authority from centrally retained funds. However, schools should be required to have regard to any policy statements on charging produced by the local authority.

Income from boarding charges is collected on behalf of the local authority and should not exceed that needed to provide board and lodging for the pupils concerned.

7.3 Income from fund-raising activities

The scheme should contain a provision which makes it clear that schools are allowed to retain income from fund-raising activities.

7.4 Income from the sale of assets

The scheme should contain a provision which allows schools to retain the proceeds of sale of assets, except in cases where the asset was purchased with non-delegated funds (in which case it should be for the local authority to decide whether the school should retain the proceeds), or the asset concerned is land or buildings forming part of the school premises and is owned by the authority. Any retention of

funds from the sale of land assets is subject to the consent of the Secretary of State, and any conditions the Secretary of State may attach to that consent relating to use of proceeds.

The retention of proceeds of sale for premises not owned by the local authority will not be a matter for the scheme.

7.5 Administrative procedures for the collection of income

The scheme may have a provision which applies separate rules on this to schools, but only for income which accrues to the local authority; for example, where a school has contracted with the council meals service.

The local authority may wish to take advice from its local VAT business advice centre as to whether schools should charge VAT on lettings and on the services which lead to fees and charges, and on the VAT implications of fund raising activities and sale of assets.

7.6 Purposes for which income may be used

The scheme may have a provision that income from sale of assets purchased with delegated funds may only be spent for the purposes of the school.

8. The charging of school budget shares

8.1 General provision

The scheme should contain a provision which allows the budget share of a school to be charged by the local authority without the consent of the governing body only in circumstances expressly permitted by the scheme and requires local authorities to consult schools as to the intention to so charge, and notify schools when it has been done.

Schemes may provide for a disputes procedure for such charges.

Although the right of local authorities to protect their financial position from liabilities caused by the action or inaction of governing bodies by charging budget shares is well established, the government is anxious to ensure that schools are clearly aware of the circumstances in which this may happen.

Schemes must therefore list the circumstances in which such charging is permitted. The main ones are given below, and local authorities may add others or omit some if they consider them unnecessary.

It may be useful to remind schools that the local authority cannot act unreasonably in the exercise of any power given by the scheme, or it may be the subject of a direction under section 496 of the Education Act 1996.

For each of these circumstances the local authority would have to be able to demonstrate that they had necessarily incurred the expenditure now charged to the

budget share. This means that where the local authority cannot incur a liability because the statutory responsibility rests elsewhere, no charging is possible. Therefore, the position on charging will vary between categories of school.

In some cases, the ability to charge budget shares depends on the local authority having given prior advice to the governing body. Local authorities need to ensure that they have taken steps that enable them to give advice whenever possible and will wish to remind schools of this.

For the avoidance of doubt, local authorities may de-delegate funding for permitted services without the express permission of the governing body, provided this has been approved by the appropriate phase representatives of the schools forum.

8.2 Charging of salaries at actual cost

The scheme should have a provision which requires the local authority to charge salaries of school-based staff to school budget shares at actual cost.

8.3 Circumstances in which charges may be made

1. Where premature retirement costs have been incurred without the prior written agreement of the local authority to bear such costs (the amount chargeable being only the excess over any amount agreed by the authority).
2. Other expenditure incurred to secure resignations where there is good reason to charge this to the school (see [Annex B](#)).
3. Awards by courts and employment tribunals against the local authority, or out of court settlements, arising from action or inaction by the governing body contrary to the authority's advice. Awards may sometimes be against the governing body directly and would fall to be met from the budget share. Where the local authority is joined with the governing body in the action and has expenditure as a result of the governing body not taking authority advice, the charging of the budget share with the authority expenditure protects the authority's position. Local authorities should ensure in framing any such advice that they have taken proper account of the role of aided school governing bodies.
4. Expenditure by the local authority in carrying out health and safety work or capital expenditure for which the authority is liable where funds have been delegated to the governing body for such work, but the governing body has failed to carry out the required work.
5. Expenditure by the local authority incurred in making good defects in building work funded by capital spending from budget shares, where the premises are owned by the authority or the school has voluntary controlled status.
6. Expenditure incurred by the local authority in insuring its own interests in a school where funding has been delegated but the school has failed to demonstrate that it has arranged cover at least as good as that which would be arranged by the authority. The local authority itself needs to consider whether it has an insurable interest in any particular case.
7. Recovery of monies due from a school for services provided to the school, where a dispute over the monies due has been referred to a disputes procedure set out in a service level agreement, and the result is that monies are owed by the school to the local authority.
8. Recovery of penalties imposed on the local authority by His Majesty's Revenue and Customs (HMRC), Teachers' Pensions, the Environment Agency or other regulatory authorities as a result of school negligence.
9. Correction of local authority errors in calculating charges to a budget share; for

- example, pension deductions. Before applying any such provision, the local authority should consider whether it is reasonable to do so. If the error dates back several years it may be questionable whether such charging is reasonable.
10. Additional transport costs incurred by the local authority arising from decisions by the governing body on the length of the school day, or failure to notify the authority of non-pupil days resulting in unnecessary transport costs.
 11. Legal costs which are incurred by the local authority because the governing body did not accept the advice of the authority.
 12. Costs of necessary health and safety training for staff employed by the local authority, where funding for training had been delegated but the necessary training not carried out.
 13. Compensation paid to a lender where a school enters into a contract for borrowing beyond its legal powers, and the contract is of no effect.
 14. Cost of work done in respect of teacher pension remittance and records for schools using non-local authority payroll contractors, the charge to be the minimum needed to meet the cost of the authority's compliance with its statutory obligations.
 15. Costs incurred by the local authority in securing provision specified in an education, health and care (EHC) plan where the governing body of a school fails to secure such provision despite the delegation of funds in respect of low cost high incidence SEN or specific funding for a pupil with high needs.
 16. Costs incurred by the local authority due to submission by the school of incorrect data.
 17. Recovery of amounts spent from specific grants on ineligible purposes.
 18. Costs incurred by the local authority as a result of the governing body being in breach of the terms of a contract.
 19. Costs incurred by the local authority or another school as a result of a school withdrawing from a cluster arrangement, for example where this has funded staff providing services across the cluster.
 20. Costs incurred by the local authority in administering admissions appeals, where the local authority is the admissions authority and the funding for admission appeals has been delegated to all schools as part of their formula allocation.

9. Taxation

9.1 Value Added Tax (VAT)

The scheme should include a provision which summarises the procedure schools should follow in order to be able to utilise the local authority's ability to reclaim VAT on expenditure relating to non-business activity. The provision should stipulate that amounts so reclaimed will be passed back to the school.

The provision would normally refer to more detailed separate guidance. Detailed guidance issued by the local authority should make clear what the normal timescale for reimbursement is.

HMRC has agreed that VAT incurred by schools when spending any funding made available by the local authority is treated as being incurred by the authority and qualifies for reclaim by the authority.

This does not include expenditure by the governors of a voluntary aided school when carrying out their statutory responsibilities to maintain the external fabric of their buildings.

Local authorities may find it useful to consult local VAT business advice centres on issues regarding VAT reimbursement.

9.2 Construction Industry Scheme (CIS)

The scheme should contain a provision requiring schools to abide by procedures issued by the local authority in connection with CIS.

10. The provision of services and facilities by the local authority

10.1 Provision of services from centrally retained budgets

The scheme should contain a provision which makes it clear that it is for the local authority to determine on what basis services from centrally retained funds will be provided to schools.

The provision should be drawn in a way that clearly encompasses existing premature retirement costs and redundancy payments, which may not ordinarily be thought of as services.

The scheme should contain a provision barring the local authority from discriminating in its provision of services on the basis of categories of schools, except where this would be permitted under the School and Early Years Finance Regulations or the dedicated schools grant conditions of grant.

10.2 Provision of services bought back from the local authority using delegated budgets

The scheme should contain a provision limiting the term of any arrangement with a school to buy services or facilities from the local authority to a maximum of 3 years from the date of the agreement, and periods not exceeding 5 years for any subsequent agreement or extensions relating to the same services.

However, schemes for contracts for supply of catering services may be limited to a maximum of 5 years, with a maximum agreement of 7 years if the contract is extended.

There is no minimum period, although arrangements lasting less than 2 years may well be uneconomic.

The scheme should contain a provision which requires that when a service is provided for which expenditure is not retainable centrally by the local authority under the regulations made under section 45A of the act, it should be offered at prices which are intended to generate income which is no less than the cost of providing those services.

The total cost of the service should be met by the total income, even if schools are charged differentially.

This provision complements the implied requirements of the regulations on central retention of funds. It is recognised that absolute break-even or profit is not always achievable over fixed financial years; it is for the local authority to show during audit tests that the charging policy can reasonably be expected to avoid central subsidy of services.

10.3 Packaging

The scheme should contain a provision to the effect that any service which a local authority is providing on a buyback basis must be offered in a way which does not unreasonably restrict schools' freedom of choice among the services available, and where practicable, this will include provision on a service-by-service basis as well as in packages of services.

This provision would not prevent local authorities offering packages of services which offer a discount for schools taking up a wider range of services, but authorities are encouraged to offer services singly as well as in combination.

10.4 Service level agreements

The scheme should provide that service level agreements must be in place by a certain date to be effective for the following financial year, and that schools must have at least a month to consider the terms of agreements.

The scheme should contain a provision which stipulates that if services or facilities are provided under a service level agreement, whether free or on a buyback basis, the terms of any such agreement starting on or after the inception of the scheme will be reviewed at least every three years if the agreement lasts longer than that.

The scheme should explicitly provide that services, if offered at all by the local authority, will be available on a basis which is not related to an extended agreement, as well as on the basis of such agreements.

Where services are provided on an ad hoc basis they may be charged for at a different rate than if provided on the basis of an extended agreement.

The scheme should specifically exclude centrally arranged premises and liability insurance from these requirements as to service supply, as the limitations envisaged may be impracticable for insurance purposes.

10.5 Teachers' Pensions

The scheme should provide that governing bodies of schools which provide payroll services should submit a monthly return of salary and service to the local authority.

Governing bodies should also ensure that details of additional voluntary contributions (AVCs) are passed to the local authority within the time limit specified in the AVC scheme. The standard text for this is:

"In order to ensure that the performance of the duty on the local authority to supply Teachers' Pensions with information under the Teachers' Pension Scheme Regulations 2014, the following conditions are imposed on the authority and governing bodies of all maintained schools covered by this scheme in relation to their budget shares.

The conditions only apply to governing bodies of maintained schools that have not entered into an arrangement with the local authority to provide payroll services.

A governing body of any maintained school, whether or not the employer of the teachers at such a school, which has entered into any arrangement or agreement with a person other than the local authority to provide payroll services, shall ensure that any such arrangement or agreement is varied to require that person to supply salary, service and pensions data to the authority which the authority requires to submit its monthly return of salary and service to Teachers' Pensions and to produce its audited contributions certificate.

The local authority will advise schools each year of the timing, format and specification of the information required. A governing body shall also ensure that any such arrangement or agreement is varied to require that AVCs are passed to the local authority within the time limit specified in the AVC scheme. The governing body shall meet any consequential costs from the school's budget share.

A governing body of any maintained school which directly administers its payroll shall supply salary, service and pensions data to the local authority which the authority requires to submit its monthly return of salary and service to Teachers' Pensions and to produce its audited contributions certificate.

The local authority will advise schools each year of the timing, format and specification of the information required from each school. A governing body shall also ensure that AVCs are passed to the local authority within the time limit specified in the AVC scheme. The governing body shall meet any consequential costs from the school's budget share."

11. Private finance initiative (PFI) and public private partnerships (PPP)

A local authority may wish to insert into its scheme other provisions relating to PFI and PPP projects. Amongst other issues these might deal with the reaching of agreements with the governing bodies of schools as to the basis of such charges, and the treatment of monies withheld from contractors due to poor performance.

Among PFI and PPP provisions may be one which formally sets out the power of the local authority to charge to the school's budget share amounts agreed under a PFI or PPP agreement entered into by the governing body of a school.

12. Insurance

12.1 Insurance cover

The scheme should contain a provision which stipulates that if funds for insurance are delegated to any school, the local authority may require the school to demonstrate that cover relevant to an authority's insurable interests, under a policy arranged by the governing body, is at least as good as the relevant minimum cover arranged by the authority if the authority makes such arrangements, either paid for from central funds or from contributions from schools' delegated budgets.

The evidence required to demonstrate the parity of cover should be reasonable, not place an undue burden upon the school, nor act as a barrier to the school exercising

their choice of supplier.

The scheme must require the local authority to have regard to the actual risks which might reasonably be expected to arise at the school in question in operating such a requirement, rather than applying an arbitrary minimum level of cover for all schools. Instead of taking out insurance, a school may join the Secretary of State's Risk Protection Arrangement (RPA) for risks that are covered by the RPA.

The scheme should contain a provision which allows schools to join the RPA after 1 April 2020. Schools may do this individually when any insurance contract of which they are part expires.

The scheme should also provide for all primary and/or secondary maintained schools to join the RPA collectively by agreeing through the schools forum to de-delegate funding.

13. Miscellaneous

13.1 Right of access to information

As well as specific requirements listed above, the scheme may require governing bodies to supply all financial and other information which might reasonably be required to enable the local authority to satisfy itself as to the school's management of its delegated budget share, or the use made of any central expenditure by the authority on the school; for example, earmarked funds.

13.2 Liability of governors

The scheme should contain a provision which points out that because the governing body is a corporate body, and because of the terms of section 50(7) of the act, governors of maintained schools will not incur personal liability in the exercise of their power to spend the delegated budget share provided they act in good faith.

An example of behaviour which is not in good faith is the carrying out of fraudulent acts. Breaches of the scheme are not in themselves failures to act in good faith; neither is rejection of local authority advice as to financial management.

13.3 Governors' Allowances

Schools without delegated budgets

The scheme should have a provision which allows the local authority to delegate to the governing body of a school yet to receive a delegated budget, funds to meet governors' expenses.

Governing bodies would not normally have discretion in the amounts of such allowances, which would be set by the local authority.

Under section 50(5) of the act, only allowances in respect of purposes specified in regulations made under section 19 of the Education Act 2002 may be paid to governors from a school's delegated budget share.

The scheme should contain a provision forbidding payment of any other allowances. Schools should also be barred from payment of expenses duplicating those paid by the Secretary of State to additional governors appointed by them to schools under special measures.

Schools with delegated budgets

For schools with delegated budgets, local authorities may publish, separately from the scheme, a guide to what it considers to be reasonable expenses.

13.4 Responsibility for legal costs

The scheme may contain a provision pointing out that legal costs incurred by the governing body may be charged to the school's budget share, unless the governing body acts in accordance with the advice of the local authority; although this is the responsibility of the authority, as part of the cost of maintaining the school unless they relate to the statutory responsibility of voluntary aided school governors for buildings.

The effect of this is that a school cannot expect to be reimbursed for the cost of legal action against the local authority itself; although there is nothing to stop an authority making such reimbursement if it believes this to be desirable or necessary in the circumstances.

The costs referred to are those of legal actions, including costs awarded against a local authority; not the cost of legal advice provided.

A scheme should explain the procedure which schools should follow in obtaining legal advice where there is a conflict of interest between the local authority and the governing body.

This does not mean that a special procedure should be established, but governing bodies should be made aware of the potential problems that may arise and how they may resolve these.

13.5 Health and safety

The scheme should include a provision requiring governing bodies, in expending the school's budget share, to have due regard to duties placed on the local authority in relation to health and safety, and the authority's policy on health and safety matters in the management of the budget share.

13.6 Right of attendance for Chief Finance Officer

The scheme should require governing bodies to permit the Chief Finance Officer of the local authority, or any officer of the authority nominated by the Chief Finance Officer, to attend meetings of the governing body at which any agenda items are relevant to the exercise of their responsibilities.

The Chief Finance Officer's attendance should normally be limited to items which relate to issues of probity or overall financial management; such attendance should not be regarded as routine. The local authority should give prior notice of such attendance unless this is impracticable.

13.7 Special educational needs

Local authorities may wish to insert a provision requiring schools to use their best endeavours in spending the budget share, to secure the special educational needs of their pupils.

Although this is anyway a statutory requirement, the existence of such a scheme provision would make it possible to suspend delegation where a situation is serious enough to warrant it; this would not normally relate to an individual pupil.

13.8 Interest on late payments

The terms of the scheme cannot affect statutory requirements now introduced on this matter, but local authorities may wish to include a reminder in their schemes.

13.9 Whistleblowing

Schemes should contain a provision requiring local authorities to set out in the scheme the procedure to be followed by persons working at a school or school governors who wish to complain about financial management or financial propriety at the school, and how such complaints will be dealt with.

13.10 Child protection

The local authority should insert a provision explaining about the need to release staff to attend child protection case conferences and other related events, and whether the authority makes any payments to schools to help meet costs.

13.11 Redundancy and early retirement costs

The 2002 Education Act sets out how premature retirement and redundancy costs should normally be funded. If the local authority proposes to make local arrangements in accordance with the act, then the scheme should contain a provision setting out how this will work. Further guidance is provided at [Annex B](#).

14. Responsibility for repairs and maintenance

The scheme should include a statement showing the categories of work which governing bodies must expect to finance from their budget.

Local authorities should delegate funding for repairs and maintenance to schools; only capital expenditure is to be retained by authorities.

For these purposes, expenditure may be treated as capital only if it fits the definition of capital used by the local authority for financial accounting purposes in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on local authority accounting.

Schemes should state any de minimis limit the local authority intends to use for the definition of capital and revenue in assigning responsibility for types of work. Where local authorities do use de minimis limits for what expenditure is treated as capital and what is revenue in their financial accounts, the same de minimis limits should be used in defining what is delegated.

Some local authorities may wish to consider whether the level of the de minimis limit they use in defining the capital and revenue split provides an appropriate fit between the level of revenue funding the local authority actually provides to schools for repairs and maintenance and the level of devolved capital the school receives.

For instance, a local authority may have a relatively high de minimis limit, above a school's current allocation of one or two years' devolved capital. But if the local authority does not supply adequate revenue funding to provide the realistic option of the school meeting large revenue repair costs, the school may, as a result have difficulty in addressing a need either through revenue (because there is not enough) or through capital (because the works are defined as revenue). This might be resolved through lowering the de minimis limit.

For voluntary aided schools, the liability of the local authority for repairs and maintenance (albeit met by delegation of funds through the budget share) is the same as for other maintained schools, and no separate list of responsibilities is necessary for such schools.

However, eligibility for capital grant from the Secretary of State for capital works at voluntary aided schools depends on the de minimis limit applied by DfE to categorise such work, not the de minimis limit used by the local authority.

There is no obligation on local authorities to include a list of illustrative examples provided the way in which expenditure is treated as capital or non-capital is explained.

15. Community facilities

The scheme should contain an introductory section which describes the manner in which the scheme relates to the power to provide community facilities.

A specimen description is at [Annex C](#). This may be amended, but the end result should be that schools are clear how and why any use of the power is subject to the scheme provisions.

The scheme may have a provision which explains that mismanagement of community facilities funds can be grounds for suspension of the right to a delegated budget. This provision is discretionary because the power to suspend delegation, and the procedure to be used, arise from primary legislation, not the scheme itself.

15.1 Consultation with the local authority: financial aspects

Changes made by the Children and Families Act 2014 mean that schools no longer need to consult the local authority when establishing community facilities under Section 27 of the Education Act 2002. Nor do they have to have regard to advice given to them by their local authority.

However, as public bodies, they are expected to act reasonably, and this includes consulting those affected by decisions that they make.

15.2 Funding agreements: local authority powers

The provision of community facilities in many schools may be dependent on the conclusion of a funding agreement with a third party which will either be supplying funding or supplying funding and taking part in the provision. A very wide range of bodies and organisations are potentially involved.

The scheme should include a provision describing the local authority's requirements in relation to funding agreements with third parties, as opposed to funding agreements with the authority itself.

The local authority may impose a requirement that any such proposed agreement should be submitted to the authority for its comments and may impose a time requirement for doing so to give the authority adequate notice.

However, the scheme may not impose a right of veto for the local authority on such agreements, either directly or through requiring a right to countersign the agreement. If the third party requires local authority consent to the agreement for it to proceed, such a requirement and the method by which authority consent is to be signified is a matter for that third party, not for the scheme.

The Secretary of State does not consider that it is appropriate for local authorities to have a general power of veto for these agreements.

However, the scheme may remind schools that if an agreement has been or is to be concluded against the wishes of the local authority, or has been concluded without informing the authority, which in the view of the authority is seriously prejudicial to the interests of the school or the authority, that may constitute grounds for suspension of the right to a delegated budget.

15.3 Other prohibitions, restrictions and limitations

Although the scheme should not give a right of veto either to funding agreements with third parties, or for other proposed uses of the community facilities power, the scheme may make provision for the local authority to require that in a specific instance of use of the community facilities power by a governing body, the governing body concerned must make arrangements to protect the financial interests of the authority by either carrying out the activity concerned through the vehicle of a limited company formed for the purpose, or by obtaining indemnity insurance for risks associated with the project in question, as specified by the authority.

If the local authority has such a provision in its scheme it should operate it in a reasonable fashion, imposing such a requirement only where it has good reason to believe that the proposed project carries significant financial risks.

Section 28 provides that the exercise of the community facilities power is subject to prohibitions, restrictions and limitations in the scheme for financing schools.

The local authority may, if it wishes, propose other scheme provisions of that nature which they believe necessary. The restrictions should only be in existence if they are necessary to safeguard the financial position of the local authority or school, or to protect pupil welfare or education; such provisions should be as few in number as possible.

15.4 Supply of financial information

The scheme may contain a provision requiring schools which exercise the community

facilities power to provide the local authority every 6 months with a summary statement, in a form determined by the authority, showing the income and expenditure for the school arising from the facilities in question for the previous 6 months and on an estimated basis, for the next 6 months.

The scheme may contain a provision which allows the local authority, on giving notice to the school that it believes there to be cause for concern as to the school's management of the financial consequences of the exercise of the community facilities power, to require such financial statements to be supplied every three months and, if the authority sees fit, to require the submission of a recovery plan for the activity in question.

Financial information relating to community facilities will be included in returns made by schools under the consistent financial reporting (CFR) framework, and these should be relied upon by local authorities as their main source of information for the financial aspects of community facilities.

However, the CFR timetable is such that local authorities are likely to want supplementary information in order to ensure that schools are not at financial risk. Schedule 15 of the act provides that mismanagement of funds spent or received for community facilities is a basis for suspension of the right to delegation of the budget share.

These provisions do not preclude the insertion of other provisions in specific funding agreements between schools and the local authority as to the financial reporting requirements arising from the funding in question.

15.5 Audit

The scheme should contain a provision which requires the school to grant access to the school's records connected with exercise of the community facilities power, in order to facilitate internal and external audit of relevant income and expenditure.

The scheme should include a provision requiring schools, in concluding funding agreements with other persons pursuant to the exercise of the community facilities power, to ensure that such agreements contain adequate provision for access by the local authority to the records and other property of those persons held on the school premises, or held elsewhere insofar as they relate to the activity in question, in order for the authority to satisfy itself as to the propriety of expenditure on the facilities in question.

15.6 Treatment of income and surpluses

The scheme should contain a provision which allows schools to retain all net income derived from community facilities except where otherwise agreed with a funding provider, whether that be the local authority or some other person.

The scheme should contain a provision which allows the school to carry such retained net income over from one financial year to the next as a separate community facilities surplus.

15.7 Health and safety

The scheme should contain a provision which extends any health and safety

provisions of the main scheme to the community facilities power.

The scheme should contain a provision which places on the governing body responsibility for the costs of securing Disclosure and Barring Service clearance, where appropriate for all adults involved in community activities taking place during the school day.

Governing bodies would be free to pass on such costs to a funding partner as part of an agreement with that partner.

15.8 Insurance

The scheme should include a provision which makes it clear that it is the responsibility of the governing body to ensure adequate arrangements are made for insurance against risks arising from the exercise of the community facilities power, taking professional advice as necessary.

The scheme may require that the school seek the local authority's advice before finalising any insurance arrangement for community facilities.

In principle, the insurance issues arising from use of the community facilities power are the same as those which already arise from non-school use of school premises. However, a school proposing to provide community facilities should, as an integral part of its plans, undertake an assessment of the insurance implications and costs, seeking professional advice if necessary.

The scheme should include a provision which empowers the local authority to undertake its own assessment of the insurance arrangements made by a school in respect of community facilities, and if it judges those arrangements to be inadequate, make arrangements itself and charge the resultant cost to the school.

Such a provision is necessary in order for the local authority to protect itself against possible third-party claims.

Instead of taking out insurance, a school may join the RPA for risks that are covered by the RPA.

15.9 Taxation

The scheme should contain a provision which makes it clear that schools should seek the advice of the local authority and the local VAT office on any issues relating to the possible imposition of VAT on expenditure in connection with community facilities, including the use of the local authority VAT reclaim facility.

The scheme should contain a provision reminding schools that if any member of staff employed by the school or local authority in connection with community facilities at the school is paid from funds held in a school's own bank account, whether a separate account is used for community facilities or not, the school is likely to be held liable for payment of income tax and national insurance, in line with HMRC rules.

The scheme should contain a provision requiring schools to follow local authority advice in relation to the Construction Industry Scheme (CIS) where this is relevant to the exercise of the community facilities power.

15.10 Banking

The scheme should contain a provision setting out the requirements of the local authority as to the banking arrangements which schools should make in connection with the community facilities power.

The scheme may also contain provisions relating to the banks which may be used, signing of cheques, the titles of bank accounts, the contents of bank account mandates, and similar matters. The general approach to these matters should mirror those in the main part of the scheme.

16. Changes from Issue 14 of this guidance

We have made the following updates to reflect current policy positions and changes in legislation:

- Paragraph 1.1: Issue of the Statutory guidance changed – “issue 14” to “issue 15”

Paragraph 7.4: Income from the sale of assets

Further guidance on retention of funds from the sale of land assets.

17. Annex A: The funding framework main features

The funding framework which replaces Local Management of Schools is set out in the legislative provisions in sections 45 to 53 of the School Standards and Framework Act 1998.

Under this legislation, local authorities determine for themselves the size of their schools budget and their non-schools education budget, although at a minimum a local authority must appropriate its entire dedicated schools grant to its schools budget.

The categories of expenditure which fall within the 2 budgets are prescribed under regulations made by the Secretary of State, but included within the 2, taken together, is all expenditure, direct and indirect, on a local authority's maintained schools except for capital and certain miscellaneous items.

Local authorities may deduct funds from their schools budget for purposes specified in regulations made by the Secretary of State under section 45A of the act (the centrally retained expenditure).

The amounts to be deducted for these purposes are decided by the local authority concerned, subject to any limits or conditions, including gaining the approval of their schools forum or the Secretary of State in certain instances, as prescribed by the Secretary of State.

The balance of the schools budget left after deduction of the centrally retained expenditure is termed the individual schools budget (ISB). Expenditure items in the non-schools education budget must be retained centrally, although earmarked allocations may be made to schools.

Local authorities must distribute the ISB amongst their maintained schools using a formula which accords with regulations made by the Secretary of State, and enables the calculation of a budget share for each maintained school.

This budget share is then delegated to the governing body of the school concerned, unless the school is a new school which has not yet received a delegated budget, or the right to a delegated budget has been suspended in accordance with section 51 of the Act.

The financial controls within which delegation works are set out in a scheme made by the local authority in accordance with section 48 of the act and regulations made under that section.

All proposals to revise the scheme must be approved by the schools forum, though the local authority may apply to the Secretary of State for approval in the event of the forum rejecting a proposal or approving it subject to modifications that are not acceptable to the authority.

Subject to any provision made by or under the scheme, governing bodies of schools may spend such amounts of their budget shares as they think fit for any purposes of their school and for any additional purposes prescribed by the Secretary of State in regulations made under section 50 of the Act.

Section 50 has been amended to provide that amounts spent by a governing body on providing community facilities or services under section 27 of the Education Act 2002 are treated as if they were amounts spent for the purposes of the school (section 50(3A) of the act).

A local authority may suspend a school's right to a delegated budget if the provisions of the authority's financial scheme, or rules applied by the scheme, have been substantially or persistently breached, or if the budget share has not been managed satisfactorily.

A school's right to a delegated budget share may also be suspended for other reasons, under schedule 17 to the act.

Each local authority is obliged to publish each year a statement setting out details of its planned schools budget and other expenditure on children's services, showing the amounts to be centrally retained and funding delegated to schools; after each financial year the authority must publish a statement showing outturn expenditure.

The detailed publication requirements for financial statements are set out in directions issued by the Secretary of State.

A copy of each year's budget and outturn statement should be made easily accessible to all schools.

Regulations also require a local authority to publish their scheme and any revisions to it on a website accessible to the general public, by the date that any revisions come into force, together with a statement that the revised scheme comes into force on that date.

18. Annex B: Responsibility for redundancy and early retirement costs

This guidance note summarises the position relating to the charging of voluntary early retirement and redundancy costs. It sets out what is specified in legislation and provides some examples of when it might be appropriate to charge an individual school's budget, the central schools budget or the local authority's non-schools budget.

Section 37 of the 2002 Education Act says:

“(4) costs incurred by the local education authority in respect of any premature retirement of a member of the staff of a maintained school shall be met from the school’s budget share for one or more financial years except in so far as the authority agree with the governing body in writing (whether before or after the retirement occurs) that they shall not be so met.

(5) costs incurred by the local education authority in respect of the dismissal, or for the purpose of securing the resignation, of any member of the staff of a maintained school shall not be met from the school’s budget share for any financial year except in so far as the authority have good reason for deducting those costs, or any part of those costs, from that share.

(6) The fact that the local authority have a policy precluding dismissal of their employees by reason of redundancy is not to be regarded as a good reason for the purposes of subsection (5); and in this subsection the reference to dismissal by reason of redundancy shall be read in accordance with section 139 of the Employment Rights Act 1996 (c. 18).”

The default position, therefore, is that premature retirement costs must be charged to the school’s delegated budget, while redundancy costs must be charged to the local authority’s budget.

In the former case, the local authority has to agree otherwise for costs to be centrally funded, while in the latter case, there has to be a good reason for it not to be centrally funded, and that cannot include having a no redundancy policy.

Ultimately, it would be for the courts to decide what was a good reason, but the examples set out below indicate the situations in which exceptions to the default position might be taken.

Charge of dismissal or resignation costs to delegated school budget:

- if a school has decided to offer more generous terms than the local authority’s policy, then it would be reasonable to charge the excess to the school
- if a school is otherwise acting outside the local authority’s policy
- where the school is making staffing reductions which the local authority does not believe are necessary to either set a balanced budget or meet the conditions of a licensed deficit
- where staffing reductions arise from a deficit caused by factors within the school’s control
- where the school has excess surplus balances and no agreed plan to use these
- where a school has refused to engage with the local authority’s redeployment policy

Charge of premature retirement costs to local authority non-schools budget or central schools budget:

- where a school has a long-term reduction in pupil numbers and charging such costs to their budget would impact on standards
- where a school is closing, does not have sufficient balances to cover the costs and where the central schools budget does not have capacity to absorb the deficit
- where charging such costs to the school’s budget would prevent the school from complying with a requirement to recover a licensed deficit within the agreed timescale
- where a school is in special measures, does not have excess balances, and employment of the relevant staff is being or has been terminated as a result of local authority or government intervention to improve standards

Costs of early retirements or redundancies may be charged to the central school services block of the schools budget, as a historic commitment, where the

expenditure is to be incurred as a result of retirement and redundancy charges agreed before 1 April 2013. Costs may not exceed the amount budgeted in the previous financial year.

The local authority can retain a central budget within the schools budget to fund the costs of new early retirements or redundancies by a deduction from maintained school budgets, excluding nursery schools, only where the relevant maintained school members of the schools forum agree.

It is important that the local authority discusses its policy with its schools forum. Although each case should be considered on its merits, this should be within an agreed framework. It may be reasonable to share costs in some cases, and some local authorities operate a panel to adjudicate on applications.

A de-delegated contingency could be provided, if schools forum agree, to support individual schools where a governing body has incurred expenditure which it would be unreasonable to expect them to meet from the school's budget share.

For staff employed under the community facilities power, the default position is that any costs must be met by the governing body, and can be funded from the school's delegated budget if the governing body is satisfied that this will not interfere to a significant extent with the performance of any duties imposed on them by the education acts, including the requirement to conduct the school with a view to promoting high standards of educational achievement.

Section 37 now states:

“(7) Where a local education authority incur costs—

(a) in respect of any premature retirement of any member of the staff of a maintained school who is employed for community purposes, or

(b) in respect of the dismissal, or for the purpose of securing the resignation, of any member of the staff of a maintained school who is employed for those purposes they shall recover those costs from the governing body except in so far as the local authority agree with the governing body in writing (whether before or after the retirement, dismissal or resignation occurs) that they shall not be so recoverable.

(7A) Any amount payable by virtue of subsection (7) by the governing body of a maintained school in England to the local authority may be met by the governing body out of the school's budget share for any funding period if and to the extent that the condition in subsection 7(B) is met.

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

(8) Where a person is employed partly for community purposes and partly for other purposes, any payment or costs in respect of that person is to be apportioned between the 2 purposes; and the preceding provisions of this section shall apply separately to each part of the payment or costs.”

19. Annex C: Application of schemes for financing schools to the community facilities power

Schools which choose to exercise the power conferred by section 27 (1) of the

Education Act 2002 to provide community facilities will be subject to controls. Regulations made under section 28 (2), if made, can specify activities which may not be undertaken at all under the main enabling power.

Section 88 of the Children and Families Act 2014, has removed the requirements in section 28(4) and section 28(5) of the Education Act 2002 for maintained schools in England. Under section 28(4) a school was obliged to consult its local authority and under section 28(5) a school must have regard to advice or guidance from the Secretary of State or their local authority when offering this type of provision.

Under section 28(1), the main limitations and restrictions on the power will be those contained in the maintaining local authority's scheme for financing schools made under section 48 of the School Standards and Framework Act 1998 as amended by paragraph 2 of Schedule 3 to the Education Act 2002.

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

Schools are therefore subject to prohibitions, restrictions and limitations in the scheme for financing schools. This part of the scheme does not extend to joint-use agreements, transfer of control agreements, or agreements between the local authority and schools to secure the provision of adult and community learning.

20. Annex D: Earlier directed revisions

Following consultation that closed on 19 March 2012, the Secretary of State directs that from 1 April 2012 the text below should be incorporated into the schemes of all local authorities in England. The revised text was included in the 26 March 2013 version of the guidance.

Efficiency and value for money

The scheme must include the following provision, which imposes a requirement on schools to achieve efficiencies and value for money, to optimise their resources and invest in teaching and learning, taking into account the purchasing, tendering and contracting requirements.

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

It is for heads and governors to determine at school level how to secure better value for money. There are significant variations in efficiency between similar schools, and so it is important for schools to review their current expenditure, compare it to other schools and think about how to make improvements

Schools financial value standard (SFVS)

All local authority maintained schools, including nursery schools and PRUs that have a delegated budget) must demonstrate compliance with the SFVS and complete the assessment form on an annual basis. It is for the school to determine at which time of the year they wish to complete the form.

Governors must demonstrate compliance through the submission of the SFVS

assessment form signed by the chair of governors. The form must include a summary of remedial actions with a clear timetable, ensuring that each action has a specified deadline and an agreed owner. Governors must monitor the progress of these actions to ensure that all actions are cleared within specified deadlines.

Fraud

All schools must have a robust system of controls to safeguard themselves against fraudulent or improper use of public money and assets.

The governing body and head teacher must inform all staff of school policies and procedures related to fraud and theft, the controls in place to prevent them and the consequences of breaching those controls. This information must also be included in the induction for new school staff and governors.

Following consultation, the Secretary of State directs that from 19 August 2015 the text below shall be incorporated into the schemes of all local authorities in England.

Register of business interests

The scheme must contain a provision which requires the governing body of each maintained school to have a register which lists for each member of the governing body and the head teacher:

- any business interests that they or any member of their immediate family have
- details of any other educational establishments that they govern
- any relationships between school staff and members of the governing body

And to keep the register up to date with notification of changes and through annual review of entries, to make the register available for inspection by governors, staff and parents, and the local authority, and to publish the register, for example on a publicly accessible website.

Borrowing by schools

The scheme should contain a provision reminding schools that governing bodies may borrow money (which includes the use of finance leases) only with the written permission of the Secretary of State. The Secretary of State's general position is that schools will only be granted permission for borrowing in exceptional circumstances.

From time to time, however, the Secretary of State may introduce limited schemes in order to meet broader policy objectives. The scheme must contain a provision that allows schools to use any scheme that the Secretary of State has said is available to schools without specific approval.

Following consultation, the Secretary of State directs that from 22 March 2018 the text below shall be incorporated into the schemes of all local authorities in England.

Loan schemes

Loans will only be used to assist schools in spreading the cost over more than one year of large one-off individual items of a capital nature that have a benefit to the

school lasting more than one financial or academic year.

Loans will not be used as a means of funding a deficit that has arisen because a school's recurrent costs exceed its current income.

If loans are made to fund a deficit and a school subsequently converts to academy status, the Secretary of State will consider using the power under paragraph 13(4)(d) of Schedule 1 to the Academies Act 2010 to make a direction to the effect that such a loan does not transfer, either in full or part, to the new academy school.

Submission of financial forecasts

Following consultation that closed on 30 September 2019, from the 2021 to 2022 funding year each school must submit a 3-year budget forecast each year, at a date determined by the local authority between 1 May and 30 June.

Following consultation that closed on 30 September 2019, the Secretary of State directs that the text below shall be incorporated into the schemes of all local authorities in England, however due to coronavirus (COVID-19) the directed revision to follow will only be expected to be enforced from the 2021 to 2022 funding year.

Planning for deficit budgets

Schools must submit a recovery plan to the local authority when their revenue deficit rises above 5% at 31 March of any year. Local authorities may set a lower threshold than 5% for the submission of a recovery plan if they wish. The 5% deficit threshold will apply when deficits are measured as at 31 March 2023.

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