

# Financial Control no4

## Governors' Guidance on the Management of School Finances

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*Updates Sept 2024*

*5.3 reference to new procurement limits.*

*6.1.1 removed reference to three governors with finance skills and replaced with having one governor building a working relationship with school finance person.*

## 1. Introduction

Governors should be aware of their roles and responsibilities, accountability for public money and the school's model of governance. The following information together with the latest release of the Governance Handbook, the Scheme for Financing Schools and the school's own Terms of Reference and Finance Policy should be read and understood.

The school's clerk to the governors should be able to advise regarding governance regulations and how the school administers their meetings e.g., regularity of meetings and papers circulated at least seven days before each meeting.

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## 2. Approving the Budget

**2.1** Subject to provisions of the Scheme for Financing Schools, governing bodies of schools may spend budget shares for the purposes of their school or for pupils on the roll of other maintained schools. They may also spend budget shares on any additional purposes prescribed by the Secretary of State. This differs from the 'private sector' where financial decisions are made in line with a variety of priorities which can include additional rewards for staff and directors (parties, gifts, and

excursions), corporate events for customers and shareholders, and other activities as outlined in the business or organisational plan. Gifts and Hospitality in Kent maintained schools are detailed in the Kent Scheme for Financing (section 2.18)

**2.2** The school budget must be formally approved by the Full Governing Body unless this is delegated to a Committee as detailed in the Finance Policy.

**2.3** The approval of the budget should be clearly stated in the minutes of the Full Governing Body or delegated committee. In addition, the minutes should provide a summary of the discussion and challenge that took place prior to the approval of the budget, including a review of the analysis of year-end balances which supports the brought-forward figure, basis of income and pupil number projections, planned expenditure linked to the School Development Plan, staffing structure costs and service contracts etc. The planned carried forward figure to which the school is monitoring against is to be clearly minuted. The minutes should also show details of any management action taken to address either deficits or high levels of surplus to ensure that the LA balance control mechanism parameters are adhered to. It should be clear from the minutes that an informed decision was made and that the Governors provided the role of 'critical friend'.

The Governance Handbook states that Governors should have a strong focus on three core strategic functions –

- Ensuring clarity of vision, ethos and strategic direction
- Holding the Headteacher to account for the day to day running of the school and educational performance of the school and its pupils
- Overseeing the financial performance of the school and making sure its money is well spent

Every Ofsted inspection will comment on the quality of governance as part of the overall judgement of the school. Ofsted's expectation is that-

- Governors are kept informed and ask challenging questions
- Governors will hold the Headteacher to account. For finance they will look at the effective management of financial resources to raise standards

**2.4 Schools cannot plan for an overall deficit budget in any year. There are occasions when schools may plan for an in-year deficit. An in-year deficit is where the expenditure for the current year exceeds the funding / income for**

**that same year. E.g., where a school is contributing to a capital project. These must be one off costs that are not expected to happen year on year. Planning for an in-year deficit will impact on overall reserves.**

**2.5** Local Authorities (LA) are required to maintain a Scheme for Financing Schools which sets out the framework for the financial relationship between them and the schools they maintain (the Scheme). The Scheme must include procedures for maintaining effective financial management, securing value for money and providing financial information to the LA. In the event of a governing body not demonstrating appropriate control and management of its finances the LA has the power to issue a Notice of Concern or withdraw financial delegation (through the Scheme). The policy for this is included in section 7 of this control. [{go to section 7}](#)

These arrangements enable the governing body to spend the delegated budget, within the parameters of the Scheme and other statutory requirements. Governing bodies can spend the budget delegated under the Scheme.

- For the purposes of the school (usually taken to mean for the 'educational benefit of the school's pupils').
- For the benefit of pupils in other schools.
- To provide community facilities or services.

**2.6** In order to assist Governors with overseeing the financial performance of the school governors should take into consideration the following points during discussions prior to the approval of the budget.

### **Links to the School Development Plan**

- The school's aims and philosophies for both the immediate and long term.
- The allocation of resources that promotes the aims and values of the school.
- Resources are targeted at improving standards.
- The impact of all expenditure used to achieve these is evaluated.
- Where there is no obvious direct link to teaching and learning evaluate the expenditure for effectiveness.

### **Other Factors**

- The basis of the funding to the school (not just the Headteacher to understand the allocation).
- Understanding the impact of the factors that affect future funding and the impact this might have on the vision for the school and an overall surplus balance.

- Identify and analyse potential income and work with others to achieve it.
- Reflect and act on what financial resources can be released as a result of the creative use of resources e.g., ICT.
- Consider collaboration with others.
- Use benchmarking as a tool to investigate where a school is out of line with other schools for income and expenditure.
- Review the staffing structure, in particular performance related pay for all staff and the impact this has.
- The justification between the estimated pupil numbers for the current year and the following two years, the number of classes planned, number of teaching staff, related grades and additional responsibility points and number of support staff (hours).
- Separate income streams are spent in line with the rules surrounding them e.g. Pupil Premium.
- Seek to achieve value for money, for example by following LA Spending the Council's Money tendering requirements.

**2.7** The School Development Plan includes a statement of its educational goals to guide the planning process and is to cover in outline the school's educational priorities and budget plans for at least the next three years, showing the cost and how the use of resources is linked to the achievement of school goals. This should be reviewed regularly and updated as necessary by the Headteacher and Governors and be formally reviewed and approved by the Full Governing Body or delegated committee each year.

**2.8** The approved budget should be attached to the appropriate minutes and should be signed and dated by the Chair of Governors and the Headteacher to ensure that there is no doubt about the figures approved.

**2.9** The budget should be forwarded to Schools Financial Services in accordance with the financial returns timetable.

**2.10** In the event of school management being unable to finalise the budget before the required submission date, contact should be made with Schools Financial Services for further advice before the deadline.

**2.11** Should Schools Financial Services find any errors in the submitted budget, they will contact the school and discuss what adjustments should be made. In the event of any agreed adjustments, the Chair of Governors should ensure that school records are appropriately amended, and the amended version shared with the Full Governing Body.

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### **3. Virements (Changes) to the Budget**

**3.1** The Full Governing Body may choose to approve all virements to the agreed budget, or delegate all or some of the responsibility over a stated value for this function to the Headteacher or other appropriate Committee.

**3.2** Full details of any delegation should be clearly set out in the school's approved Finance Policy. Governors' minutes and other documentation should clearly demonstrate the school's compliance with the agreed process.

**3.3** Where responsibility for virements lies with the Full Governing Body, or delegated committee, details of all virements should be clearly minuted for the meetings where these decisions are made. Where any responsibility for this function has been delegated to the Headteacher, any virements should be reported and minuted at the next Full Governing Body or delegated committee meeting.

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### **4. Approval of Salary Changes and Pay Policy**

**4.1** The Full Governing Body must approve any changes in the Headteacher's salary after consideration by the appropriate Committee of the effect these changes will have on the school's budget. Details of these changes must be recorded in the appropriate meeting's minutes. The Chair of Governors should sign the letter notifying both the school's personnel and payroll providers of these changes. Copies of this letter should be retained in the Headteacher's personnel file.

**4.2** The Headteacher should sign the appropriate forms, which are sent annually to both the school's personnel and payroll providers, for changes in salaries for each member of the teaching and support staff. Any changes should be approved following consideration by the appropriate Committee of the effect they will have on the school's budget.

**4.3** As the largest monthly expense, the Full Governing Body or delegated committee, if delegated, are required to review, and the FGB approve the School's Pay Policy on an annual basis. The approval is to be recorded in the appropriate meeting minutes. (The Statutory School's Pay Policy covers Teachers Pay and Conditions. It is good practice to have/include support staff pay and conditions, but it is not statutory).

**4.4** The Full Governing Body or delegated committee needs to have discussed whether the school is adopting Kent County Council's (KCC) support staff pay scheme and the decision should be recorded in the appropriate meeting minutes. If

the school chooses to adopt its own scheme this should be reviewed annually and recorded in the appropriate meeting minutes.

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## **5. Approval for Expenditure**

**5.1** Even though approval to overall expenditure on each ledger code may have been given when setting the budget, the Full Governing Body should consider specifying a sum above which it, or the delegated committee approval is required before an order can be placed with a supplier.

**5.2** Full details of any delegation should be clearly set out in the school's approved Finance Policy. Governors' minutes and other documentation should clearly demonstrate the school's compliance with the agreed process.

**5.3** In accordance with Spending the Council's Money, the financial regulations of KCC, Governors should ensure the school is operating within the levels set out in the Scheme for Financing.

- For purchases up to £24,999\*, a minimum of one written quotation is considered good practice.
- For purchases of £25,000\* and up to the current public procurement threshold for goods and services or up to £1m for works, schools must obtain at least three written quotations.
- For purchases above that threshold for goods and services, or above £1m for works, a tendering procedure compliant with public procurement regulations is required. (see 5.5)

*\*These limits should be viewed as upper limits and therefore schools may agree to have a lower set of limits for obtaining three quotes that is in line with local knowledge.*

Quotes should be submitted to the Full Governing Body or delegated committee, for approval. Where a committee is authorised to approve expenditure at this level, the final decision needs to be reported to the Full Governing Body.

**5.4** All quotations should be retained, including those submitted by unsuccessful suppliers/contractors, in order to demonstrate that value for money is achieved. Governors' minutes should summarise the discussion of such quotations and the rationale of the final decision.

**5.5** Also in accordance with Spending the Council's Money and the financial regulations of KCC, the Governing Body must establish tendering procedures compliant with public procurement regulations within the school's approved finance

policy for purchases or contract work in excess of the public procurement threshold for goods and services, or above £1m for works, for which three written tenders must be sought. The Full Governing Body's approval should be given and recorded in minutes for the acceptance of a tender.

**5.6** The Full Governing Body or delegated committee should regularly review contracts / agreements for major purchases of goods and services, to ensure value for money is achieved.

**5.7** The Governing Body of each school is required to keep a register of business interests. The register must list for each member of the Governing Body, the Headteacher and any member of school staff involved in purchasing decisions any business interests they or any member of their immediate family have.

**5.8** The Governing Body are required to keep the register up to date with notification of changes through annual review of entries, and to make the register available for inspection by the LA, Governors, staff and parents which should also be published on a publicly available website. The register is formed from the Business Interest forms, completed, signed and dated every 12 months by the individuals themselves. Alternatively, schools that access Governor Hub can use the online feature to record business interests, this does not distract from publishing on a public website.

**5.9** Anybody with a business interest should not participate in discussions relating to those interests and at each Governor meeting where financial decisions are considered, a record of business interests being declared is to be recorded, including nil declarations. An agenda item for business interests should be included at every Governing Body/committee meeting and these declarations should be minuted.

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## **6. Financial Monitoring**

**6.1** The Full Governing Body should agree a process for monitoring the school budget and set it out in the school's approved Finance Policy. As a minimum, the Headteacher must carry out a monthly monitoring internal procedure, copied to the Chair of the relevant Committee. A monitoring report must be taken to all Finance (or equivalent) Committee meetings, which in turn must report to the Full Governing Body. An appropriate format for the monitoring report can be obtained from the LA and further detail is included under section 2. Monitoring reports must be sent to the LA in accordance with its financial returns timetable. Governor meetings need to be calendared to ensure that the six- and nine-month monitoring is reviewed timely at these meetings. Minutes of Governor meetings should demonstrate that presentation and discussion of budget monitoring information occurs regularly. The minutes should include a discussion of virements (within the limits defined in the school's approved finance policy), variances to the agreed three-year budget plan

and must include the figures relating to the forecast year-end position for both Revenue and Capital. Any surplus would need to be within the LA balance control mechanism parameters and any forecast deficit would require addressing through management plans. Care should be taken to ensure the information is accurate and timely and that Governor meetings review the latest monitoring information on a timely basis as well as any monitoring that is sent to the LA.

**6.1.1** The governing body must oversee financial performance and ensure public money is well spent. It will have at least one individual with relevant financial skills and experience, who can interrogate detailed financial data and who:

- builds a relationship with the school business professional (SBP) responsible for finance, such as the finance manager or school business manager
- acts as the link between the SBP and the governing body
- ensures the governing body has a correct understanding of the school's finances and financial performance

To ensure that everyone on the governing body has:

- a basic understanding of their school's financial cycle and legal requirements on accountability and spend
- an oversight of school spending
- an understanding of the school's financial position

**6.2** In the event of a Committee of the Governing Body considering financial reports or decisions, minutes must be provided to the Full Governing Body at each of its meetings. Alternatively, if individual or 'pairs' of Governors are considering financial reports or decisions then a summary report should be provided to the Full Governing Body. All financial reports and other documents considered should be attached to the relevant minutes.

**6.3** The year-end analysis report and the LA outturn report for the school should be presented to Governors for review. Their review and approval of the full year-end position and any variances from their last reviewed full year forecast should be discussed and understood by the Full Governing Body, and minuted.

**6.4** Each year, the Governors and staff with financial responsibility (e.g. Headteacher and Finance Officer) should compare the school's financial performance with that of similar schools, examine reasons for differences and take action where necessary. This is undertaken by using the Financial Benchmarking reports available on the DfE benchmarking website or Kent benchmarking data on Kelsi. The Governors' review of the benchmarking data and the comparisons made are to be minuted within the Full Governing Body or delegated committee meeting minutes.



**6.5** Governing bodies of maintained schools or management committees of pupil referral units (PRUs) have formal responsibility for the financial management of their schools, and so the standard is primarily aimed at governors or management committees.

**6.6** The SFVS is a self-assessment, it is a DfE document designed with schools to help them in managing their finances, to ensure the effective financial management of their resources and to provide assurance to the LA that they have secure financial management in place

**6.7** The completion and submission of the SFVS assessment and Related Party Transactions (RPT) are a mandatory requirement for local authority (LA) maintained schools.

It is a statutory requirement that all Kent schools complete and email the SFVS and RPT to the LA by 31 March on an annual basis and to retain a signed hard copy for reference and for inspection purposes. Full guidance available on KELSI.

**6.8** The SFVS will not be externally assessed however the LA will use the school's returns to inform their program of financial assessment and audit.

**6.9** Any audit reports and their findings should be reviewed by the Full Governing Body or delegated committee, on a timely basis. Any actions required in respect of the audit findings are either instigated or tracked to ensure any issues/findings are satisfactorily resolved. These audit reports can comprise Compliance Visits, Internal and External Audit reports and the Voluntary Fund Audit.

**6.10** Throughout this chapter, reference is made to delegations, detailed in the approved school Finance Policy and Terms of Reference (TOR) for the Finance Committee, or equivalent. These are key documents which specify financial arrangements and delegations and aid the school in ensuring its staff and Governors have a shared understanding of their own financial management roles, responsibilities and accountabilities. The TOR for the Finance Committee or equivalent recaps the areas which it has delegated responsibility for and is to be reviewed and approved annually by the Full Governing Body. The Finance Policy provides a recap on the main financial areas and the financial responsibilities of the Full Governing Body, its Finance Committee or equivalent, Headteacher and Finance Officer, if appropriate. It is also to be regularly reviewed and approved at least annually by the Full Governing Body or delegated committee. These documents are to be consistent in terms of financial responsibilities and delegations.

**6.11** The Governing Body takes a major involvement in all areas of the school's finances. Governors therefore may find it useful to review its own mix of financial competencies to highlight strengths, development areas and to ensure there is a good mix of skills across the Governing Body. This can aid either individual Governor's personal development and highlight Governor training requirements or

identify any succession issues and help the school plan to manage these. A Governing Body financial skills matrix covering the relevant financial disciplines can be obtained from the 'Additional Resources' download

<https://www.gov.uk/government/publications/schools-financial-value-standard-sfvs>

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## **7. Policy for issuing a Notice of Concern and suspending the right for a Governing Body to have a delegated budget**

**7.1** KCC is committed to supporting good financial management in all maintained schools to ensure that children and young people are able to achieve and benefit from a full range of services at their local school. However, there are occasions when a school is not demonstrating appropriate control and management of its finances and local authority intervention is required.

**7.2** This policy should be read in conjunction with the Scheme for Financing Schools and Section 151 of the Local Government Act of 1972 which places a statutory responsibility on the Corporate Director of Finance to ensure that all KCC's finances are managed efficiently and effectively. This requires full and effective communication and information sharing between KCC and those with delegated powers. The policy also reflects the LA's powers as set out in the School Standards and Framework Act 1998 and the Education and Inspections Act 2006.

**7.3** In the situation where a school is not demonstrating appropriate control and management of its finances, the LA will seek to work with the school to rectify any issues and agree a deficit recovery plan (if required). In some circumstances it may be necessary for the LA to issue a Notice of Concern or withdraw financial delegation. Examples of what 'not demonstrating appropriate control and management of finances' means are:

- A deficit emerges during a financial year that was unexpected.
- LA deadlines for submitting financial returns are not met.
- Concern about the appropriate use of the school budget.
- Standard of financial returns is poor and could lead to a governing body taking decisions based on inaccurate information.
- Failing to take the actions within an agreed deficit recovery plan.
- A poor internal audit opinion.

If the school does not engage with the LA and/or does not start to demonstrate appropriate control and management of its finances then under Section 51 and Schedule 15 of the School Standards and Framework Act 1998, the LA has the

power to suspend delegation as an ultimate sanction where the LA judges that the Governing Body:

- (i) Has been guilty of a substantial or persistent failure to comply with any delegation requirement or restriction.
- (ii) Is not managing in a satisfactory manner the expenditure or appropriation of the school budget share.
- (iii) Is not managing in a satisfactory manner any expenditure, or sums received, in the exercise of the power conferred by Section 27 of the Education Act 2002 (power to provide community facilities etc).

The LA may suspend the Governing Body's right to a delegated budget by giving the Governing Body not less than one month's notice of the suspension, unless by reason of any gross incompetence or mismanagement on the part of the Governing Body or other emergency it appears to the authority to be necessary:

- to give the Governing Body a shorter period of notice, or
- to give the Governing Body a notice suspending their right to such a budget with immediate effect.

The withdrawal of delegation notification will explain the grounds for the suspension, giving particulars:

- of any alleged failure on the part of the Governing Body to comply with any delegation requirement or restriction
- of any alleged mismanagement on their part; and
- if applicable, of the basis upon which a period of notice of less than one month was given.

The sections below describe the process that will be followed for issuing a Notice of Concern and/or withdrawing delegation.

## **Issuing a Notice of Concern**

As this is a financial process this is formally issued by the Corporate Director of Finance under S151 powers. The process resulting in the issuing of the Notice of Concern is as follows:

- a) When a concern is raised it will initially be followed up by Schools' Financial Services with the school concerned either via e-mail, phone calls or a meeting. The exploration and investigation of the queries should take no longer than three weeks.
- b) At the end of that period the action required should be agreed by Schools Financial Services with the school as should the timescales for the agreed action.
- c) If action cannot be agreed or if the timescales are not met then the Director of Education and the Schools Financial Services Head of Service will meet with the Headteacher and Chair of Governors.
- d) If there is no resolution following that meeting then the Director of Education may decide to issue a Notice of Concern requiring the school to take certain specified action following consultation with Principal Advisers (Primary/Secondary/Special as appropriate) and the relevant Area Education Officer.

## **Withdrawal of Delegation**

If the Notice of Concern is not adhered to by the school or if matters appear so serious that withdrawal of delegation is required then a decision is based on the following process:

- a) Consultation between the Director of Education, the Principal Advisers (Primary/Secondary/Special as appropriate) and the relevant Assistant Director of Education and make a recommendation (setting out the case for withdrawal of delegated powers) to the Corporate Director of Finance who has the power to make the decision.
- b) If it is decided that delegation should be withdrawn, then a letter will be sent to the school informing them of the decision of the authority. The authority will also notify the Secretary of State.

- c) This letter should give the school a minimum of one month's notice so that the school will be able to appeal in advance against the proposed decision unless, as described above, the situation is so serious that a shorter notice period or even immediate withdrawal is required.
  
- d) Subject to the outcome of any appeal the Director of Education, and/or Principal Adviser and Assistant Director of Education will meet with the school Governing Body to agree how the budget is to be managed whilst delegation is withdrawn and outline what needs to be achieved before there can be any discussion about reinstating delegated powers.

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