



SURREY

COUNTY COUNCIL

Business Services Directorate

Financial Administration of Confederation and Partnership Funding (other than 11-19/14-19 networks) Updated Guidance for Confederation/Partnership Managers, Chairs and Administrator Schools December 2013

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1. Scope of the guidance

This guidance sets out Surrey's financial management expectations for confederations/partnerships of schools which individually receive funding direct from Surrey and which report expenditure and income directly to Surrey. Separate guidance applies to 11-19/14-19 networks.

Where schools establish pooled arrangements for management of funds, but the expenditure and income is not reported to Surrey separately from that of the individual schools, it is for member schools to establish their own financial management arrangements. Member schools will still be accountable for those arrangements.

Most confederations/partnerships are informal partnerships with no independent legal status, and most of this guidance is intended for such bodies. However, we recognise that some confederations/partnerships may wish to establish companies, so the requirements for companies are covered briefly.

The financial guidance for confederations/partnerships and networks is in general similar, and therefore, should a confederations/partnership wish to amalgamate with a 14-19 network, it should be easy to operate common finance processes, if desired..

2. Reporting and accountability

Confederation/partnership funds do not belong to one school but to the confederation/partnership as a whole. However, on a day-to-day basis the financial administration is usually undertaken via one school (the "administrator school"). Similarly surpluses and deficits on confederation/partnership activities and interest on funds belong to member schools, or to the confederation/partnership as a whole, not to lead / administrator schools specifically. Member schools collectively bear responsibility for the financial soundness of their confederations/partnerships, and will be held accountable by the authority for the financial affairs of their confederations/partnerships. **Member schools must therefore ensure that they have adequate oversight of confederation/partnership finances.**

Member schools should agree annually, by the beginning of May of each year

- terms of reference;
- activities to be provided, including volumes, start dates, end dates (if applicable) and review dates, and key performance indicators (KPIs), and whether each activity is pupil focused or community focused
- the arrangements for financial administration, including the choice of administrator school;
- accommodation arrangements for activities and staff;
- annual budget,
- staffing, including line management;

- any contribution to be made by each school to the confederation/ partnership budget, over and above funds allocated directly by the authority to the confederation/partnership (or allocated to the administrator school on its behalf);
- arrangements for managing any surplus or deficit on confederation/ partnership activities, including proposed use of any sums proposed to be carried forward at the end of each year;
- whether any interest generated by the administrator school (from its confederation/partnership balance) can be retained by that school, or should be allocated to confederation/partnership funds or shared out among members;
- whether charges for administration will be made by the administrator school ;
- powers to be delegated to staff employed by the confederation/ partnership, or to others (including financial powers and responsibilities);
- arrangements for reporting on financial and operational performance to member schools, including lead responsibility for reporting. For example, while it might be most appropriate for the confederation/partnership manager to report on operations, it might be better for the administrator school business manager to report on finances, although this should be a local choice

Any financial contributions by individual schools should be included in those schools' annual budget plans and in any revised budget plans approved by governors.

Contributions by individual schools should usually be transferred in the year in which they are expected to be spent, and not in advance.

The confederation/partnership budget plan should be agreed by 1st May,, by a majority of members entitled to represent their schools. Revised budget plans should be produced if there are significant changes in funding or planned expenditure, and signed by the Chair of Steering Group. The budget plan should include all activities which the confederation/partnership proposes to undertake, whether or not funded by the authority. Copies of budget plans should be submitted to the authority via the Schools Funding Team at schoolsfunding@surreycc.gov.uk However, while the local authority may comment on the budget plan, it will not approve the budget plan as such. The fact that the authority does not challenge the budget plan does not mean that the authority has approved it, and member schools remain responsible for its soundness.

The local authority does not expect to meet any financial losses incurred by confederations or partnerships.

3 Managing Risks:

Members of the confederation/partnership should formally review the financial and operational risks to service delivery (e.g. loss of key staff, accommodation or delivery partners), and the financial risk faced by confederations /partnerships, at least annually, and they should consider what measures can be taken to limit those risks. Individual schools should also consider the outcome of this review, as ultimately the financial risks are borne by them.

4 Role of Governors

While in practice the headteacher (or other senior staff member) is likely to represent a school in confederation/partnership meetings, it is important that governors of member schools should be aware of the opportunities and risks to their schools from confederation/partnership activity. Governors of member schools ought to form a view on the level of authority they delegate to their headteacher to manage the school's role in confederations/partnerships. For example, they may reasonably require consultation with governors on specified confederation/partnership business, such as budget setting, or engagement in specified activities. The Chair of Steering group should sign the budget plan on behalf of the member schools and a copy should be retained for audit purposes.

Governors of administrator schools should ensure that the confederation/partnership has suitable arrangements in place for sharing financial risks in order to ensure that the level of risk borne by the administrator school is limited appropriately. If the administrator school acts with due care and skill, it should bear no more risk than any other member school.

5. Financial administration

It is recommended that confederation/partnership finances are managed by an administrator school. This school is best seen as a service provider. It need not be the base school for confederation//partnership projects, nor need it be the Chairman's school.

For those administrator schools using SIMS FMS, confederation/partnership income and expenditure should be identified separately by using a separate source of funds, as well as cost centres for each significant discrete activity. SAP cost centres will be allocated by the council for recognised confederations/partnerships and schools should use these for monthly reporting to the council.

Schools not using SIMS FMS will need to find appropriate ways of reporting confederation/partnership income and expenditure separately.

FMR reports (or equivalent) should be produced to member schools - at least quarterly, in June, September, December, and when any significant additional funding is granted or significant changes to plans are required. There should be a similar report at year-end giving final outturn figures for income and

expenditure compared to original projections. This should also make reference to principal activities and performance against KPIs. Reports should be provided to meetings of confederation/partnership members so that member schools have the opportunity to question the financial data.

FMR reports should be reconciled to the underlying accounts. Reconciliation of the separate fund should be completed monthly to Local Authority records in the same way as the school accounts.

Where the administrator school is an academy, and the confederation/partnership has maintained schools as members, the LA will expect to receive a statement of income, expenditure and opening and closing balances for the local authority's financial year, at the end of each year, certified by the academy's external auditor or other appropriate registered auditor

In managing the finances of confederations/partnerships, due regard should be had to the distinction between pupil focused and community focused expenditure. The fact that activities are undertaken by the confederation/partnerships does not automatically make them community focused and often indeed they will be pupil focused if they are intended to improve attainment. Pupil focused and community focused expenditure and income must be reported separately in order to meet reporting requirements for school managed expenditure.

In the interests of stability, it is recommended that confederations/partnerships do not change their administrator school annually. Where a change of administrator school is desired, this should be made at the start of a financial year, on 1 April, in order to simplify year end reconciliation of local bank accounts. Confederations/partnerships should advise David Green in Schools & Learning Finance for the Local Authority and Sue English at Babcock4S by 28 February, of the identity of the new administrator school.

Where, in exceptional circumstances, no suitable school is willing to act as an administrator school, the authority may be prepared to approve separate financial management arrangements, provided that essential requirements on separation of duties, maintenance of adequate financial records, banking and monthly reporting to the authority are fulfilled. Confederations in this position should contact David Green at Schools & Learning Finance, explaining their reasons for the application and describing their proposed arrangements.

Further guidance on financial administration is attached as Annex A for the benefit of business managers of administrator schools.

6 Accommodation for confederation/partnership staff and activities

Where individual schools provide accommodation for confederation/partnership staff and/or activities, there should be a clear agreement between school and confederation/partnership as to what accommodation is to be provided and what, if any, charges will be made by the host school. It would not be unreasonable for the host school to levy a charge, but it is

recommended that such charges should not exceed the direct costs to the school.

The physical host need not also be the administrator school.

7 Human resources and payroll

All staff should be paid through a recognised payroll provider. Staff should normally be formally employed by a member school, unless the confederation/partnership is a separate legal entity eg a company. Where, exceptionally, the administrator school provides its own payroll services, it is acceptable for confederation/partnership staff to be paid in the same way. Where no administrator school is used, appropriate arrangements should be made either with Surrey Payroll or with an external provider. Salary payments to individuals should not be made by cheque or creditors systems.

Individuals should not be paid as consultants unless the nature of their work justifies this. Normally a consultant would advise on organisational change or provide subject expertise on technical, functional and business topics during development or implementation of a specific project. Their contract should specifically state that they are self employed, they should be paid a fee not a salary, they should normally be VAT registered, should pay Schedule D income tax and should have their own professional indemnity insurance.

8. Bank accounts

Lead/administrator schools are not encouraged to maintain separate bank accounts for confederations/partnerships and they should seriously consider the additional administrative complexity involved before choosing to do so. If a separate bank account is used, it is subject to the same reporting requirements as for a delegated budget account, because the expenditure and income is public expenditure and income for which public sector accounting and auditing regulations must apply. (These requirements are set out in chapters 3 and 13 of the Surrey Scheme for Financing Schools).

Where a confederation/partnership chooses to use a separate bank account, it may choose either a Surrey “umbrella” account with HSBC, or a free standing local bank account. However, the latter must be with an approved banking institution under s3.5.1 of the Surrey scheme and the mandate must specify that the authority is the owner of the funds in the account, except to the extent that it can be demonstrated that they originate from private sources. The mandate must also allow the authority to receive copies of statements, if required. Bank account signatories must be employees of the County Council or of Surrey maintained schools. These conditions apply whether or not an administrator school is used.

Expenditure and income met from any separate bank account should ideally be reported monthly to the authority as expenditure and income of the confederation/partnership on the administrator school’s FinU81A, but at a minimum must be supplied termly. Funds transferred to a separate

confederation/partnership bank account are transfers of funds and represent surplus balances held by the confederation/partnership. They must not be accounted for as expenditure by the confederation/partnership until spent externally.

An academy whose main banker is not on Surrey's approved list of banks may use its main banker for confederation/partnership funds provided that members of the confederation/partnership agree to this.

9 Reporting surpluses and deficits

Currently, DfE expects confederation/partnership income, expenditure, surpluses and deficits to be excluded from Consistent Financial Reporting returns of the administrator/lead when it reports on school activities. However this may change in the future. Should confederation/partnership outturns be included at a later date, please note that only funds from private sources would be excluded, since these would count as unofficial funds if held by a school on its own behalf.

It is important that administering schools are able to identify those balances held on behalf of confederations/partnerships. The authority will expect individual confederations/partnerships to have realistic plans in place for spending such balances, and reserves the right to recover funds directly allocated to the confederations/partnerships where such plans do not exist. However, surpluses are likely to be recovered only in exceptional circumstances.

Where funds are advanced to confederations/partnerships from external sources which have their own separate spending deadlines, the confederations/partnerships must comply with those deadlines unless the authority agrees otherwise. Agreement will normally only be given when the authority can arrange an exchange of funding between different funding streams.

10 Funds from non Surrey sources

Some confederations/partnerships may receive funds from bodies other than schools and the County Council, which are conditional on the future delivery of a specific project or service. Where such funds remain unspent at the end of a year, they should be treated as deferred income rather than as surplus balances of the confederation/partnerships. The council and auditors will scrutinise entries for income in advance as part of its normal review of schools' accruals and reserves. Please refer to Section S of the Finance Manual for guidance on accruals and prepayments.

11 Purchasing, tendering and contract rules

Confederations/partnerships are subject to, and must comply with, the relevant provisions of the Surrey Scheme for Financing Schools, the statutory document setting out the financial relationship between Surrey and its

schools. They must comply with the authority's purchasing and tender procedures as set out in s2.10 and Annex D of the Surrey scheme. The Scheme specifies, among other requirements, the contract value above which three written quotations must be obtained for orders and the value above which formal tenders must be invited. Current limits will be available on the Scheme section of the Schools and Learning Finance web pages. All orders placed by confederations will need to be in the name of one or more schools (except where the confederation/partnership is a company)..

12 Insurance

Where all member schools buy back insurance from the council then the activities directly provided by the confederation/partnership will normally be covered by insurance provided that they are activities for which an individual school would be covered. Schools not buying Surrey insurance will need to check their own insurance position.

Confederations/partnerships should make their own arrangements for ensuring that contractors' insurance satisfies the council's minimum requirements (normally £5m public liability). Specific queries on insurance should be directed to Clive Pritchard, Principal Insurance Officer.

13 Supply of traded services to confederations/partnerships

The Council's traded school support services are available to confederations/partnerships, although some services may levy additional charges, particularly for designated community focused activities (e.g. childcare) Where an academy is the administrator school, traded services which are not available to academies may not be available to that confederation/partnerships.

14 Action if a confederation/partnership is dissolved

Should a confederation/partnership cease to function, its members should agree on the basis of distribution of any surplus funds or liabilities, and advise the Schools Funding Team in Children, Schools and Families Finance of that agreement. Should no such agreement exist, the Council will distribute surplus funding across schools on the basis of 40% pupil numbers, 60% free school meal entitlement, and will recover liabilities from member schools on the same basis. This will normally be done in the year in which the confederation/partnership ceases to exist. However, the LA will take no action in respect of liabilities or surpluses of a confederation/partnership which does not include maintained schools as members, except in respect of funds owed to or by the authority, or if asked to arbitrate by the members of the confederation/partnership

15 Confederations/partnerships which do not have Surrey maintained schools as members

Where exceptionally, a confederation/partnership does not have Surrey maintained schools as members, it will be required to report to Surrey on the spending of any funds allocated directly to it by Surrey. It may also be asked to provide supporting evidence to justify that expenditure to Surrey. It will not be required to report directly to Surrey on the use of income from its members or from any other sources. It will not be bound by Surrey's procurement standing orders or banking rules.

16 Confederations/partnerships run through companies

Where a confederation/partnership is run through a company (and the company has LA maintained schools as members):

- * the funds transferred to the company will need to be reported to the LA as expenditure by the confederation/partnership, and should only be reported as expenditure when spent by the company in providing goods and services to the confederation/partnership (surplus balances held by the company should be reported to the LA as income in advance);
- * where the LA would normally allocate funding directly to the confederation/partnership, it is for the members to advise how that funding should be transferred to the company (eg directly or via a named school);
- * the LA should be advised of the income, expenditure and year end surplus of the company for the LA financial year before the end of the local authority's accounting period 13 or as otherwise advised in the local authority's closure of accounts programme for schools;
- * copies of the audited accounts of the company should be supplied to the authority within a month of their being agreed by the company's external auditors;
- * the LA should be supplied with all other information necessary for a school company under the School Companies regulations, unless the company can demonstrate good reason for being exempt from the provisions of that Act
- * the LA will expect the company to have regard to the principles in the preceding sections of the above guidance, as regards financial security and value for money, in so far as they are compatible with the function of the company.
- * the LA recommends that the accounting year of the company is the same as that of the local authority (ie 1 April-31 March).
- * the LA does not guarantee the financial liabilities of such a company. Any such guarantee is a matter for individual members.

Contacts for queries:

For further information please contact David Green, Senior Principal Accountant (Schools Funding) at Surrey County Council, on 020 8541 8010 or via email: David.Green.ses@surreycc.gov.uk

Specific queries relating to local bank accounts should be directed to Sue English at Babcock 4 S on 01372 834352 or email: Sue.English@babcockinternational.com

The Surrey Scheme for Financing Schools can be found on the Schools and Learning Finance web pages at www.surreycc.gov.uk then “learning” then “teachers and education staff”

Confederations buying back the Babcock 4 S Finance Consulting service should contact the helpdesk on 01372 834275 or e-mail Finance Helpdesk – schoolsfinance@babcockinternational.com for further guidance.

SCC: Children, Schools and Families Finance –December 2013

Annex A Additional guidance on financial administration of confederations/partnerships for business managers and bursars

A1 KEY REQUIREMENTS OF SURREY SCHEME FOR FINANCING SCHOOLS WHICH ARE OF RELEVANCE TO CONFEDERATIONS/PARTNERSHIPS

Although these requirements apply to the confederation/partnership, in practice it will be the duty of the administrator school to fulfil them. They should be familiar to administrator schools because they are similar to those applying to individual schools.

A1.1 To submit regular returns of income and expenditure (via administrator school)

These are required in order to allow the authority to recover VAT and to update its own central accounting system (They will normally be provided by the administrator school via the "FIN U81A" return.) An alternative format is available where the administrator school does not use SIMS FMS. They should distinguish between pupil focused and community focused expenditure and income. Ideally these should be supplied monthly (because the council and confederation/partnership cash flow will suffer otherwise) but at a minimum they must be supplied termly. This also applies where the confederation administrator is an academy.

A1.2 To advise the authority promptly if there is likely to be a financial deficit, with reasons, and to have regard to advice given by the authority in those circumstances

Confederations/partnerships have no right to operate a deficit budget and permission to do so is only likely to be granted by the authority in exceptional circumstances. The administrator school should ensure that the authority is informed if a deficit appears likely, where within one month no corrective action has been agreed by the confederation/partnership. Responsibility for corrective action lies with all of the members of the confederation/partnership.

A1.3 Financial monitoring

Confederations/partnerships must submit financial monitoring statements, including projected outturn, where the authority requires them (usually annually, in late autumn; more frequent submission is required if the authority has concerns about the financial position of the confederation/partnership). The authority may specify that expenditure and income on specified activities should be shown separately in this statement. A modified FMR format will be provided by the authority for this purpose.

A1.4 Paying staff and suppliers

Confederations/partnerships must ensure that proper procedures are in place for paying staff, and suppliers. Where they choose an alternative payroll provider, they should ensure correct accounting for tax, national insurance and pension contributions. Confederations/partnerships should ensure the timely payment of suppliers.

They must maintain adequate separation of duties when ordering/making payments (i.e. at least 2 people involved who understand the business involved), and must ensure that a list of approved signatories is maintained.

A1.5 Maintaining proper accounting records

Confederations/partnerships must maintain proper and secure records of income and expenditure (preferably via a recognised accounting package such as SIMS), including separation of revenue and capital expenditure, should the latter be incurred.

Original financial documents (receipts, invoices, etc) must be retained for an appropriate period consistent with County Council requirements.

Confederations/partnerships must account appropriately for income and expenditure (e.g. in the year in which goods are received/supplied and services performed). Accruals should be supported by suitable evidence. Funding from the authority should be accounted for as funding in the year in which it is allocated and not in the year in which it is spent.

Any earmarked funding must be properly accounted for and an audit trail must be maintained to demonstrate that such funding has been used for the specified purposes.

Any confederation/partnership not seeking to use a school based accounting application should seek prior approval from the authority. The authority may wish to consult its own auditors before giving such approval.

A1.6 Value for money and option appraisal

Confederations/partnerships must consider a range of options before starting a major project and to be able to demonstrate due regard to value for money and Best Value in the choice of options.

A1.7 Bank accounts

If a separate bank account is held, it must be with an institution on the Council's approved list, (except as specified above) it must be reconciled monthly, and it must not be overdrawn.

A1.9 Borrowing

Borrowing is not permitted, except by a loan from the Council for capital purposes, if made available. It is not anticipated that confederations/partnerships will often need such loans. The authority should be consulted before the confederation/partnership enters into any lease or similar transaction. Again, it is anticipated that the need should be rare.

A2 ROLE OF ADMINISTRATOR SCHOOL AND SAFEGUARDS

A2.1 Role of administrator schools

The rights and duties of administrator schools should be agreed locally, recognising that they perform their duties on behalf of the confederation/partnership and that ultimately the responsibility for proper administration lies with the confederation/partnership and thus is shared by all members. The rights and duties set out below may be considered a reasonable model.

A2.2 Duties of administrator schools

Typical duties of administrator schools will include:

- to make payments and record income and expenditure in line with arrangements agreed with the confederation/partnership and with the management arrangements for the confederation/partnership and the financial procedures specified by the County Council. This should include use of a recognised accounting system, and ensuring adequate separation of duties. Where SIMS is used as the accounting system, a separate source of funds should be used for the confederation/partnership, together with a separate SAP cost centre as allocated by the Council. Separate local cost centres should be used for significant discrete activities as agreed locally. All expenditure and income should be reported gross, with no netting off of income and expenditure. Capital and revenue expenditure should be reported separately. Schools not using SIMS should make adequate alternative arrangements, including separation of capital and revenue funds, and of official and unofficial funds, should the latter exist. There is no requirement to report unofficial funds to the Council, except where they are used to fund official activities;
- to produce FMR reports periodically to member schools at agreed intervals- at least quarterly - and when any significant additional funding is granted or changes to plans are required. Reports should be provided to confederation/partnership meetings so that member schools/others have the opportunity to question the financial data. It would be good practice for the administrator school bursar/business manager to attend those meetings to answer questions on the reports;
- to provide a similar report at year-end giving final outturn figures for income and expenditure compared to original projections and also including key outputs/volumes against initial assumptions and targets;
- to provide regular financial reports to the confederation/partnership manager, including sufficient explanation to allow the manager to identify appropriate actions;
- to act promptly on instructions given by authorised members/staff of the confederation/partnership, and to exercise reasonable care and skill in so doing, including ensuring that adequately qualified and trained staff are available;

- to ensure that confederation/partnership staff know which school staff are authorised to take instructions from the confederation/partnership and to place orders, process financial transactions etc on behalf of the confederation/partnership;
- to report at least termly on expenditure and income to the authority; including separate reports on any activity for which separate reporting has been agreed between the authority and the confederation/partnership; (This should normally be done via the Fin U81A return, using the confederation/partnership's SAP cost centre (s), and the confederation/partnership's capital internal orders, where appropriate). It is strongly recommended that monthly returns are submitted, in order to maximise cash flow from VAT recovery.;
- to reconcile any separate bank account monthly;
- to report promptly to the confederation/partnership, via an agreed procedure, if the confederation/partnership funds are in deficit;
- to issue contracts of employment and complete service returns;
- to place orders for supplies and services on behalf of confederations/partnerships, where locally agreed.

A2.3 Rights of administrator schools

Administrator schools can reasonably expect:

- to be advised of all financial transactions affecting the confederation/partnerships, and for those transactions to be processed via the school;
- to be able to charge against confederation/partnership funds any expenditure which they have incurred on the instructions of the confederation/partnership;
- to be able to make a charge to the confederation/partnership for administrative services, on an agreed basis;
- to be formally instructed of those authorised to authorise contracts, expenditure and payments, on behalf of the confederation/partnership, and to be instructed only by those authorised;
- to be formally advised of those authorised to receive budget monitoring information on behalf of the confederation/partnership;
- to be able to agree, with the confederation/partnership, appropriate deadlines and lead times e.g. for payment of invoices and staff.

Should the confederation/partnership run out of funds, the role of the administrator school in these circumstances is to report any difficulties as

early as possible, formally, to members of the confederation/partnership. The confederation/partnership should have arrangements in place for recovering such a shortfall from members. Administrator schools are not responsible for losses incurred by confederations/partnerships, except where these are due to the administrator school not performing its duties with reasonable skill and care.

Where confederation/partnerships accounts are administered by such a school, then confederation/partnership staff should take care to ensure that all transactions go through that school, e.g. that no income is received and spent directly by the confederation/partnerships. Administrator schools should advise the confederation/partnerships of school staff authorised to receive and record income and to act on requests for payments.

Additional duties may be undertaken by administrator schools by local arrangement.

Change of administrator schools

Where a confederation/partnership changes administrator schools, the old administrator school should provide its successor with:

- statements of outturn for the past two years, showing funding, income, expenditure and surplus/deficit and showing each of the main activities separately;
- copies of the last three termly monitoring reports to the confederation/partnership;
- a copy of the budget plan for the following year, if already prepared;
- a listing of all known outstanding assets, liabilities and commitments;
- a listing of staff employed on behalf of the confederation/partnership;
- contracts for all staff employed by the confederation/partnership, if in future they are to be employed through the new administrator school.

Any cash balances held on behalf of the confederation/partnership should be returned to the authority, which will make an equivalent sum available to the new administrator school.

A3 INTEREST ON UNSPENT FUNDS

It is recommended that administrator schools credit the confederations/partnerships with interest on unspent funds.

For simplicity we propose that this should be calculated on a month end balance, e.g. as follows:

Balance on confederation/partnership cost centre at month end (i.e. funding less net expenditure excluding centrally paid staff)
X ½% below average base rate for that month/12 (subject to a minimum interest rate of nil!)

This assumes that funding will be allocated termly in advance
Any funding given within the last week of the month could be excluded from the calculation in order to avoid artificially inflating the interest calculation.

The administrator school can reasonably deduct interest from confederation/partnership funds, where the confederation/partnership gives it instructions which cause funds to go into deficit. Such interest should not exceed the loss incurred by the administrator school as a result of the deficit created.