

MILTON KEYNES COUNCIL

Notes for Guidance on Local Bank Accounts in Schools

REVISED MARCH 2012

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1. INTRODUCTION

- 1.1.** These guidance notes are aimed at assisting all schools maintained by Milton Keynes Council in managing a local bank account. Where differences exist between schools, say between, Foundation, Voluntary and Community schools, these differences will be addressed in the text at that point.
- 1.2.** This document constitutes guidance only and should be read in conjunction with the Scheme for Financing Schools (the Scheme) and the Financial Regulations and Procedures for Schools, all of which can be found within the LMS Website. If further clarification is still needed having read this guidance, schools should contact the Schools Finance & Training Team, on 01908 253581
- 1.3.** All schools in Milton Keynes must operate a local bank account and maintain their own financial system.

2. OPENING A LOCAL BANK ACCOUNT

2.1. Opening the Account

- 2.1.1.** A new local bank account may only be opened at the beginning of a school term, as set out at paragraph 3.5 of the Scheme. Six working weeks notice is required, which should be given in writing and sent to the Finance Manager (Schools Finance & Training Team SF&TT). This is to allow the LA to put in place the necessary administrative procedures for the change of operation. New schools will have a local bank account opened on their behalf one term before the school opens.
- 2.1.2.** The school may choose to make its own banking arrangements or to make use of the LA's banking arrangements. The notice given to the LA of new banking arrangements should indicate whether the school is seeking to use the pooled arrangements, or to make its own arrangements. If the school chooses to make its own arrangements the chosen bank must meet the requirements set out in paragraph 3.5.1 of the Scheme. Schools should also have regard to section 8 of the Financial Procedures for Schools.
- 2.1.3.** Schools making their own banking arrangements should inform the Finance Manager (SF&TT) of the name and branch of the bank intended to be used, at the six week notice point. This is so that the LA can confirm that the bank meets the requirements set out at paragraph 3.5.1 of the Scheme and Appendix D of these regulations in order to avoid abortive effort. At least 2 weeks prior to the start of operation of the new bank account the school should inform the Finance Manager of the details of the Bank Account: Name of Account, Account Number and Sort Code. Failure to meet this deadline may result in delays in transferring the budget share entitlement into the new bank account.
- 2.1.4.** Schools wishing to make use of the LA's pooled banking arrangements should complete the forms illustrated at appendix A to these guidance notes (see also 3.2.) and send it to the Finance Manager (SF&TT). The forms themselves are available on the LMS website. Under no circumstances should the form be sent direct to the LA's bank. The form should be certified by someone other than the signatories listed. The Schools Finance & Training Team will then

liaise with the relevant parties to ensure that the account is operational by the start of the term following six weeks notice.

2.2. Cheque Design

- 2.2.1.** The local bank account of all schools must contain the name of the school. Accounts held by community schools must also contain the name of the LA. Thus for community schools the following format should be adopted. “MILTON KEYNES COUNCIL- < SCHOOL NAME> ACCOUNT” For those schools taking advantage of the LA’s pooled banking facilities the necessary arrangements will be undertaken by the LA.
- 2.2.2.** Continuous stationery cheques may be used as well as a cheque book if the school’s local software and hardware permit this. Such stationery will need to comply with tight specifications to meet requirements of the bank and the IT systems used. If in doubt the Schools Finance & Training Team, or Schools IT Support Team should be contacted.
- 2.2.3.** All cheques should be printed as crossed cheques and marked “a/c payee only”.

2.3. Opening Balance

- 2.3.1** Surplus funds held by the LA on behalf of the school will be transferred into the new account at the earliest opportunity. Every effort will be made to complete this transaction by the start of the term. Schools with deficit, or anticipated deficit balances will not be permitted to open a local bank account until such time as the deficit is recovered.

2.4. Imprest Accounts

- 2.4.1.** Schools which hold imprest accounts prior to opening a local bank account will be required to close these. A final authorised reconciliation statement will be required and the named holder will be required to make good any shortfall in funds should such a situation arise. It is not possible to convert imprest accounts into local bank accounts. However, surplus balances can be transferred into the new local bank account.

3. OPERATING A LOCAL BANK ACCOUNT

3.1. Responsibilities

- 3.1.1.** Taking on the operation of a local bank account transfers certain responsibilities from the LA to the School Governing Body. These are principally in relation to accounting for tax (VAT and possibly PAYE) and the management of cash flow including the reconciliation of bank statements to the accounting system(s) used by the school, and/or the LA on behalf of the school.
- 3.1.2** The LA retains the responsibility for the overall safeguarding of public funds made available by the local authority. It will exercise this responsibility via the issue of Financial Regulation and Financial Procedures which all schools are

required to follow as appropriate. The LA will further exercise its duties through its Internal Audit Service. In this respect the LA reserves the right of inspection to all records associated with the operation of a local bank account.

3.2. Cheque Signatories

- 3.2.1.** Local bank accounts must be set up so that cheques require a minimum of two signatures up to a certain limit specified by the Governing Body (see 3.2.3. below) and three signatures for any amount above that limit up to a maximum of 2% of School Budget Share (see 3.2.4). It is therefore recommended that a school arranges for 4, or 5 members of staff to be authorised signatories in case of absence. It is further recommended, that wherever practical, these members of staff should be different from those involved in authorising orders in order to comply with financial regulations and procedures in respect of an appropriate division of duties. This is aimed at protecting the individuals concerned as well as the school and public funds more generally.
- 3.2.2.** The schools governors are not permitted to be signatories on the schools bank account as they are not members of staff of the school or the Authority. The day to day running of the school should be the delegated responsibility of the Headteacher.
- 3.2.3.** It is recognised that in the case of small schools the division of duties as set out may be impractical. Schools who believe they are in such a situation should contact the Schools Finance & Training Team for advice prior to opening an account.
- 3.2.4.** The authority is recommending that 2% of SBS, 6th form funding and SEN should be a sufficient limit for two signatures. If schools wish to set a higher limit they would need to submit a written request to the Schools Finance & Training Team in advance of submitting the bank mandate. Once the request has been reviewed and agreement is given the normal process can be followed.

3.3. Payment Methods

- 3.3.1** It is anticipated that payments from the local bank account will be by cheque. Payments by Standing Order or Direct Debit are also possible. At present, it is not permitted for the school to use cash dispensers but the use of charge and debit cards is permitted (for guidance see Notes for Guidance on Charge Cards in Schools).
- 3.3.2** Schools are permitted to use electronic banking facilities available.

3.4 Cheque Control

- 3.4.1.** It is important that adequate arrangements are in place to safeguard against unauthorised use of cheques and to ensure that all cheques (including cancelled ones), are accounted for and unused cheques held securely.
- 3.4.2.** Cheque books or continuous stationery should be kept in a locked drawer, or preferably a safe. No more than two unused cheque books/sets of continuous stationery should be kept on site at any point in time. The person holding the

cheque books must not be a signatory to the account. The bank should be informed of the person who holds the cheques, so that new cheques can be issued to that person. The cheque holder should keep a control list of all cheque issues available for audit inspection.

- 3.4.3. On receipt of continuous stationery cheques, a check should be made to verify that there are no un-numbered cheques and that all cheques delivered can be accounted for. Any unused cheques should be removed from the printer and returned to store, where a record of the numbers of the returned cheques should be kept. Similarly, all cancelled cheques should be recorded, clearly marked cancelled and returned to store.
- 3.4.4. It is suggested that where continuous stationery cheques are used, a cheque book be also available for use in emergencies. In this case where it is necessary to produce cheques manually, the schools accounting system must be updated with the details of the payment at the earliest opportunity, preferably before the cheques are issued. Care should be taken to avoid duplicate payment when entering the details onto the system.
- 3.4.5. The person(s) signing the cheques must ensure that they do so against the relevant authorised document (e.g. invoice) see also 3.5 below. This should be carried out after the document has been processed through the local accounting system.

3.5. Procedures Before Cheque Signature

- 3.5.1. The use of facsimile signatures on cheques is not permitted, neither should any cheque be pre-signed by any signatory.
- 3.5.2. Before signing a cheque each signatory needs to be satisfied that the goods, or services have been, or without serious risk will be, received and that they are for a bona fide purpose in respect of the schools business. To assist this process it is suggested that a certification grid is stamped, or in some way attached, to each invoice. Prior to cheque signature the certification grid should be signed by staff to confirm that the goods/services have been received and that this was in line with the original order. Wherever possible, the staff involved in this process should not authorise the payment and those responsible for authorising the invoice should not be signatories to the cheques.

3.6. Retention of Financial Records

- 3.6.1. Paid invoices must be retained securely by the school and filed in a manner which allows easy retrieval and which follows a proper audit trail from the accounting records. Thus the referencing of the filing system must correspond with referencing within the accounting system e.g. cheque number, order number etc.
- 3.6.2. Financial records are required to be retained for a considerable period of time. The table below indicates the necessary duration, most of which are a requirement of legislation.

	<u>Years</u>
Paid Invoices/Receipts	6
Copy Receipts (Income)	6
Cheque stubs (or paid cheques, if available)	6
Bank Statements/paying -in slips	6
Copy orders	6
Delivery Notes	6
Remittance advices	6
Accounting records/hard copy reports	6
Income accounts	6
Cancelled cheques	3
Cancelled receipts	3

3.7. Payments Made Through the Local Bank Account

3.7.1. Schools making payments via a local bank account will be required to take the appropriate actions in respect of tax. In case of schools operating their own payroll, this will be in respect of PAYE Income Tax and National Insurance Contributions (NIC). The current position HM Revenue & Customs is that any school who has a separate bank account from the LA may have a separate tax registration.

3.7.2. Additionally schools operating their own payroll as well as local bank account will need to make appropriate provision for pension deductions from salaries and payment to the pensions authority. In the case of Milton Keynes schools the pensions authority is Buckinghamshire County Council.

3.7.3. Payroll costs will be the most significant item of expenditure for schools and as such should be subject to the tightest control. Schools will be expected to put in place documented control procedures appropriate to their chosen method of service delivery. Schools are encouraged to make use of the BACS facility rather than cheques and to pay staff monthly in order to reduce processing costs and bank charges.

3.7.4. For all schools operating a local bank account there will be a need to pay for and account for VAT appropriately. Detailed guidance on this is given on the LMS website and so is not repeated here. Unlike payroll taxes VAT comes under the LA's registration, even for foundation and voluntary schools. This means that schools with local bank accounts will have to pay out VAT, where appropriate, in the first instance and reclaim this from the LA. The means of reclaim is explained in the VAT guidance manual, but schools need to allow for the cash flow implications of this.

3.7.5. The scope of the local bank account should cover transactions funded by both the school budget share and specific grants received from either the LA, or direct from central government. Monies relating to unofficial funds such as the PTA, or other voluntary funds should ideally not pass through the local bank account. Such funds should make their own banking arrangements. Similarly funds relating to the schools official activities should not pass through unofficial accounts.

3.8. Income Received Through the Local Bank Account.

- 3.8.1. As with expenditure a clear division between the official and unofficial activities of the school needs to be made. Budget Share, specific grants and VAT reimbursement must all be paid into the local bank account. In most cases this will be transferred via BACS in any case. Also income received from lettings, or the sale of goods, or services from the school should be paid into the local bank account.
- 3.8.2. Income in connection with events organised by the PTA etc. should not be paid into the local bank account, but in line with the arrangements made by the PTA, or other similar body.
- 3.8.3. As with expenditure, the school is responsible for the appropriate tax treatment of transactions. This is most likely to relate to the proper charging of VAT. Detailed guidance is given on this in the VAT manual contained within the LMS website.
- 3.8.4. Wherever practicable income should be collected, prior to delivery of the goods or services. If this is not possible a debtor account should be raised at the time of the booking, or order. The raising, chasing and recovery of the debt are the responsibility of the school.
- 3.8.5. It should be recognised the cancellation, or writing-off of a debt is much the same transaction as a payment and should therefore be subject to a similar degree of authorisation. This will include a division of duties between the person(s) raising the invoice and cancelling, or writing it off. Financial Regulations require debt write-offs to have governing body approval.
- 3.8.6. Income not received by BACS should be banked regularly. Any cumulative amounts received over £50 should be banked on a weekly basis, less than £50 should be banked no less than monthly.

3.9. Payments from the LA

- 3.9.1. The main source of funds for the school is likely to come from the school budget share provided by the LA. Payment of budget share from the LA to the school will be made in instalments (broadly monthly) in line with sections 3.1 and 3.2 of the Scheme for Financing Schools. Funds will be transferred via BACS unless something prevents this from being the case.
- 3.9.2. In addition some funding is likely to come from specific grants. Where such support is delegated to the school this will be transferred into the school bank account in line with arrangements relevant to the particular grant. The transfer will take place via a cash advance.
- 3.9.3. The LA may reduce payments to the school if the school refuses to pay amounts due to the LA, or where the actions of the school incur the LA in costs without a due consultation process. Such deductions are restricted by the provisions of section 6 of the Scheme for Financing Schools.

3.10. Cash Flow Management

- 3.10.1. By having a local bank account the school takes on responsibility for its own cash flow management. The school needs to ensure that it has sufficient funds accessible prior to engaging in a financial transaction. A particular issue arises

in respect of the need to fund the cost of VAT on payments, until such time as reimbursed by the LA.

- 3.10.2.** Under the local bank account schools will attract interest on surplus balances and suffer interest on deficit balances in line with the particular arrangements established with the school's bankers. Bank charges may also be payable in line with the banking contract arranged. In view of this and the fact that payments from the LA are made in regular instalments there will not be any interest clawback at the end of the financial year, nor will there be any additional interest charge made by the LA for deficit balances. The school will simply benefit from, or suffer the consequences of, its own actions in line with the banking contract it has in place. For schools using the LAs pooled banking arrangements a list of the current charges and interest is given at appendix C.
- 3.10.3.** It should be apparent from the above, that it is in the best interest of the school to receive its income as early as possible and to make payments as late as possible, within the constraints of contracts in effect at the time and bearing in mind legislation on late payments. It also means that careful consideration of the choice of banking contract is needed depending upon the general financial position of the school. Advice on these matters can be obtained from the Schools Finance & Training Team.
- 3.10.4.** Important in the effective management of cash is a regular understanding of the position of the bank account. To this end it is necessary to ensure that the bank statements produced by the bank are in line with the accounting records for the school. A three way reconciliation must be made between the bank statement, local financial system and the LA accounting system. Reconciliations must be made on a monthly basis to minimise the scope for error.
- 3.10.5.** An authorised copy of the three way reconciliation should be sent to the Schools Finance & Training Team to allow the LA to ensure the accuracy of its accounting records. A school can purchase support in completing this task from a finance services provider. If a school fails to submit an authorised copy of the reconciliation for three consecutive months, this task will be carried out by the LA and an appropriate charge made to the school. The LA will inform the school in advance if it intends to take such action.

3.11 Petty Cash Float

- 3.11.1** A school with a local bank account is permitted to hold a petty cash float from within its local bank account arrangements. The purpose of such a facility is to smooth routine operations where the purchase of minor items are needed at short notice. It should not be used as a way of avoiding proper financial controls, nor the proper planning of expenditure. In this regard it is anticipated that a cash float in the order of £50 to £100 should be sufficient depending upon the size of the school, which should not require topping up more frequently than monthly.
- 3.11.2** A named individual should be made responsible for holding the petty cash float which should be kept secure at all times in a locked draw, or preferably a safe. A receipt, or other evidence of purchase is required for each item paid for out of the petty cash float. Such evidence should be retained by the school in the same way as any invoice. Periodically (usually monthly) a reconciliation statement should be produced and used to reimburse the petty cash float from

the schools local bank account. The reconciliation statement should be seen by the cheque signatory(s) before making the reimbursement. The reconciliation statement should be retained by the school for audit inspection for a period of six years.

- 3.11.3** At the point where the float is closed down, or there is a change in the named individual responsible for the float, that individual will be required to produce a closing reconciliation statement and return to the local bank account the full balance on the statement. Any shortfall in cash will be required to be made good by the named individual responsible for the float.