

Hampshire County Council

Schools Forum

Item

27 March 2025

Scheme for Financing Schools – proposed update

Report of the Director of Corporate Operations and Director of Children's Services

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1 Summary

- 1.1 A paper was presented at the January 2025 Schools' Forum meeting proposing changes to Hampshire's Scheme for Financing Schools relating to a number of banking related aspects in response to the growing financial challenges faced by the local authority.
- 1.2 A school communication was issued on 10 February, inviting all maintained schools to send any comments on the new draft scheme by 28 February. A link to the revised scheme was included in the communication.
- 1.3 Overall, the majority of schools (93%) did not reply to the consultation, with responses only received from 33 identifiable individual schools (7% of schools); of those that did respond, 70% were not supportive of the proposal, citing a number of concerns and risks though there was some recognition of the challenges faced by the Council and acceptance for the need for compromise.
- 1.4 Given the discretionary nature of the payment of interest and the low response rate, the proposal to reduce rather than cease payment of interest is still recommended.
- 1.5 The County Council has however taken into consideration the feedback received and in recognition is proposing an amended proposal, as set out in paragraph 4.1 - 4.5. This would put in place a tiered approach to the payment of interest with a higher rate of interest passed to schools for the first part of the surplus balance held, with a lower rate on the remaining balance in line with the original proposal which was to pay 0.5% interest on balances where the Bank of England Base Rate (BOE BR) was above 1.5%, and zero interest where the BOE BR was below 1.5%.

2 Background

- 2.1 Further details on the background of the proposals can be found in the [paper](#) considered by Schools' Forum in January 2025.
- 2.2 A school communication was issued, summarising the position. This stated:

- The scheme for financing schools is a statutory document that sets out the financial relationship between the County Council and its maintained schools.
- The DfE requires the scheme to make clear the treatment of the interest attracted on surplus balances held by the local authority on behalf of maintained schools, although in practice it is for the County Council to determine the rate of interest paid.
- Changes are proposed to the scheme relating to the interest payable to schools in response to the growing financial challenges faced by the Council, which has a £64.9m budget shortfall for 2025/26 (net of £99.9m of savings), and a budget shortfall of £136m for 2026/27.

2.3 Interest paid to schools has historically been very low with little if any interest paid between 2009 and 2023. However, in recent years interest rates have increased, resulting in a short-term benefit to schools. The future benefit is expected to decline with interest rates set to drop in future years.

- As set out above, the Council is facing growing financial challenges due to rising demand and costs, therefore, as payment of interest on school balances is discretionary, this has been reviewed. Whilst many local authorities do not pay interest on balances held on behalf of maintained schools, the Council proposes to continue the payment of interest to schools at a reduced rate, seeking to recognise the value to schools, whilst taking into account the costs to the local authority and benefits to schools of having funds managed centrally.
- Schools do however retain the right to open an external bank account in which budget share instalments can be paid however, schools should consider the associated costs and risks including additional reporting requirements to the Council, auditors and various government agencies, cash flow management, and measures to balance interest returns against the security of investments. This may also impact on the use of a number of Council systems and services (for example, IBC shared services) with schools potentially needing to find alternative suppliers externally.

2.4 The proposed revision to the scheme is subject to consultation with the governing body and the headteacher of every school maintained by the local authority. The Schools' Communication provided a link to an online form to capture views from schools to inform Schools' Forum and to support a final decision on behalf of schools to be presented to the local authority.

2.5 As agreed by Schools' Forum, the consultation form asked for general comments alongside a specific question, asking whether schools support the following proposed change to the scheme:

The proposed change is to make interest payable to all schools based on a rate of 0.5% of balances held by the individual school, while the Bank of England base rate is above 1.5%. Where the Bank of England base rate is 1.5% or below, the proposal is that no interest will be paid.

3 Consultation responses

3.1 67 responses were received through the consultation, although a number of these were from the same schools. The full text of consultation responses can be found in Appendix A.

3.2 The 67 consultation responses represented the views of 33 identifiable individual schools, with the other responses being either multiple responses from the same school (9), or anonymous responses (25). The overall position is that the majority of schools (93%) chose to express no view, whilst out of the 33 individual schools who did identifiably respond, a clear majority were not in favour of the proposal:

	Number	%
Yes	10	2%
No	23	5%
No response	415	93%

3.3 The most consistent view expressed from those schools that objected to the proposal, was that schools are entitled to interest on balances held and that it is unfair for the County Council to reduce the level of interest paid. Many respondents flagged the financial pressures that schools are under.

3.4 There were also, as set out, 25 anonymous responses, of which 4 (16%) were supportive and 21 (84%) were not supportive of the proposal. These responses have not been included in the above analysis as there is no way of knowing if they are each individually a unique response from a single school, or whether there are multiple replies for an individual school; the comments from these responses have however been included in Appendix 1.

3.5 The challenging financial position of the County Council means that difficult decisions are having to be taken. Although the strength of feeling from those schools that responded to the consultation and the proposal is noted, the payment of interest on schools' balances is discretionary, and whilst regrettable, reducing the amount of interest payable will reduce the County Council's overall budget shortfall.

3.6 Some responses indicated there was some confusion about the current operation of the scheme; the current scheme is summarised below:

Secondary schools

Interest is paid based on the balances held by individual schools, with no interest charged to schools in deficit.

Primary, special and nursery schools

Interest paid at 0.1% on individual balances with the remaining interest due to the phase allocated to schools on a formulaic basis:

Primary: Percentage of basic entitlement, Free School Meals and lump sum formula factors used in the previous financial year;
Special (including Education Centres): Percentage of core funding received in the previous financial year; Nursery: Lump sum

The formulaic approach means that the impact on individual schools (excluding secondary) will vary, and it is important to note that the size of a primary school's balance does not necessarily correlate with the payment of 'interest' received (except for the initial 0.1%), as the sum received is proportionate to the formulaic approach set out above.

Deficit Schools

Under the existing scheme, the Local Authority is able to levy a charge equivalent to the Bank of England Base Rate plus 0.5%, as set out in section 4.5 of the scheme.

- 3.7 Concerns were raised that the proposed change to the interest rate would increase the risk of schools falling into deficit with the associated risk to the Local Authority.
- 3.8 A number of responses also highlighted the need to recognise that schools should be holding reserves for a variety of purposes e.g. forecast reductions in pupil numbers or renewal funds; this is acknowledged although the Local Authority is clear that balances held should be proportionate, be primarily for a specific purpose(s) and not be excessive.
- 3.9 It is important to be clear about the impact of these proposals, which only affect the interest paid on balances, and not on level of balances that are held by schools.
- 3.10 Some respondents expressed concerns that this proposal is part of a wider change in the relationship between the County Council and schools. This is not the case, and the Director of Children's Services reiterated that point at the last Schools' Forum meeting where this proposal was discussed, and endeavoured to reassure those heads present that this a particular issue and does not reflect, nor is it symptomatic of, any change in the proposed ongoing County Council approach to or relationship with its maintained schools. The proposal is a specific proposal that is part of the County Council's response to its significant financial challenges and the work on Legal Minimum Service Levels, and reflects the point that any interest payable is discretionary and the level payable is to be set by the County Council.
- 3.11 A minority of responses were supportive of the change, recognising the challenges faced by the County Council and acknowledging that some interest would still be received. Some responses were however caveated with the desire that the funding retained would be used to the benefit of children e.g. SEN services. The rising costs of services for children are one of the drivers of the County Council's budget gap. This measure is an important part of the response to this budget gap.

4 Revised proposal

- 4.1 The County Council has carefully considered the feedback received from schools and, in recognition of the concerns raised, is proposing an amended proposal which would put in place a tiered approach to the payment of interest, with a higher rate of interest passed to schools for

the first part of the surplus balance held, reducing down on higher balances in line with the original proposal which was to pay 0.5% interest on balances where the Bank of England Base Rate (BOE BR) was above 1.5%, and zero interest where the BOE BR was below 1.5%

4.2 The revised proposal is therefore:

Proportion of schools' surplus balance	Rate of interest proposed
First £60,000	1% when the Bank of England Base Rate is 3% and above
	0.75% when the Bank of England Base Rate is between 2% and below 3%
	0.5% when the Bank of England Base Rate is between 1.5% and 2%
All remaining balances	0.5% when Bank of England Base Rate is above 1.5%

4.3 Where the Bank of England base rate is 1.5% or below, no interest will be paid on any balances.

4.4 This revised proposal offers a higher rate of interest than the original proposal for the first £60,000 of balances with the remaining balance still receiving interest at 0.5% as outlined in the current proposal.

4.5 On like-for-like basis, the rate available from a sample of the banks which schools could bank with from the approved list set out in the Scheme for Financing Schools, is circa 1%; this is referenced further in section 5.

4.6 The proposed narrative outlining this approach can be found in Appendix B, section 4.3.

5 Alternative Banking Arrangements

5.1 The Scheme for Financing Schools sets out in section 3 'Banking Arrangements' which states the rules and processes which schools must follow if they choose to operate their own banking arrangements.

5.2 This current scheme includes, in Appendix B section 3.6.1, the 'approved banking institutions' which schools can choose to bank with, and these are currently set out as:

- Lloyds TSB
- Nat West
- HSBC
- Barclays
- Nationwide Building Society

5.3 Where schools have a surplus balance, this balance is also restricted to being managed through the above approved banks. The list of approved banking institutions is updated in Appendix B, section 3.6.1.

- 5.4 For comparative purposes, the County Council has engaged with Natwest as its current bank provider to establish what interest rate they would pay on a 'business' account which schools could use, and we have also obtained rates on the same basis from Lloyds bank. The current rates on offer from these 2 banks are:

	Overnight Rate	
	£0 - £1m	£1m+
Natwest	1.15%	1.50%
Lloyds	0.95%	1.45%

- 5.5 On a like-for-like basis, with funds held in the bank account of the above institutions, schools would attract the overnight rate but would need to manage their cash flow.
- 5.6 In order to attract longer terms rates, schools would need to tie their funds up for longer durations, and then regularly reinvest their cash for those durations to ensure they attract the relevant rate.
- 5.7 It is also the case of course that the main banks will anchor the rates they pay in line with movements in the Bank of England Base Rate (BOE BR), so the above rates would move downwards as the BOE BR reduces (which is the current predicted trajectory for BOE BR), so the above rates are at a point in time and would fluctuate as the rate changes.
- 5.8 The banks on the approved list will operate bank charges for transactions through a business bank account, so schools would need to take account of the charges to be incurred. As an example, the rates for transacting with Natwest through their business account can be viewed on the [Natwest Business banking](#) web site.
- 5.9 The other consideration for schools is that the Financial Services Compensation Scheme protection against loss of funds through banking failure is set at £85,000, and any funds in excess of this amount with a single banking institution are not protected.
- 5.10 In considering the rates which may be available should a school choose to move banking arrangements away from the County Council, schools should take into account:
- the additional work required to manage and operate a local school account including the requirement to manage cash flow
 - that bank transaction charges would apply
 - that the rates on offer will move as the BOE BR changes
 - The FSCS protection at £85,000; all funds are protected through the County Council
 - the tiered rate now being proposed is not out of kilter with the potential rates which one of the approved banks would offer

6 Conclusions

- 6.1 The County Council notes that overall the response rate to the consultation was low, with 93% of schools expressing no view.
- 6.2 The County Council notes that from the 33 unique identifiable school responses received, 23 schools expressed their opposition to the proposed reduction in interest payable.
- 6.3 As payment of interest on balances is an area of discretionary spend with many other local authorities not making payment to schools, a review of the current approach is needed.
- 6.4 The proposals set out seeks to respond to the considerable financial challenges being faced by the County Council but also recognises the many benefits schools receive through the use of the local authority account. Benefits include treasury management services, integration with the Council's accounting system and Shared Services arrangements, reducing workload in schools and confidence that all savings held are protected.
- 6.5 These benefits are considerable, and it is important for schools to note the costs and complexities schools would face if they chose to maintain their own bank account. Key points to note include the requirement to only bank at approved banking institutions as stated in the scheme and as set out in paragraph 5.2 and 5.3 above, bank and transaction charges along with the additional staff costs associated with new responsibilities e.g. cash flow management, additional reporting requirements etc. The scheme also details deadlines for any changes recognising for all parties, the need for considerable process, service and system change.
- 6.6 It is important that prior to any changes, schools understand the level of interest on surplus balances that would be available from a business account with the approved bank institutions, and paragraph 5.4 provides some comparative data.
- 6.7 The proposals seek to agree a balance between both the Council's and schools' needs, and the revised proposal goes further in recognising the financial challenges schools are facing. This approach is consistent with the County Council's desire to work in partnership with schools.
- 6.8 The proposal also takes account of the interest which schools could potentially receive were they to move their banking away from the County Council and set up an account with one of the approved banks
- 6.9 Overall, the proposal takes into account the other benefits for schools in banking with the Council, and that interest payments to schools recently have been unusually favourable as they have been closely aligned to the Bank of England base rate, which has seen a steep rise compared to the last decade. It is unlikely, as set out in this report, that similar rates would be achieved by schools investing their balances through setting up their own business banking with one of the approved banks, and crucially not without the need for considerable additional input to manage its cash.
- 6.10 The proposals also state a threshold below which no interest will be paid, as has been noted in some consultation responses. This point clarifies a long-standing existing point in the scheme as no interest is paid when the

Bank of England base rate is lower than the percentage reduction stated in the scheme. This was the case for many years when interest rates were very low.

- 6.11 It is also worth considering the likelihood that the impact of the change is potentially short term, as interest rates are forecast to decline over the next three years.
- 6.12 The County Council, having taken account of the response to the consultation, still proposes to implement a reduction in interest payable on school balances, but on the basis of the revised proposal set out in paragraphs 4.1 – 4.5. This revised proposal is recommended for Schools' Forum support.

7 Recommendations

- 7.1 It is recommended that Schools' Forum agrees to the changes in the Scheme for Financing Schools as outlined in Appendix B, which would mean that the revised interest proposal would apply to the balances at the end of March 2025.

Appendix A – Consultation responses

Comments

Do you have any further comments you wish to make regarding the proposal?

<p>After not receiving the interest for a few years it is nice to have something back for saving money.</p>
<p>Appreciate the challenges of the LA but schools are also struggling</p>
<p>As we navigate the current financial landscape, it is imperative that we recognise the diligent efforts a few schools are undertaking to maintain their surplus budgets. In light of these efforts, it is only fair that we receive the full interest accrued on these budgets.</p>
<p>Good financial management, or management to secure interest, by schools is not done so for the benefit of the County Council's individual challenges and poor financial management.</p> <p>Whilst the County Council may be facing financial difficulty, this needs to be tackled in a different manner and in a sustainable manner. This does not appear to be a considered action on the part of schools or managing the County Councils financial difficulties.</p> <p>This money belongs to each individual school and should therefore be provided to them for the benefit of the pupils they serve.</p> <p>School's individual circumstances vary and those who have balanced budgets or surplus should not be penalised in this manner.</p> <p>This would not be in the best interest of schools.</p> <p>If the council intended to make this change, it would have been more appropriate to do so with more notice than less than a month - this is not appropriate conduct. No school would be in a position to set up and transfer to their own managed bank account in this time.</p> <p>This consultation is highly irregular and inappropriate, offering schools no real option to protect their interest accrued across the past year within the consultation period of less than a month.</p> <p>Making a decision that impacts schools within a month appears as a foregone conclusion and that 'consultation' is fruitless and irrelevant.</p> <p>This communication method appears to take no consideration to the impact on relationships with schools that the Local Authority has. As a maintained school, where the LAs role is to support schools, it does not feel that this is in our best interests.</p>
<p>School's money belongs to schools, and in this case those who have managed their budgets well. This should continue to be the case always, regardless of the Bank of England base rate.</p> <p>Schools are already seeing funding cuts everywhere, with real terms funding now lower than levels in 2010, this is essentially another cut to funding in an already hostile environment.</p> <p>Regardless of the amount of interest received, it is important that if school's have managed their budget well that they see the reward of this.</p>
<p>Schools' money belongs to the schools for the benefit of the pupils we are serving.</p> <p>This is money that belongs to schools - we have worked hard to manage our budgets appropriately and we should be able to see the reward (albeit small!) of this!</p>

<p>Schools need all the monetary support they can get. Costs are rising all the time and if we want the future generations to have a good education we MUST help our schools with financing. The proposed change IS NOT helping schools.</p>
<p>This is money that belongs to schools. They have worked hard to manage budgets appropriately and should be able to see the reward of this!</p>
<p>Why should the council benefit from the schools</p>
<p>The school has worked hard for the money. The money should go to that school.</p>
<p>Schools are in need of money to employ teachers and support staff without which they can not function effectively and so it will be the children who will suffer as a result. This is a really absurd proposal and I would vote against it</p>
<p>Any interest should continue to be shared amongst schools. The money that the interest is being accrued from isn't the money of the local authority, it is the money for schools. Therefore, this money should continue to be shared with schools, not plug the hole in the finances of Hampshire County Council.</p>
<p>Schools' money belongs to the schools for the benefit of the pupils we are serving.</p>
<p>This is a punishing scheme for schools who have done everything in their power to maintain their budgets at a stable level. The money in interest would allow schools to invest this amount (no matter how small the amount may be deemed to be) back into the children they serve. Why would this be denied to schools? Appalling proposal.</p>
<p>If school budgets keep being eroded like this, impacting on already severely challenged budgets, don't be surprised when more and more of them go into deficit. We already can't sustain the very high levels of SEN we have on top of increasing staffing costs and other price increases and we've already been told our budget shares are flatlining.</p> <p>Please reconsider - just because other councils don't pass this money on to schools and support them when they should, isn't a reason for Hampshire to do the same, especially when our schools are already so poorly funded compared with others nationally!</p>
<p>Schools' money belongs to the schools for the benefit of the pupils we are serving.</p>
<p>We strongly believe that any interest earned on money allocated to the school belongs to the school and should be credited back to our school.</p>
<p>The reason is my school is in deficit so it makes no difference to us. Hopefully this will help towards funding SEND and small schools across Hampshire, as both these areas are significantly underfunded.</p>
<p>As a school with a surplus budget that we are focussing on using with our pupils, it is worrying that an income that our school and pupils were entitled to before will be removed. This is concerning considering the in-year deficits that are reported each year within our sector</p>
<p>This is non-statutory additional funds for schools. Schools within the LA benefit significantly from the wider networks within the LA and the services directly provided to school. Additional funds are always appreciated but if this in some way supports the wider system for children then we support the proposal.</p>

I am chair of the Finance Committee. I am utterly dismayed at what can only be termed as a “cash grab” for Hampshire CC to take money out of schools which have managed their funds appropriately. Moreover, this is going to have a significant impact on our budgets, which we have carefully managed and already allocated spend on. If the council decides to press ahead with this plan, then I fully expect our surplus to turn to deficit, and you will only have yourselves to blame. You are robbing Peter to pay Paul, as the saying goes, unfortunately the Peter in this case are the students from our school, whom one would think the County Council would have their best interests at heart. Perhaps a better analogy may have been taking candy from a baby. Whichever way you look at it, it’s the wrong way to go about addressing council shortfalls.

I understand that you are struggling to obtain funds, as we all are, but taking them away from hard earned school income is not the way to do this. We are already working to avoid falling into deficit and Hampshire CC is making this even harder for us. The logic is also flawed, basing this on the Bank of England base rate, rather than the actual interest paid. It seems as though this harebrained scheme was dreamed up in a brainstorming exercise with little thought to the impact or the fact that the income from the council is supposed to go to the very schools you are taking them from. A better solution would have been for you to investigate additional revenue streams, not moving peas around the plate.

I cannot stress to you how utterly disappointed I am with Hampshire CC and given that we avail many of your paid services as a school. We will look to fully review our spend with you to accommodate any shortfall you may create by pressing ahead with this plan, which would put you in a net loss position in any case.

I sincerely hope you reconsider this disastrous plan.

I think this is disgusting. Schools are trying so hard to diminish deficit and this is a further kick in the teeth.

Schools should not lose out when they have been prudent with their finances. This is a disgrace!

We can't support any change that withholds money from schools however unless a school is holding very large balances, we don't think this will impact many significantly. We recognise the financial crisis of the local authority but also the financial challenges of most schools and feel that, as it is all 'one pot' you are just moving budget deficits from one part of the pot to another.

The school needs all the funding they can get and if they are managing their finances well then they should be able to benefit from this interest and not be handed back to the councils.

The school's money should be used for the school - not centrally. We have earned interest due to effective budgeting and this should therefore be used by the school.

Schools are struggling to meet the growing needs of their pupils as it is, this would be another cut that they can ill-afford.

This will have another financial impact on the school, where costs are already rising and funding reduced.

As a school experiencing significant financial hardship, the interest payments we have received in recent years have been vital. To us, the additional interest amount has contributed to us not needing to resort to drastic measures (including restructures) immediately and so we are concerned the impact only receiving a minimum, or zero, amount would have.

This will encourage schools to take their money out and invest separately - which may increase the risk to the council if such schemes fail? Currently the council are, I assume, making a profit on held finances (or at least offsetting against more expensive interest payments that would otherwise be necessary. It may also drive schools to spend rather than maintain a cash reserve which will be devalued over time in real terms, again increasing the risk to the council and increase the likelihood of such schools running out of money.

It is a shame that the full interest rate cannot be passed on as it has made a difference each year to help with staying in surplus when budgets are so tight. We will obviously be grateful to receive the new interest rate as it is better than nothing, but the plan for 0% some years has not gone down well with our Governing Body.

This interest should be returned to schools, as it has been acquired within their financial management and not the local authorities.
Good school financial management is not there to be taken by the LA.

HCC LA schools have no real ability to manage their funds independently and therefore this seeks to take advantage of this arrangement. LA schools would be at a disadvantage if they were to have their own accounts and not be able to use IBC services. All of these services schools are charged for within SLAs, and therefore additional school funds should not be taken.

Another blatant misuse of school funds to provide a short-term fix to poor financial management of the LA.
This will not resolve matters longer-term regarding LA spend.
It does not encourage schools to remain with the LA.
Another action negatively impacting school and LA relations.

Decisions from the LA should be made in the best interests of schools and the children they serve - this is not.

I would not want to see this become a pattern whereby the LA looks to maintained schools for funds to support statutory duties of the LA. Maintained schools were disadvantaged in the initial funding arrangements when academies were promoted by the coalition government from 2010. Maintained schools continue to be disadvantaged in the placemat of hard-to-place students and in-year school transitions. These add costs to the school which are not recognised in funding that comes in to a school. Schools have taken on a number of roles which used to be funded and are not now or undertaken by other agencies and are not now, again adding costs to schools which are not covered by funding.

Schools who have carefully managed their money should gain the full benefit of that care. It is hard to see where the benefit now sits in careful planning of finances over the long term. A lack of care is likely to lead to increased job turbulence and so redundancy costs and less consistency in the school workforce where relationships with students are very important.

<p>As a school we are committed to supporting Hampshire with reducing their deficit. However, it is disappointing that the school is no longer going to be able to benefit from these payments which we have used historically to benefit the students.</p>
<p>We believe this proposed change is neither fair or reasonable and is penalising those who have been prudent in financial management. Maintaining a surplus should not result in diminished returns, particularly when it has been achieved through careful planning and efficiency. Such a change may have unintended consequences, including reduced incentives to maintain healthy financial reserves.</p> <p>We respectfully request that this proposal be reconsidered to maintain fairness.</p>
<p>The school worked hard to build up a fund and has found the interest on these funds a key income to support annual running costs. It seems unfair that they lose this benefit given it was their previous careful running that allowed them this surplus.</p>
<p>Our school relies on the interest.</p>
<p>We do not support the proposed change as we are concerned where these monies will be spent by HCC and that these funds will not be directly spent on education of children at our school in the future. Interest earned by individual schools for their Budget Share given by the DfE is currently the responsibility of the local school to show accountability for these funds, it is an overreach that HCC is trying to remove this.</p>
<p>Given the funding challenges in the education system, I would not support any measure that reduces funds available to the school.</p>
<p>In rare circumstances where schools have surplus balances of any substantial value, it seems very counterintuitive to further disadvantage them but not paying interest at all, or at a reduced rate.</p> <p>I do not support this change to the scheme</p>
<p>I think that the schools should keep their interest on their accounts. It helps the school budgets and rewards good financial management</p>
<p>You're basically stealing money from schools - money which is theirs!!</p>
<p>I think this is a grotesque move. This money is a dip in the ocean for HCC - yet it's significant for schools. Arguably, it also isn't HCC's money to take. Its money that schools are accruing on their interest, HCC has no right to it. My school has worked hard to aggressively reduce spend and increase income. Our thanks? Losing money into HCC's black hole.</p>

Appendix B – Revised sections

3 Banking arrangements

3.1 General

- 3.1.1 All schools can choose to have external bank accounts into which they may wish to have their funding and/or surplus balances paid, subject to the requirements set out in paragraph 3.6.
- 3.1.2 If schools choose to open an external bank account with surplus balances paid in directly alongside their County Council account, this will require additional reporting and financial returns to the County Council to meet statutory requirements. This workload impact is likely to be dependent on the nature and volume of transactions through the account.
- 3.1.3 If schools chose to open an external bank account and cease to use their County Council account with funding allocations paid in directly, this is likely to create a greater administrative burden on the school and may impact on the use of a number of County Council systems and services.

3.2 Frequency of instalments

- 3.2.1 Where a school chooses to receive its budget share into an external bank account, schools will receive their budget share (including place funding for resourced provisions) in accordance with the following profile:
- 1/36th on the first banking day in April.
 - 3/36ths on the penultimate banking day of each month from April to February inclusive.
 - The remainder, 2/36ths, on the penultimate banking day in March.
- 3.2.2 There are no restrictions on when schools who do not choose to receive their budget share into an external bank account may spend their funding, as long as they do not go into deficit at the end of the financial year.

3.3 Interest clawback

- 3.3.1 An interest charge will be deducted from budget share instalments paid into external bank accounts, representing the loss of interest to the County Council by virtue of the budget share funding leaving the County Council's main bank account an average of about 2.4 days earlier than is the case for non-external bank account schools. Bank of England base rate will be applied to the amount of the budget share, that is amount of budget share x $(2.4/365)$ x base rate.
- 3.3.2 Interest will not be charged on the payment of DfE grants that do not form part of the funding formula.

3.4 Interest on late budget share payments

3.4.1 In the event of budget share payments to external bank account schools being late due to a County Council error, interest at Bank of England base rate will be paid to the school, for the number of days involved.

3.5 Banks and building society accounts

3.5.1 Schools keep all interest earned but bear the cost of all bank charges.

3.5.2 Schools are not allowed to overdraw their accounts. In such a situation, the school will be required to close their bank account and open an account with the County Council.

3.5.3 Schools with deficit balances cannot have an external bank account until the deficit is cleared.

3.5.4 On request, the County Council will transfer an estimate of the school's surplus balance into the school's external bank account, on the understanding that there will be subsequent corrections as required.

3.5.5 Schools who wish to have their funding instalments paid into their external bank account can only request this from 1 April (in which case the Education Funding Team must be notified by the previous 1 December). Other start or stop dates will be considered by the County Council if requested.

3.6 Restrictions on bank accounts

3.6.1 Approved banking institutions are:

- Barclays Bank PLC / Barclays Bank UK PLC
- Handelsbanken PLC
- HSBC Bank PLC / HSBC UK Bank PLC
- Lloyds Bank PLC / Bank of Scotland PLC
- National Westminster Bank PLC / NatWest Markets PLC / Royal Bank of Scotland PLC
- Nationwide Building Society / Clydesdale Bank PLC / Virgin Money UK
- Santander UK PLC
- Standard Chartered Bank

3.6.2 If an institution is removed from the above list, all accounts with it must be closed immediately after notification from the CFO, and any funds returned to the County Council pending the opening of a replacement account.

3.6.3 If desired, bank accounts may be in the name of the school rather than the County Council. However, if a school has such an account, the account mandate must provide that Hampshire County Council is the owner of the funds, that it entitled to

receive statements, and that it can take control of the account if the school's right to a delegated budget is suspended. Section 49(5) of the School Standards and Framework Act 1998 states that funds paid by the authority and held in school accounts remain authority property until spent.

3.7 Borrowing by schools

- 3.7.1 Governing bodies may only borrow money with the written permission of the Secretary of State.
- 3.7.2 The Secretary of State has, however, agreed to provide blanket consent to a range of the most common leasing activities, as set out in the [IFRS16 Maintained Schools Finance Lease Class Consent 2024](#). Leases not included in this Order will still require the written consent of the Secretary of State.
- 3.7.3 Local authorities need to maintain a register of lease agreements for accounting purposes therefore, schools are required to inform the local authority of any lease agreement that is:
- 12 months or more
 - valued more than £5,000
 - controlled by the school in terms of its usage and benefit
- 3.7.4 If the new lease meets any of these conditions, schools must complete a return: [School Leases - Data Collection](#)
- 3.7.5 The use of credit cards (excluding a Hampshire County Council purchasing card), bank overdrafts, and finance leases constitute borrowing.
- 3.7.6 Schools will only be granted permission for borrowing in exceptional circumstances. However, limited schemes will become available in order to meet broader policy objectives which will not require specific approval. This currently includes the Salix scheme, which is designed to support energy saving.
- 3.7.7 Restrictions do not apply to trustees and foundations, whose borrowing, as private bodies make 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 19 Scheme for financing schools – June 2024 consequence of their own borrowing. Governing bodies do not act as agents of the authority when repaying loans.
- 3.7.8 This provision does not refer to any loan schemes which the County Council may decide to run in the future.

4 Banking arrangements

4.1 Year end balances

- 4.1.1 Schools will carry forward from year-to-year balances on individual school cost centres.

4.1.2 A school's 'year-end balance' is the net total balance as at 31 March for all of the cost centres which it manages (except for cluster funds 'C code').

4.2 Controls on surplus balances

4.2.1 Schools Forum will determine from time to time how to apply any policy for managing school balances in accordance with DfE guidance.

4.3 Interest on surplus balances

4.3.1 Interest on the surplus balances held by schools in the County Council account will be paid on the following basis:

Proportion of schools surplus balance	Rate of interest proposed
First £60,000	1% when the Bank of England Base Rate is 3% and above 0.75% when the Bank of England Base Rate is between 2% and below 3% 0.5% when the Bank of England Base Rate is between 1.5% and 2%
All remaining balances	0.5% when Bank of England Base Rate is above 1.5%

Where the Bank of England base rate is 1.5% or below, no interest will be paid on any balances.

4.4 Deficit balances

4.4.1 Schools are reminded that, as per paragraph 4.1.2, a school's balance is the net total for all of the cost centres which it manages (except for cluster funds 'C code').

4.4.2 When a school ends the financial year with a cumulative deficit balance, the procedures are:

- That the school must submit a robust deficit recovery plan to clear the deficit within no more than three years. This will need to incorporate a summary of key actions and assumptions. 20 Scheme for financing schools – June 2024
- The budget plan must be approved by governors and posted to SAP by 31 May.
- Schools must comply with the requirements as set out in the County Council deficit procedures.

4.4.3 The school may be asked to produce evidence in support of figures in any plans produced and/or to discuss it with County Council staff. In the event of the County Council not being satisfied with a plan, the school may be required to review and alter the plan, including the plan for the current year.

- 4.4.4 In exceptional circumstances only, it may be possible to extend the recovery period. Such requests will need to be approved by the Director of Children's Services, who will need to be satisfied that the circumstances are indeed exceptional, and that all reasonable action will be taken to clear the deficit at the earliest opportunity.
- 4.4.5 Where the school has a change of circumstances which results in a deviation from the agreed plan, the school should discuss the situation with the County Council at the earliest opportunity.
- 4.4.6 In all instances of deficits, including forecast deficits for future years in the three-year financial plan, schools may be required to provide information and/or cooperate with County Council officers with a view to ensuring that the deficit is managed and monitored in an appropriate manner.

4.5 Interest on deficits

- 4.5.1 The County Council may charge interest on deficit balances, up to 0.5% above the base rate on 1 April. It will be charged on the deficit balance at the start of the year. Interest will only be charged after a specific decision by the Executive Lead Member for Children's Services.

4.6 Writing off deficits

- 4.6.1 The County Council has no power to write off the deficit balance of any school's budget.

4.7 Closing schools

- 4.7.1 When a school closes, other than through conversion to academy status, any balance (whether surplus or deficit) reverts to the County Council. The net balances of closed schools, after taking account of continuing costs for the financial year, for example redundancy and security costs will be allocated to the new and reorganised schools that receive the pupils who would otherwise have attended the closing schools, pro rata to the number of pupils taken.
- 4.7.2 When a school is closing or under notice to become a sponsored academy, the County Council reserves the right to apply greater controls on school expenditure in order to safeguard the financial position of the County Council or the school using a Notice of Concern. Controls will be applied in a proportional way, taking into account the level of risk and potential disruption to the school