##### **THE EXTERNAL PAYMENT OF ACCOUNT SCHEME (EPA)**

### Key Contacts

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### The External Payments Account Scheme

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**The External Payments Account Scheme**

1. **Introduction**

1.1 Schools can hold an External Payments Account (EPA) for official funds. Schools choosing to hold this account must comply with the rules and conditions in this scheme. Appropriate staff must attend training courses on systems and financial procedures.

1.2 Schools are able to opt, with approval of their governing body, for an External Payments Account.

1.3 The Local Authority will suspend the External Payments Account arrangements where, in the opinion of Internal Audit and/or Schools Finance, there is evidence of financial mismanagement or non-compliance with the rules of the scheme.

1.4 Schools wishing to participate in the scheme must apply to the Local Authority by no later than 31st December. This application must be authorised by both the Head Teacher and the Chair of the Governing Body of the school.

1.5 A school will not be allowed admission to the scheme where the school is experiencing considerable difficulty in maintaining expenditure within its formula budget share or where deficit balances are brought forward from previous years.

1.6 Any school wishing to withdraw from the External Payment of Accounts scheme should initially contact the Schools Finance Team on 0121-675 7776 and this will be facilitated as soon as is practicable.

1.7 Schools that are part of the External Payments Account Scheme, and approval for closure or amalgamation has been obtained, will only continue to operate the External Payments Account Scheme until the time of closure or amalgamation.

1.8 Schools using CMIS/FMS or any other financial management system, will need to read and use these procedures in conjunction with system training notes for External Payments Account.

**2**. **Preparing for an External Payments Accounts System**

2.1 Internal Management within the School

 An External Payments Account requires a network of financial systems that incorporate a degree of financial control, including separation of duties. There should be a clear management and organisational structure to effect and manage these financial systems whether via CMIS/FMS or any other financial management system.

2.2 Separation of Duty/Internal Control

 It is important to ensure that there is an adequate separation of duty incorporated into the operation of the financial systems. At least one of the designated members of staff authorised to sign cheques should not have authority to authorise orders or certify accounts for payment. In particular, a division of duty should exist between:-

* the raising of an order and its authorisation and certification;
* the ordering and the receiving/acknowledgement of the delivery of goods;
* the ordering process and the processing of the invoice to be passed for payment.

2.3 Security of the System

 To maintain the integrity of information on the CMIS/FMS or any other financial management system, it is necessary to ensure that adequate security measures are put in place.

3. **Payments Arrangements**

* 1. The External Payment of Accounts scheme relates to the local payment to **external** suppliers only. Under the EPA scheme, schools will meet the types of expenditure from their local bank account for EPA as set out below:-
* All expenditure relating to schools’ delegated budgets, **except** for payments to employees, including any allowances, travelling and subsistence expenses which are paid through the Local Authority payroll, and **except** for uniform business rates, water rates, utilities negotiated through a contract by City Procurement Services and payments to City Council departments.

3.2 Any school opting for EPA status will have their petty cash imprest advances withdrawn. Schools must return their imprest before the start of the scheme. “The Closure of Petty Cash Account” form must be completed and sent to SchoolsPettyCashAdmin@birmingham.gov.uk, together with the Petty Cash reconciliation form based on the final bank statement. (Appendix A).

4. **Cheques and Signatories**

4.1 Schools will be supplied with their own cheque books in the name of

 ‘BCC – school name’

4.2 There must be a clear division of duty between the preparation, authorisation and issuing of cheques.

4.3 Schools must identify at least four signatories for the account, two of which must be senior members of staff.

4.4 Change of Signatories

 If there is a change to the authorised signatories, schools must complete a “Change of Petty Cash Account Details” form with **ALL** the new account signatories. The completed form needs to be scanned and sent to:

 SchoolsPettyCashAdmin@birmingham.gov.uk

 and

 cashiers.income.control@birmingham.gov.uk.

 The **ORIGINAL** completed form should be sent to:

Schools Finance Team- Petty Cash

Directorate for Children & Young People

PO Box 16306

Birmingham

B2 2XR

4.5 Cheques must be signed in manuscript by two designated members of staff and at least one of the staff should not have authority to authorise orders or certify accounts for payment. Governors will not be permitted to sign cheques, except where those governors are acting in their capacity as members of staff. All cheque book signatories should be aware of their responsibilities, in respect of cheques to be signed, and should review the supporting paperwork to satisfy themselves of the legitimacy of the transaction prior to signing.

4.6 Blank cheques must be kept in a safe place and they must not be pre-signed in any circumstances.

4.7 Spoilt cheques must be crossed through and retained for audit purposes. Any cancelled cheques must be clearly marked “cancelled” and retained for audit purposes with the paid invoices.

4.8 The date, payee and amount of each cheque should be recorded on each cheque stub in ink.

4.9 A periodic check should be undertaken to ensure that all cheques issued have been accounted for.

5. **Transaction Limits**

5.1 Payments shall **not** be made out of the External Payments Account for:

* any non-delegated items listed in the Fair Funding Scheme unless notified to schools;
* any expenditure relating to unofficial funds;
* any non-City Council activities.

 All income received (cash or cheque) should be banked into the Local Authority’s General Fund account in the usual manner, as is current practice. See ‘Income and Cash Handling’ chapter

5.2 Credit, Charge and Cash Cards

 There must **not** be any payments made by standing order, direct debit (except Birmingham City Council), BACS or any electronic means. Cash dispensers and credit cards must **not** be used without permission of the Head of City Finance-Education.

5.3 Travellers Cheques/Foreign Currency

 Travellers’ cheques and foreign currency must **not** be obtained through this bank account without the permission of the Head of City Finance-Education.

5.4 Imprest Levels

 Imprest levels are currently set at £20,000 for Primary schools, £20,000 for Special schools and £70,000 for schools with budget shares in excess of £2m.

5.5 Requests for Temporary Increases in Imprest Levels

These must be emailed to SchoolsPettyCashAdmin@birmingham.gov.uk

stating the amount required, giving reasons for the request and how long it is required for. If the request is granted, the temporary increase will be paid directly into the school’s EPA Bank Account via a BACS payment.

5.6 Repayment of Temporary Imprest Increases

 Temporary imprest increases will be recouped by the Local Authority direct from the school’s bank account.

5.7 Overdrawn Accounts

 Schools must not go overdrawn on their External Payments Account. Any bank charges incurred by the Local Authority from Barclays as a result of overdrawn balances will be charged to the school’s budget share. The Local Authority reserves the right to consider withdrawal of the EPA facility if an account is overdrawn on a number of occasions.

5.8 Exceptional Payments

 In the circumstances where a school has a payment to make to an external supplier which exceeds 33% of the imprest balance (for example, £6,600 for schools with an imprest of £20,000 and £23,100 for schools with an imprest of £70,000), this payment should be processed through central payment authorisation on CMIS/FMS or any other financial management system used by the school. The invoice, with a signed authorisation slip, should be sent to Accounts Payable, PO Box 10861, Birmingham, B4 7WR

**6.** **Credit Terms**

 Schools should make use of normal credit terms offered by suppliers, but need to pay attention to discounts on offer for prompt payment that could provide better value for money.

**7.** **Accounting for Cash Instalments**

 The following “cash” credits will be received by BACS (or in exceptional circumstances CHAPS) by schools:

* Initial External Payments Account imprest
* Monthly expenditure reimbursements

**8.** **Payment of City Council Invoices (Internal)**

Payment of internal invoices must be made using the ‘INTERNAL INVOICE portal.

**9.** **Value Added Tax**

9.1 EPA schools are deemed to be part of the Local Authority for VAT purposes and must not attempt to register for VAT in connection with activities involving the use of the delegated budget.

9.2 Goods and services bought by the school may be liable to VAT. Schools must pay tax to the supplier. Schools must therefore account for VAT properly on CMIS/FMS or any financial management system that is being used

9.3 EPA schools will be reimbursed VAT via the Local Authority on a monthly basis. Schools must scan and send in the full EPA return to EPAMailbox@birmingham.gov.uk according to the prescribed timetable. The Local Authority will account for VAT on the school’s behalf and reclaim from HM Revenue and Customs (HMRC).

9.4 A BACS payment will be made into the school’s account – this normally takes three working days to transfer from the date of processing.

9.5 Individual schools will be liable for any penalties imposed by HMRC, resulting from the underpayment of VAT, based on their financial returns submitted to the Head of City Finance-Education. It is therefore vital that all invoices and other records are maintained on file to support all VATable transactions. Attention must be given to obtaining official VAT receipts/invoices and to account accurately for all VAT in respect of both income and expenditure. The Head Teacher must be aware of, and ensure compliance with, the VAT regulations. See ‘**Valued Added Tax’** chapter

 Should HMRC officers wish to inspect the records, they will give adequate notice so that documents can be forwarded to the Head of City Finance-Education. Alternatively, HMRC officers may request to visit schools.

9.6 Schools are reminded of the requirements for entering income and expenditure with VAT implications. Failure to comply with this may result in an imbalance on the VAT return and possible delay in VAT reimbursement. The Local Authority will consider withdrawal of the External Payments Account facility for schools failing to account for VAT, or by submitting VAT returns not in line with the approved timetable and procedures.

10. **Processing Expenditure**

10.1 Ordering and Receipt of Goods

 Ordering and receipt of goods and services, for EPA schools operating local banking arrangements, should follow the same procedures as non-cheque book schools.

* All orders and receipts for goods or services should be processed via CMIS/FMS or any other financial management system being used by the school. Blank ordering stationery which contains the Local Authority’s terms and conditions must be used and should be retained in a secure area.
* Any verbal orders placed over the telephone must always be followed up immediately with an official confirmation order. Faxed orders need to include both sides of the order and, wherever possible, should be followed up with the original order.
* For utility bills, i.e. gas, electricity, telephone, it is advisable for a blanket order to be raised at the start of each financial year. This commits the funding and also serves as a record to prevent duplicate payments.
* The selection of the supplier, obtaining of quotations and issuing of contracts for goods and services must be in accordance with the requirements of the Local Authority’s Financial Regulations and Standing Orders. See **‘Financial Regulations’** chapter and **‘Purchasing’** chapter.

10.2 Payment of Invoices

 Invoices should be recorded on CMIS/FMS or any other financial management system being used by the school, with the exception of central payments [(see 10.3 below)](#S10_3) and the Construction Industry Scheme [(see 10.4 below)](#S10_4). Non-order invoices should not be used.

 All invoices will be paid inclusive of VAT, where applicable, which will be subsequently reimbursed [(see section 9 above).](#S9)

10.3 Central Payments

 Where utilities (gas and electricity) are purchased through the Local Authority’s contract, payment will be made centrally under the terms of the contract.  Schools will receive a direct charge in their reconciliation file and will receive a copy invoice from the utilities supplier.  This invoice is **for information only** and should not be paid by the school. **Note - the school is liable for all the energy it uses.**

10.4 Construction Industry Scheme (CIS)

 The Construction Industry Scheme (CIS) is a set of rules where contractors deduct tax from a subcontractor's payments and pass it to HMRC.

CIS relating to construction, decorating or renovation of a building may fall under the CIS scheme and payments have to be made in accordance with HMRC guidance. If work is being paid for by the school from the EPA account then CIS does not apply.

              If Birmingham City Council is making payment, on behalf of a school, the CIS rules will apply regardless of whether the Local Authority commissions the work. See **‘Payments’** chapter

              If a school requires Accounts Payable to make the payment, the school will need to ensure that the invoice clearly shows a breakdown of materials and labour content. If the supplier is a sole trader they also need to quote their Unique Tax Reference (UTR) number **and** National Insurance number for verification with HMRC. See **‘Payments’** chapter

If they are a **Limited (Ltd)** company then just the UTR needs to be quoted. Failure to do so could delay payment. See **‘Payments’** chapter.

If the school requires further clarification on the scheme an email can be sent to schoolspaymentsenquires@birmingham.gov.uk stating CIS query in the subject field.

10.5 Processing of Credit Notes

 There may be occasions when goods which have been paid for have to be returned to the supplier. In such cases schools are likely to receive a credit note for the value of the returned goods. When a credit note has been recorded the next cheque for that supplier should be reduced by the amount of the credit note. Where a supplier is unlikely to be used again, a cheque for the total of the credit should be obtained and banked in the Local Authority’s General Revenue Fund (GRF) account.

11. **Urgent Payments**

11.1 Minor purchases, in exceptional circumstances, can be paid for by cash from an imprest float held by the school. In order to comply with the terms of the Local Authority’s insurance arrangements cash should be kept in a safe. The cash holding limits are below.

 The cash holding limits, which must NOT be exceeded, are:

* Wall safe - £125
* Freestanding or floor safe - £500

11.2 If a school is producing all of its cheques manually, a cheque can be made out for an urgent purchase, but CMIS/FMS or any other financial management system used by the school must be immediately updated for the payment.

 In no circumstances should unofficial monies be mixed with official monies, or banked to the External Payments Account.

12. **EPA Imprest Increases**

 Permanent Increases

12.1 Requests for a permanent increase to the imprest, setting out the reasons and the amount required, should be sent to EPAMailbox@birmingham.gov.uk

 Temporary Increases

12.2 Occasionally, a temporary increase to the imprest may be required to avoid going overdrawn on the EPA account.

12.3 Requests for a temporary increase to the imprest should be sent to EPAMailbox@birmingham.gov.uk, setting out the reasons and the amount required.

13. **Business and Water Rates**

 Funding for Business and Water Rates will be held centrally for schools that are in the EPA scheme

14. **Leasing of Equipment**

14.1 Schools may be approached by suppliers offering goods, e.g. computer equipment, photocopiers and furniture, along with a leasing package, enabling schools to spread the costs over a number of years.

14.2 Any leasing payments must be made by cheque and not be direct debit.

15. **Retention of Documents**

15.1 The following records **must** be kept for the current financial year and the previous six financial years:

* Signed copy orders
* Signed and dated delivery notes
* Copy remittance advice slips
* Certificated paid invoices
* Bank statements
* Bank reconciliation statements
* CMIS/FMS or any other financial management system detailed accounts
* Contracts (including quotations, tenders, etc.)

15.2 It is recommended, however, that the following filing system should be adopted to support expenditure:

* Signed Copy Orders – To be retained in cheque number order
* Other paid revenue orders invoices – Period Order
* Delivery Notes – Period Order
* Copy Remittance advice slips – Period Order

 In each period file, the corresponding VAT return and expenditure analysis should be kept from CMIS/FMS or any other financial management system used by schools.

15.3 Complete end of year accounts on the CMIS/FMS or any other financial management system used by schools must be held, electronically, separately for each financial year. A separately stored back-up copy should also be kept.

15.4 There must be an audit trail from the cheque counterfoil to the order and invoice, and from the monthly returns required, back through the CMIS/FMS or other financial management system to the individual invoice.

15.5 Invoices and other records relating to VAT claims will be retained at each school. As mentioned in paragraph 9.5 above, should HMRC officers wish to inspect these records, they will give adequate notice so that documents can be forwarded to the Head of City Finance-Education. Alternatively, HMRC officers may request to visit the school.

15.6 Schools should remember that the Local Authority has a statutory obligation to open its accounts for public inspection. It is therefore important to ensure that a comprehensive system is implemented for the filing, retention and potential inspection of all relevant documents.

15.7 It is also recommended that schools keep records of their authorised signatories, including any additions/deletions.

16. **Financial Returns and Monitoring**

16.1 The following financial returns are required on the basis described:-

16.2 Bank and Account Summary Reconciliation

 Schools **must** reconcile, monthly, the balance shown on the bank statement with the school bank account balance, as shown on CMIS/FMS or any other financial management system used by the school. This reconciled bank balance **must** be further reconciled to the ‘Account Summary’ information on these systems, on a monthly basis.

 Schools **must** therefore receive bank statements monthly. Reconciliations must be returned on a monthly basis to the Schools Finance Team, Directorate of Children & Young People, according to the prescribed timetable.

 The Local Authority will consider withdrawal of the EPA facility for schools failing to submit balanced monthly reconciliations in line with the approved timetable and procedures. Unbalanced reconciliations will be returned to schools for correction. The Local Authority reserves the right to consider withdrawal of the EPA facility if a number of unbalanced reconciliation statements are received in a year.

16.3 VAT Returns and Expenditure Analysis

 Schools **must** send all returns to EPAMailbox@birmingham.gov.uk including their VAT returns and expenditure analysis on a monthly basis.

 The VAT return will enable the Local Authority to account to HMRC and to make reimbursement to the school.

 The expenditure analysis return should be produced on request from CMIS/FMS or any other financial management system used by the school, giving an expenditure code analysis, audit trail, budget allocation and fund audit trail, enabling the Local Authority’s central systems to be updated.

 Where schools incur capital expenditure, supporting documents must be sent to EPAMailbox@birmingham.gov.uk e.g. copy of capital expenditure invoices.

16.4 Closure and Reconciliation of an Existing Petty Cash Account

To close an existing petty cash account the school will need to complete a “Closure of Petty Cash Account” form (see Appendix A). The form should be scanned and sent to SchoolsPettyCashAdmin@birmingham.gov.uk

A reconciliation of the petty cash account must be completed (see Appendix B), to ensure the correct imprest is reimbursed to the Local Authority. A bank statement as at 31 March should also be included as part of the reconciliation.

**Appendix A**

**Template example: Closure of Petty Cash Account Form**

To obtain the form, click on the link:

[**Closure of Petty Cash Account.xlsm**](file:///%5C%5CSVCEDCLR07%5CCYPF_Childrens_Finance%24%5CTechnical%20Office%5CTechnical%20Office%20Shared%5C1%20Management%20Accounts%5COther%5CPetty%20Cash%20New%5C2018%5CRevised%20guidance%5CFinal%5CClosure%20of%20Petty%20Cash%20Account.xlsm)



**Appendix B**

**Template example: Reconciliation Form- Financial Certificate**

**To obtain the form, click on the link**

[**Reconciliation form - Financial Certificate.xlsm**](file:///%5C%5CSVCEDCLR07%5CCYPF_Childrens_Finance%24%5CTechnical%20Office%5CTechnical%20Office%20Shared%5C1%20Management%20Accounts%5COther%5CPetty%20Cash%20New%5C2018%5CRevised%20guidance%5CFinal%5CReconciliation%20form%20-%20Financial%20Certificate.xlsm)

**For detailed guidance notes on how to complete the Reconciliation form,** **see “Petty Cash Guidance Notes for Schools” chapter in Schools Financial Procedure Manual**

