

Making Sense of School Finance

The governors' role in school finance



Dear Governor

As chair of the Learn Together Partnership, I am delighted to offer you the third training booklet in the "Making sense of..." series. This time we are "Making Sense of School Finance". I know so many of you have found "Making Sense of School Performance Data" and "Making Sense of Safeguarding" most valuable I am delighted therefore to introduce you to the latest work, produced through the Governor Effectiveness Group of the Learn Together Partnership.

The Learn Together Partnership is a collaboration of nine local authorities' Children and Young People's Services, namely Cheshire East, Cheshire West and Chester, Halton, Knowsley, Liverpool, St Helens, Sefton, Warrington and Wirral. The authorities have a long history of working closely together to meet the challenge of high quality provision within the children's services agenda.

This project is the result of the collaborative work of all of our nine partner local authorities and has been led by their respective governor support and training sections. The cost of the booklet has been met by a bid to the Merseyside Improvement and Efficiency Partnership (MIEP), *Narrowing the Gap* programme.

Our aim was to provide a useful resource to support you to enhance your role as critical friends and equip you to provide both support and challenge effectively.

An important section is the identification of the key questions that should be asked in monitoring the school budget, to ensure your school gets value for money for your pupils so they can learn and grow.

Yours sincerely



Gerald Meehan

Chair of the Learn Together Partnership

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Our thanks go to

The Learn Together Partnership

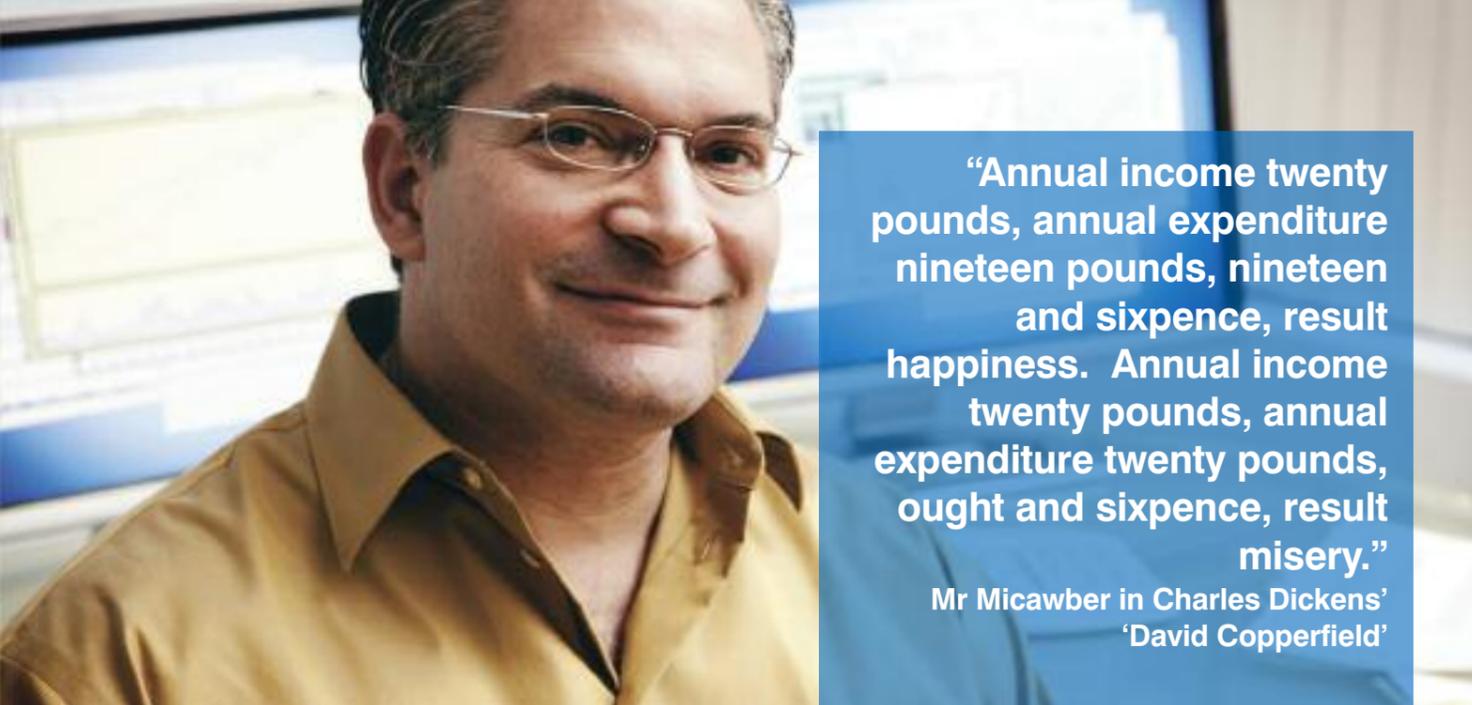
The Merseyside Improvement and Efficiency Partnership

The Governor Training and Support Services in Cheshire East,
Cheshire West and Chester, Halton, Knowsley, Liverpool, Sefton,
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“Annual income twenty pounds, annual expenditure nineteen pounds, nineteen and sixpence, result happiness. Annual income twenty pounds, annual expenditure twenty pounds, ought and sixpence, result misery.”

Mr Micawber in Charles Dickens’
‘David Copperfield’

Introduction

Health warning!

The government is committed to changing the way in which schools receive their funding and has consulted on how that should happen. At the time of publication, the details are not yet known but affect only the section of this booklet concerning how school funding is calculated. The other key points should remain the same. Budgets for 2012-2013 should not be affected. How you react to the changes will require some thought and planning. They are intended to make funding fairer, but just as when Local Management was introduced, your response to that will probably depend on whether you gain or lose under the new arrangements. An Institute of Fiscal Studies report in November 2011 indicated that there will be a large number of schools with significant changes to their budget and even though transitional arrangements are to be put in place, these changes will need to be carefully managed, particularly for schools which will lose funding over time.

A little bit of history

Schools in England have now managed their own budgets for over twenty years. At the time of introduction many people were sceptical about the measure and it could often be heard “I didn’t come into Education to manage a business”, but it is worth remembering that it was not unique to this country, it was an international trend. Much of the development occurred in Australia and Canada and, as well as the UK, governments of all political complexions in other European countries, New Zealand and some states in the USA also took the idea forward. It is doubtful if many school managers would readily turn the clock back to centrally directed budgeting.

Some principles

When the idea of schools receiving their own budgets was first trialled, it was under the heading of “Local Financial Management”, but the terminology rapidly changed to “Local Management of Schools”. The reason for this was plain. In reality schools don’t manage finance for its own sake, the funding only has a value in terms of what it buys: buildings, resources and, above all, staffing. With budgets came management of premises, the choice of where to buy books, materials and services, and full control of the staffing of schools within the constraints of national pay agreements and employment law.

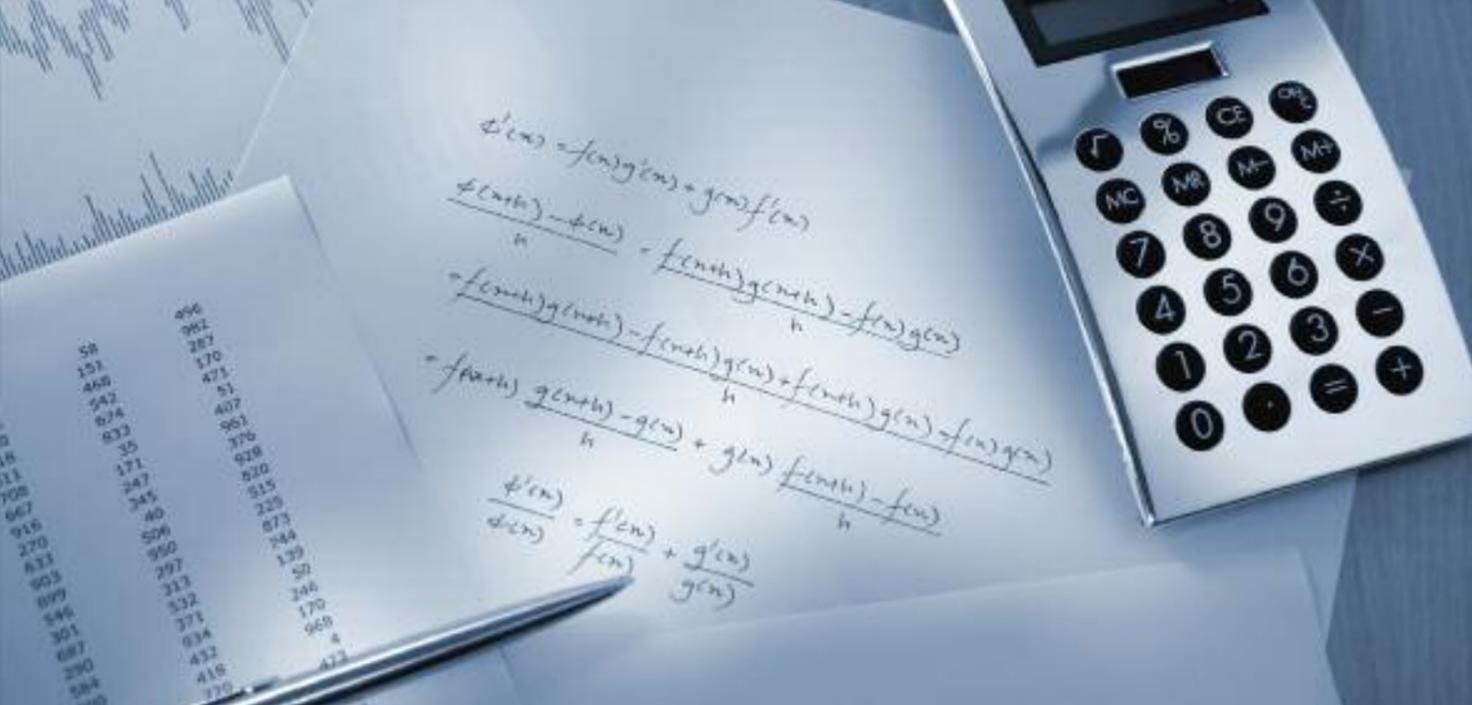
In summary

- School budget management is not an accountancy exercise; it is not about tax efficiency or investment, just careful planning with some good book-keeping.

- It is not necessary to have finance experts on the governing body and you will get professional advice and lots of information from the headteacher or business manager. Additional help will be available from the LA or financial provider, but this is usually a charged-for service.
 - Individual governors have no financial liability for any decisions made “in good faith”. Unless governors act fraudulently, there is no personal risk.
 - Everything which is allocated through the budget must be directed towards maintaining and improving the educational opportunities for pupils at the school.
 - The school budget and the school development plan are inextricably linked - nothing will improve unless properly resourced.
 - With that in mind, budgets require regular review -
- just because money has been directed in a particular way in the past is not a reason for it continuing to be spent that way.
 - Budget changes need careful thought. If the school is fortunate and has a rising budget, how should it be used for best effect? If the budget is in decline, how will it be managed to minimise the impact on pupils?
 - Whatever is sometimes said by government ministers, or in the press, headteachers do not receive the budget. They should advise governors and manage it on their behalf, but the governing body has the legal responsibility for ensuring the efficient and effective use of the funds given to the school. Governors can choose to delegate tasks, but they cannot delegate responsibility.

Thoughts and questions

- Don’t be afraid of being involved in financial decisions. They aren’t about money. They’re about what you want for the school.
- “I’ve got no experience of financial management”. You aren’t supposed to be an expert. Do you have to manage money at work? Do you help a charity or voluntary group? Do you look after your household spending? The figures may be larger but the same principles apply. You want to get the best you can for what you’ve got.
- Who helps new members on your governing body understand the budget? Can an “old hand” help someone through the first few meetings and explain what’s going on?
- Is there training available which would help you feel more comfortable?
- Keep it simple. Three key questions are: Why are we spending this? What difference will it make to pupils? How will we know it’s worked? If nobody can answer these, it’s probably a bad choice.



Section 1

Where does the money come from?

How LAs and schools get their funding

The way schools get their funding is complex, and to a large extent beyond the influence of the school and governing body, but what follows is intended to make the process a little clearer.

In essence, the school has a share of the funding made available to the LA by central government in the form of the Dedicated Schools' Grant, (DSG). This varies from LA to LA because it is intended to reflect the needs of particular communities. This is decided by the government using its own criteria (and these are what will change in the new, "fairer" system).

There are floors and ceilings within this calculation to minimise extremes or sudden changes.

This total figure is divided into categories and has some rules which affect its distribution:

- The greater part is within the **Schools' Block**, the money delegated to schools or held centrally for their benefit to support such things as some elements of Special Educational Needs, behaviour support, assessment of free school meals eligibility, insurance.
- There are limits imposed on the percentage of the funds the LA can hold (the Central Expenditure Limit).
- An amount determined by the government to cover the LA's statutory functions.

The way these are allocated is laid out in a document called the Section 251 Statement which

must be made available to all schools and which also shows how each LA has calculated the budget share - the school's part of the overall budget for the LA.

Funding for sixth form students is calculated separately by the Education Funding Agency (EFA), formerly the Young People's Learning Agency (YPLA), and channelled through the LA to schools.

Major elements of the formula and how schools get their budget share

From the earliest days of Local Management of Schools there were two key principles:

- The first was that schools should receive a share of the budget allocated through a formula based

on objective need. The intention was to remove any suggestion of bias in the allocation of resources to particular schools.

- The second was that money follows pupils. Schools should be funded primarily on the number of pupils they support and should gain additional funding if pupil numbers increase but lose if they decline.

For governors these two principles are vital. It is not possible to plead that any school is a special case, or has a particular need greater than another, if it is not allowed for within the formula. Equally, however hard it seems, if numbers decline, so will the budget and something, usually staffing, will have to give as a consequence.

The LA will have determined a formula to allocate funding in consultation with the local Schools Forum (see below). This will have a number of elements which can vary from LA to LA although always within government rules. The key elements of the formula can be:

- Pupil numbers, based on an **Age Weighted Pupil Unit (AWPU)** (in other words the amount varies with the pupil's age, generally higher in the Early Years, and for Secondary age pupils, than for Primary).
- Special Needs (based on a school audit of SEN pupils).
- Additional Educational Need (a factor related to the relative deprivation of the area the school serves).
- Premises costs (largely based on square metres of

floor area or historic spending patterns).

- Some school specific costs, for example:
 - Rates
 - Service Level Agreements
 - Lump sum

Although the days of growth in budgets have gone for the moment, there is a **minimum funding guarantee** which protects schools from changes in the formula, which would see a rapid drop in their finances. At the time of writing, this is limited to no more than 1.5% from one year to the next. But this only applies to changes to the formula - if a school's numbers fall, there is no protection from that.

A recent major addition to the funding stream is the current government's introduction of the **Pupil Premium**. This is calculated nationally and based primarily on free school meal entitlement. The government has decided that the Pupil Premium in 2012-13 will be extended to pupils who have been eligible for free school meals at any point in the last 6 years. It is intended to support those schools with the highest proportions of pupils from disadvantaged backgrounds and, to some extent, to encourage schools to admit these children on the "money follows pupils" principle. Nationally the Pupil Premium will double from £625m in 2011-12 to £1.25 billion in 2012-13. It expected to rise further to £2.5 billion by 2014-15.

Schools have the freedom to spend the Premium, which is additional to the underlying school budget, in any way they think will best support the raising of attainment for the most vulnerable pupils, for which they will be accountable.

The Schools Forum

The LA determines the way the formula is calculated, which is why there sometimes seem to be differences between schools across boundaries, but they must do this in consultation with schools. This is done through a Schools Forum made up of representatives elected by all the different sectors and types of school, including academies, the early years and 14-19. Other members are also drawn from non-school interests such as the LA, diocesan bodies, professional associations, youth groups or parent groups. School representatives must make up at least two thirds of the Forum to ensure a majority but the aim is to have the widest possible spread of representation of those with an interest in education.

Depending on how it is set up in your LA, there may be governor representation, indeed the government guidance suggests it is good practice for Schools Forums to aim for a membership structure based on an equal proportion of headteachers and governors. This is not always possible but the intent is for there to be sufficient representation of each group to ensure debate within the forum is balanced. Each type of school will certainly have a voice, and if there are concerns about the way the budget is distributed (though not the total education spending), governors may wish their representative to hear those views.

Academy Schools and Free Schools funding arrangements

These schools operate independently of LAs and receive their funding directly from the government through the EFA. They will receive exactly the same budget share as they would have received if they had

still been under the control of the LA, but importantly they also receive a proportion of the LA's central budget in compensation for services they no longer receive. Remember though that this is not additional funding, it simply gives greater choice, and they will still have to have access to those services either by providing them for themselves or buying them in from the LA or elsewhere.

Unlike maintained schools that are funded on the traditional financial year basis (April to March), academies are funded from September to August to reflect the academic year. The funding comes in the form of a grant, known as the General Annual Grant (GAG), paid by the EFA. This is made up of different elements:

- School core funding - by far the largest element of GAG, known as its delegated budget share. This will be the same as the school's current budget share received from the LA. EFA make small adjustments to reflect any reduced business rates, paid by an academy as a charitable trust, and for insurance, which is paid separately in GAG.
- Local Authority Central Spend Equivalent Grant (LACSEG) - this is additional money to cover those central services the LA no longer provides.

It is important to note that the LACSEG is not a uniform figure across the country and will vary between LAs to reflect the amount the LA already holds back to pay for central services. This element of the grant is calculated by the EFA (not the LA), using a formula based on an academy's pupil

numbers and the amount that the relevant LA spends on central services. It is not based on the actual costs of the services supplied to the individual school.

These services and costs include elements funded both from a local authority's schools' budget and from other LA sources, specifically:

- SEN support services
- behaviour support services
- 14-16 practical learning options
- school meals and milk
- assessment of free school meals eligibility
- repair and maintenance of kitchens
- museum and library services
- licences and subscriptions
- central staff costs (maternity, long-term sickness and trade union duties)
- certain employment terminations
- LA statutory/regulatory duties
- asset management
- school improvement services
- monitoring national curriculum assessments
- education welfare services
- pupils' support (e.g. clothing grants)
- music services
- visual and performing arts services
- outdoor education services
- certain redundancy and early retirement costs.

Academies need to consider how they will obtain these services using the additional funding they receive. They are free to buy back the services from an LA, if offered, or find them elsewhere.

Depending on which LA the academy is in, it might be the case that the school is already responsible for some services, and already receives a greater delegated budget from their LA.

The following items do not become the responsibility of the academy and continue to rest with the LA:

- home to school transport (including transport for children with SEN)
- education psychology, SEN statementing and assessment
- monitoring of SEN provision, the Parent Partnership, etc.
- prosecution of parents for pupil non-attendance
- individually assigned SEN resources for pupils with rare conditions needing expensive tailored provision (this is usually a top-up to formula funding)
- provision of pupil referral units or "education otherwise" for a pupil who is no longer registered at an academy

Community and Voluntary Controlled Schools

The funding is passported to schools from the LA. In other words the LA must give it to the school directly and then the school chooses what to do with it, in particular which services it might want to purchase back from the LA. The school does not own the premises but is effectively the tenant. The school will receive money for basic maintenance and for minor improvements, but major repairs and rebuilding costs will remain the responsibility of the LA. This will mean some negotiation with the LA, should major improvements to the fabric of the building be required.

Technically, the staff of the school are contracted to work for the LA, but school staffing regulations mean that, because of Local Management, the school must treat them as its employees in terms of hiring, dismissal and pay. However, because of their contract status, governors would be well advised to discuss staffing issues with the LA to protect the school against such matters as equal pay claims, or in the case of redundancy.

Voluntary Aided (VA) and Foundation Schools (including Trust Schools)

The premises of Aided Schools and Foundation Schools are owned by the foundation or trustees. The governing body will have to take into account a wider range of property matters because they are responsible for all aspects including major repairs, extensions, or rebuilding.

In these schools the governors are also the legal employer of all staff and their contracts rest with the governing body. Governors will have to abide by national conditions of service and rates of pay in most cases but should take care over all employment matters and seek advice where necessary.

Differences between schools

As well as the funding process just outlined, all schools are funded at the same level. There are differences because of the variety of schools in the system. These differences will give a school either more or less work to do and choices to make. The key variations are listed below.

Academies

Governors in Academies also have full responsibility for premises and are the employers of the staff. However, staffing

matters have an additional dimension in that the national conditions of service and pay scales in operation are not binding in Academy schools. Governors may choose to adopt them, but they are not required to do so.

Special Schools

Special schools have their budgets calculated in a different way. Because pupil numbers are not as consistent, nor as clearly within the school's control, the pupil element is based on

notional school places for the type of pupil the school supports rather than the actual number in the school at any given time. Numbers may fluctuate to the school's advantage or disadvantage. If there is a permanent change, the school formula will be adjusted. The pupil places will be heavily related to the staffing required for their support and as a consequence governors may wish to seek advice before making significant changes to the staffing structure.

Thoughts and questions

- **It's difficult to influence the school budget share, but any radical change from the previous year's figures needs to be checked to ensure there are no errors. Your head or business manager will almost certainly have done this already.**
- **On a local level there may be issues about the discretionary parts of the budget formula, for example the Age Weighted Pupil Unit (AWPU). The only way to change this is through the Schools Forum. You may like to check who represents your type of school.**
- **If the feeling is strong among schools in a particular sector it is possible to change the formula.**
- **Being on top of pupil numbers is really important. Your school numbers are most likely to be stable but if you know that there are changes planned to local housing, for example, how will this affect you? It could be that sudden changes in numbers by the movement of service families, travellers or migrants have a major impact on the budget. In these circumstances, when it's beyond the school's control, it's worth checking whether there is any support within the funding system.**
- **How will the Pupil Premium affect your school budget? Some schools stand to gain significantly if the figures rise but how will the money be spent?**
- **Are you sure it will be used to best effect? More of the same won't necessarily produce a better result, so what will be different for your school?**
- **Somewhere in the calculations there is funding to assist Special Needs pupils. Do you know how this is being used within the school to benefit pupils who experience difficulties in their learning? After all they aren't just a notional formula factor but real pupils.**

One attraction often cited in relation to becoming an academy school is that such schools attract greater funding. However, you will almost certainly still need to buy services or provide them internally. You will have to assess whether this is worth the additional management cost and responsibility.



Section 2

Freedoms and constraints in the use of funding

The majority of funding which comes through to schools is delegated to the governing body which means that governors have complete control over how it is spent so long as it is for the benefit of pupils within the financial framework set down in the LA financial regulations. Governors are able to vire this money if they choose. This just means it can be moved from one budget heading to another. If governors choose to spend funding given to them for premises or staffing, they can - but they will have to live with the consequences afterwards.

Some funding is devolved and although governors control how it is spent, it must be used for its intended purposes. There is less of this type of funding than in the past and most has now been built into the budgets, but an example is Devolved Capital Funding, which is intended for major building or equipment costs (usually ICT). However much, there might be different priorities, it could not be spent on staffing

or the routine running costs of the school.

It is for the governing body to decide how best to spend the school's budget for the educational benefit of the school's pupils. Schools may accumulate savings and carry them forward, but any deficit balances must also be carried forward. Strictly speaking governors may not set a deficit

budget, but they may enter into a planned overspend. The difference is important because just like a personal debt has to be with the agreement of the bank, for example, the school needs the agreement of the LA, or the EFA in the case of academies. The governing body would have to indicate why it needs the facility to overspend and have a clear timetable to pay back the additional money

received. This will usually be over a maximum period of three years unless there are exceptional circumstances.

Control of the budget is important since, if schools overspend, ultimately they are taking funding away from those that do not. There is a similar control over surpluses. A contingency balance is good management but current legislation permits LAs, at their discretion, to claw back excess surplus balances (usually considered to be more than 5% for a secondary school, or 8% for a primary) for redistribution unless it is satisfied that they are assigned to a designated project. Again this is because this is money which should be being spent for the benefit of pupils in the system within the LA. Governors may want to think about the carry-forward of funding into future years even if it is for a planned project. It could be considered that the pupils in the school are having less spent on them than they might, for the benefit of future pupils. The governing body is perfectly entitled to do this, but will want to consider carefully the impact on current pupils' experience and opportunities.



Thoughts and questions

- **Do try to be creative with your freedoms. The budget headings in your spending plan are not set in stone, they should change over time. A fresh look from a governor not previously involved might just be the thing that's needed. Why are spending patterns the way they are? Are there other options?**
- **Don't play around with devolved funding and push it into mainstream activities. Ask why you need to do it. It is likely to be picked up at audit and is not sustainable in the long-term.**
- **Be careful of making long-term staffing commitments on government grants, pilot schemes, or trials. They have a habit of becoming part of the budget very quickly, but the funds don't always follow. Always build an exit strategy into plans relating to short-term funds.**
- **A contingency fund is good but successive governments have been nervous about high balances in schools. Money rolling up into a surplus is money not spent on pupils' education.**
- **Think hard about the morality of financing long-term improvements from the current pupils' funding.**
- **Deficits usually occur when action is not taken on staffing issues as pupil numbers fall. The problem is unlikely to go away and staff costs can multiply at an alarming rate if numbers continue to decline.**
- **Never try to build up a surplus to reduce the impact of known falling numbers on future staffing levels. It's a short-term answer and only takes money away from current pupils to avoid hard choices about jobs, which will still have to be made. Surplus should be used for specific, future planned spending projects**



Section 3

Defining the boundaries

The role of the governing body

The governing body remains ultimately responsible for the manner in which the budget is spent. This is not just about ensuring that the figures add up, it is about ensuring that it has been spent wisely to the benefit of pupils, which is why the relationship of the budget to the School Development Plan (SDP) is so important. Each year the governing body should consider the priorities for the school and set these out in the SDP. The detail in this will usually cover the next academic year but many schools like to have a three-year plan, at least in outline. It is not necessary to cover everything the school does but major developments and improvements should be shown with, amongst other things, an indication of timescales, the intended educational outcomes

and, importantly, the costs involved. It could be argued that setting the context and development planning for the school is the key way in which governors demonstrate their responsibility for the strategic direction of the school. If carried out properly and with all concerned understanding what the plan covers, and why, everything else the governing body does makes sense. Below the level of the governing body and its strategic role, it is really important for the committee structure, if you have one, to have clear terms of reference and delegated authority so they can make decisions and report back without having to seek approval. This is particularly important on budget issues when the boundaries of responsibility will need to be set out very carefully.

The Finance Committee

The governing body is able to delegate most of its functions to an individual or committee and one of those can be its responsibilities around the school budget. Once the governing body agrees the SDP, the task of the finance committee is to review spending on a regular basis to see that it is progressing as planned, or to take action to bring the budget back into line if for some reason there has been an underspend or overspend. It is not necessary to debate the school budget in detail at a governors' meeting, though minutes of the finance committee will be submitted for information, perhaps with a brief report from the chair of the committee. Some schools want the full governing body to endorse the annual budget but that is not necessary in law if this function has been fully delegated

and may lead to duplication of debates already held elsewhere. For greater efficiency a school could delegate that role to the finance committee and trust it to do the detailed work, only reporting back to the full governors' meeting. The governing body as a whole needs only consider financial issues if something radical has happened which will have a serious impact on the SDP or will change the school's priorities in some way.

Other structures

It is something of a convention to have a finance committee, but it is not always helpful to split the budget issues from what most of the money is spent on. Many schools will include premises in the terms of reference of the finance committee and, increasingly, staffing as well to make a single resources committee. It only delays decisions and increases paperwork to be passing minutes of committees back and forth and asking for permission to spend in line with what should have been agreed priorities in the first place. Having a single resources committee to cover premises and staffing matters, and how both will be paid for, makes sense and saves time, though it can make for long agendas if not carefully handled.

Responsibilities of the headteacher and other staff

The headteacher is the principal professional adviser to the governors and should be expected to carry that role out, giving governors advice and sharing information about the levels of funding available, existing spending patterns and trends. Above all headteachers will offer advice on the school's

priorities and where it may be necessary to redirect resources, in other words they will guide governors in the creation of the SDP. In reality they will also carry out the spending of the budget on behalf of the governors and ensure that money is being spent in the way it was intended.

However, the headteacher's role is to lead the educational priorities and, except in the smallest of schools, they should not be expected to be controlling the school finances on a day-to-day basis. The school administrator, or the business manager in a larger school, is the more appropriate person to do this.

For curriculum spending, in most schools some budget responsibilities will be delegated to heads of departments, subject or key stage leaders, or class teachers, especially for resource purchases. Individually these amounts may be quite small but they should be being seen within a previously agreed framework.

In a very small school, the responsibility may rest with the part-time school secretary or administrator. It is not really reasonable to expect them to do much more than process purchases and some limited updating of the financial records. However, the headteacher's time is also valuable and arguably needs to be spent elsewhere and it is a circle many schools may find difficult to square. One option, which more schools are adopting, and are actively encouraged to follow, is to consider the employment of a shared financial officer who may work across a number of small local schools.

The larger the school, the more likely the possibility of there

being someone who will have responsibility for looking after the processing of financial information: orders, payments, LA data etc. Many schools have extended this role to cover more of the elements of school management, which the budget brings in terms of premises, purchasing, cleaning and managing some support staff. They are probably called a business manager or a bursar.

Almost inevitably in the biggest schools the whole non-curriculum running of the school is likely to be given over to this member of staff and for them to be members of the school's senior leadership team. This is obviously a very senior and responsible post with wide and varying responsibilities, possibly including ICT and personnel functions as well as budget matters and very likely involving a number of other staff.

Remember that the point of creating these posts is to free the headteacher to be the leader of the school's learning, while the support functions are dealt with elsewhere. The closer the school gets to the latter model, the more likely that this is the person who will report directly to the governing body. If the school employs someone at a reasonably serious level with detailed knowledge of the financial data it does not make sense for the reports to come to the finance committee, or governing body, through the headteacher and it is not a good use of the headteacher's time for them simply to pass on a second-hand briefings to governors when they could hear the information first-hand from the school's specialist.



Terms of reference, responsibilities and delegation

In financial matters, perhaps above all others, given that public money is at stake, it is really important, and only fair to all concerned, for there to be clear definitions of responsibility and any financial limits imposed. There should be clear terms of reference for committees with an indication of spending limits. What level of spending has been delegated to the headteacher without reference back to the finance committee? Does the

business manager have similar limits, or are they lower with reference up to the headteacher for larger sums? There are likely to be clear rules set by the LA on major purchases with strict criteria for offering contracts, for example. Have budgets been delegated to other committees, to other members of staff and, if so, what controls are there to ensure they are clear about their level of authority. Clarity over these matters gives all concerned the freedom to act but also makes accountability clearer.

Thoughts and questions

- What committee structure does your governing body have?
- Does it aid effective decision-making?
- The governing body's key role is to be strategic and take a long-term view of how the school meets the needs of the community and how it can improve. How do you actually do that?
- How do you determine the school's priorities?
- How do you influence the SDP?
- How do you check progress?
- How do you act if things are not happening as expected?
- Are the financial implications of plans properly costed and transferred to budget planning?
- Do you have proper terms of reference and delegated authority for committees and individuals in the school to act on your behalf?



Section 4

Schools Financial Value (SFVS)

SFVS replaced the Financial Management Standard in Schools (FMSiS) scheme in September 2011. This was the standard required by the government, which most schools met. Schools will have to complete SFVS by 2013. There will be an annual review after that point.

This standard is very clearly directed at governors and is an indication of the expectations the government has of governors' responsibility for effective management of school funds. The key features are 23 questions to which the governing body should provide self-assessed evidence of whether it meets the expectations fully, partly, or not at all.

Obviously if it does not meet the standard fully, there is an expectation that the school will provide information of how it intends to do so. Details of SFVS, together with guidance notes are available from the DfE website. Further information can also be obtained from the local authority.

Thoughts and questions

- If you have met FMSiS, can you meet the new standard?
- What is your evidence?

Schools Financial Value Standard

The Governing Body and School Staff

1. In the view of the governing body itself and of senior staff, does the governing body have adequate financial skills among its members to fulfil its role of challenge and support in the field of budget management and value for money?
2. Does the governing body have a finance committee (or equivalent) with clear terms of reference and a knowledgeable and experienced chair?
3. Is there a clear definition of the relative responsibilities of the governing body and the school staff in the financial field?
4. Does the governing body receive clear and concise monitoring reports of the school's budget position at least three times a year?
5. Are business interests of governing body members and staff properly registered and taken into account so as to avoid conflicts of interest?
6. Does the school have access to an adequate level of financial expertise, including when specialist finance staff are absent, e.g. on sick leave?
7. Does the school review its staffing structure regularly?

Setting the Budget

8. Is there a clear and demonstrable link between the school's budgeting and its plan for raising standards and attainment?
9. Does the school make a forward projection of budget, including both revenue and capital funds, for at least three years, using the best available information?
10. Does the school set a well-informed and balanced budget each year (with an agreed and timed plan for eliminating any deficit)?
11. Is end year outturn in line with budget projections, or if not, is the governing body alerted to significant variations in a timely manner, and do they result from explicitly planned changes or from genuinely unforeseeable circumstances?

Value for Money

12. Does the school benchmark its income and expenditure annually against that of similar schools and investigate further where any category appears to be out of line?
13. Does the school have procedures for purchasing goods and services that both meet legal requirements and secure value for money?
14. Are balances at a reasonable level and does the school have a clear plan for using the money it plans to hold in balances at the end of each year?
15. Does the school maintain its premises and other assets to an adequate standard to avoid future urgent need for replacement?
16. Does the school consider collaboration with others, e.g. on sharing staff or joint purchasing, where that would improve value for money?
17. Can the school give examples of where it has improved the use of resources during the past year?

Protecting Public Money

18. Is the governing body sure that there are no outstanding matters from audit reports or from previous consideration of weaknesses by the governing body?
19. Are there adequate arrangements in place to guard against fraud and theft by staff, contractors and suppliers (please note any instance of fraud or theft detected in the last 12 months)?
20. Are all staff aware of the school's whistleblowing policy and to whom they should report concerns?
21. Does the school have an accounting system that is adequate and properly run and delivers accurate reports, including the annual Consistent Financial Reporting return?
22. Does the school have adequate arrangements for audit of voluntary funds?
23. Does the school have an appropriate business continuity or disaster recovery plan, including an up-to-date asset register and adequate insurance?



Section 5

Creating a spending plan

Creating a spending plan should not be a complex matter for most governing bodies. Schools are well used to the process by now, but it may not be the case that this is always effective simply because it has always been done in a particular way. The comments which follow are intended to help the debate in governing bodies.

Remember that the school financial year begins in April, but most planning will be on the basis of an academic year beginning in September. As a result 5/12 spending may already be committed, 7/12 will be new spending and there will have to be some provisional planning for the following summer term. It is only a mathematical exercise but perhaps one which governors could do without.

In theory, the governing body could embark on an exercise in "zero-based" budgeting, whereby governors start with a blank sheet of paper and work up costs from nothing to support the aims and policies of the school. In practice, unless the

school is completely new, this method is unlikely to be used and would probably not be a useful exercise.

Most schools tend to undertake "incremental budgeting", where the individual elements of the budget are increased or decreased depending on the funding received and the pressures of cost inflation. The danger of this approach is that it assumes that all prior expenditure was necessary and effective and that minor amendments to spending patterns in line with changing costs are actually appropriate - you spend on certain things because you always have.

A better approach might be to combine the two and to question each budget line to establish whether it is still necessary, or whether to amend up or down in the light of current costs, or if a significant change in its priority is needed. Only by getting the school's planning cycle right will governors know if significant change is needed.

The planning cycle

The starting point for all planning should be the SDP. This should set out what the school believes to be the major areas for development which are to be priorities for the next one to three years (typically a year in detail and a further two in outline).

Many governing bodies see the SDP as a staff-driven document and effectively only ratify a completed plan towards the end of the spring term, but this is to fail to see it as the major driver of the activities of the school and the source of effective evaluation. It could be argued that progress against the SDP should be the key focus of governors' meetings and is the exercise of the governing body's strategic role. If this is the case and the

governors' views are minuted, the SDP develops progressively in response to those decisions as the evaluation of the school's performance is reported.

Normally schools will begin their planning process in the autumn term when the previous year's results will be assessed, staff performance management reviews will be taking place and the process will be underway to conduct the headteacher's

performance review. There will be a great deal of information available at that point. It is really important for the governors to discuss this fully so that some suitable priorities for the school can be developed and these can become the basis for a future SDP and for the headteacher's performance management objectives.

By the end of that term there is likely to have been some

discussion by the staff of personal, subject or departmental needs and whole-school action plans will be under development. Some governing bodies choose to use this term as a time to revisit their vision for the future of the school, probably not annually, but frequently enough to be sure that all concerned with the school are still clear about the school's purpose and values.

The key element in planning for January will be the school census date when pupil numbers for the following year's budget will be recorded. At the same time there is likely to be some indication of the funding available for the following financial year. A view of staffing requirements is then possible if nothing else changes.

By the end of the term there will usually be a draft SDP to be presented to the governors. This should not come as a surprise, if information has been presented effectively and governing body's decisions have been incorporated. Nevertheless the governors need to consider it seriously and not simply "rubber stamp" its contents because it should shape the future of the school. If it clearly sets out the key issues for the school for the next year including some targets and deadlines for action then progress can be checked on a regular basis, especially through the headteacher's report to the governing body.

The budget needs to be aligned with this plan and its major elements properly costed. There is guidance available to help with this but it is primarily a task for the school management to do this on the governors' behalf. What is important is that there is an element of

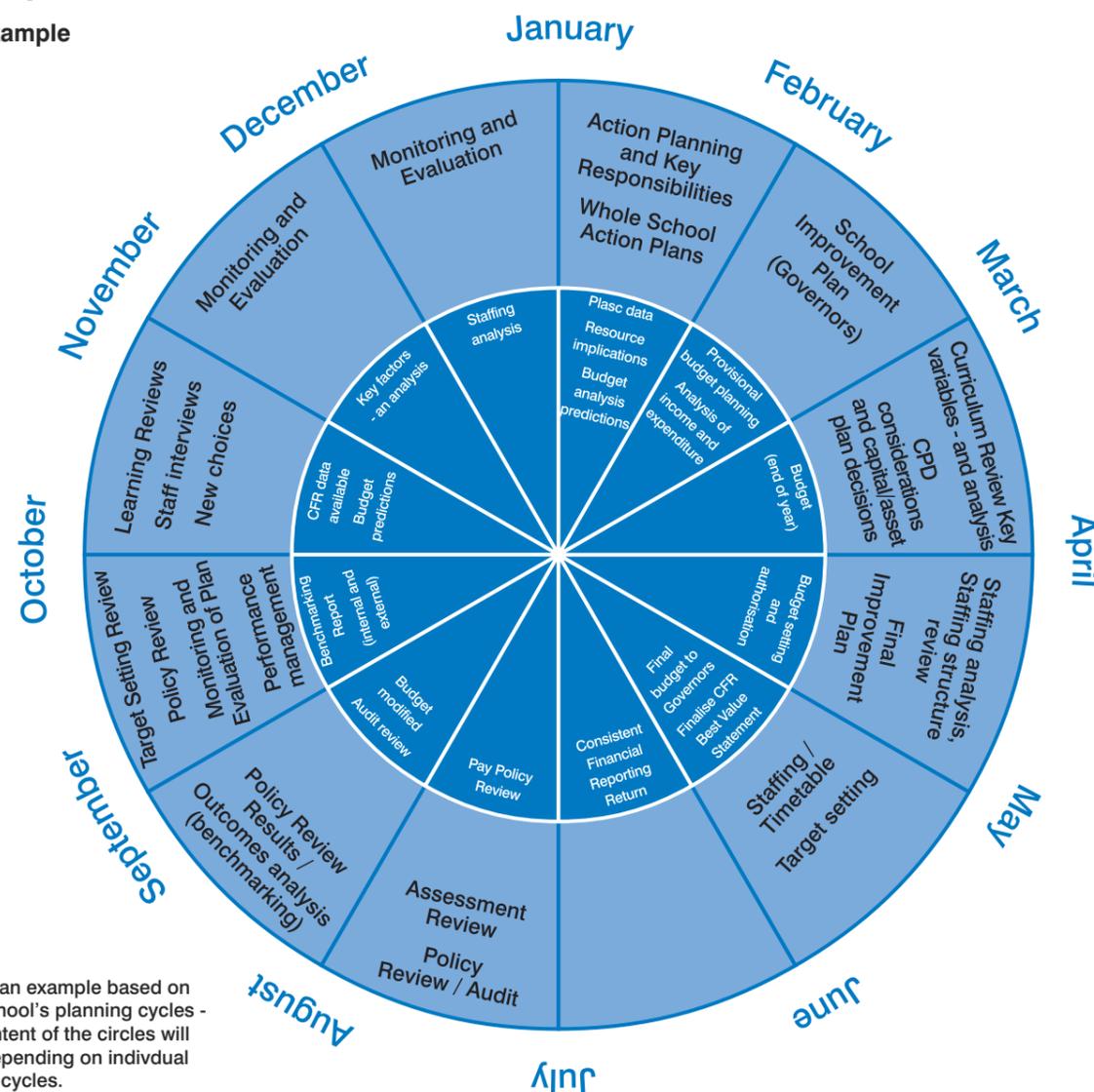
reality in the plan and its costing. Once the plan is in place, consider the following:

- What are the priorities for the school and what will we expect to achieve?
- Have we allowed for the costs of any planned development? If not, how sincere are we about the activity?
- Are numbers rising, falling, or static and is there any change in the profile of the pupils who attend?
- Will we need more or less support for those pupils in the form of teachers and other support staff? Is the ratio of those staff still appropriate?

One of the roles of a governor is to challenge, and the budget is a key area to do this. For example, if there is no new money in the system and an activity is added, along with its associated cost, what will have to be reduced or abandoned? This is particularly important in terms of staffing costs; beware of "Staff time" in the "Resources" column of a plan, as if it is free. Either governors will be asking staff to do more within limited, defined hours, or something they were doing has to be dropped, or there will need to be additional staff and the budget will have to be modified. Materials, books, equipment, or the cost of someone to lead staff training can seem significant, but if there is no allowance for effective staffing, it is unlikely that changes have been properly thought through.

Linking the budget and improvement planning cycle to focus decisions on improved outcomes for children

An example



This is an example based on one school's planning cycles - the content of the circles will vary depending on individual school cycles.

Thoughts and questions

- Influencing the SDP is key to the governing body's function. Are you clear about the needs of the pupils and areas for action? Do these relate to performance data and feedback on the school from Ofsted or other external agencies?
- Do you have a process for making the governing body's views clear before plans are drafted by the staff?
- Making sure the school has considered the financial implications of its plans is another key role for governors. In essence they should challenge whether financial decisions made by school management are improving outcomes. Can you ensure that:
 - costs are against every significant activity in the SDP?
 - staff costs are in the plan, especially if this has an impact on delivering the existing curriculum?
 - money is spent on priorities? The school should be able to show governors how actual spending matches the planned activities during the financial year. By comparing the costs and outcomes of individual activities, governors can evaluate value for money.
 - the school is prepared for future financial change with a budget and SDP for the next three financial years?
 - It may not seem a finance matter but it is absolutely legitimate for the finance committee to ask, not only was the funding spent in the manner planned, but whether it achieved what was intended.



Section 6

Operational issues

Pupil numbers

As previously indicated, one of the most important factors for governors to monitor is the number of pupils in the school. The major element of the budget (at least 65%) will be calculated on the pupil count in January on the Annual School Census date. If numbers fall, governors need to be conscious of whether this is a trend which is likely to continue. If so, staffing will need to be adjusted to match numbers or the budget will rapidly get out of control. If numbers fall between the January count and the new school year, the school will keep the funding for those pupils, but this will only be a temporary windfall and will correct itself after the following school census. Equally, if numbers increase, governors will need to be aware of the pressures that the rise will place on staff. There will be a funding

shortfall for that financial year and governors will need to plan carefully to manage the pressure of increased numbers. In the longer term it is likely that staffing levels will be altered.

Both the cases identified above are examples of one of the greatest difficulties of managing school budgets which is that timetables and teaching workloads tend to be worked out in “fte” (full time equivalent) teachers but there is often a pressure point where there is not quite enough funding to employ the number of staff governors would want.

Be aware that if pupils are excluded, the funding follows them immediately to the receiving school.

Personnel

This is a complicated area so seek support from the HR provider for the school. The largest element of the budget will be staffing. It is likely that at around 80% of the school’s costs will go out in salaries and “on costs”, such as the National Insurance and pension payments for those employed. The smaller the school the higher the percentage, in general terms. It is vital to be aware of staffing commitments and some of the peculiarities of life in schools, which those who work outside education sometimes find strange. The most obvious of these is the incremental salary scale. Teachers and most support staff will be on scales where their salaries increase automatically each year until they reach a ceiling. These scales are shorter in length than they used to be but they are still significant.

The finance committee will need to be conscious of incremental drift, which means that if there is no staff turnover, the salary bill will still rise. For a couple of years this may not matter but it can, paradoxically, be a downside to a stable staff, they will progressively become more expensive.

Performance pay progression is another element which those not used to school staffing will find unusual. Even without additional responsibilities, all but the least experienced teaching staff will have been assessed to have passed a threshold and thereafter can be considered for three more performance pay progression amounts at two-year intervals. The salaries of the headteacher and those on the leadership spine must also be reviewed, though not necessarily increased, every year. The headteacher will assess the leadership members and collect the review assessments for all the other teaching staff and pass these recommendations to the relevant committee of the governing body. The governors will have a performance management group to undertake that task for the headteacher’s performance management and then make a recommendation on their pay to that same committee. Pay enhancements are permanent, unlike the bonuses some governors may be used to, and will fall on the school budget. Make allowances for these costs for those who may be eligible, as the regulations do not permit governors to block payment because the school cannot afford the additional cost.

In all schools other than Academies, teachers’ terms and conditions of employment are in large part determined by the School Teachers Pay and

Conditions Document. This may apply in Academies also, but Governing Bodies are free to opt out of this if they so choose, subject only to ensuring a process of consultation with teaching staff, something which it would be strongly advised is only attempted with suitable HR advice. Teachers are contracted to work for 1265 hours a year spread over 195 days. It is possible to pay teachers for hours beyond these (for example a weekend residential training course) but it is relatively unusual to do so. Most schools will carefully manage teaching hours through the timetable and “directed time” (those hours when teachers are expected to be working but may not be teaching). When timetabling, allow 10% PPA (planning, preparation and assessment time) for teachers. Additionally there are different conditions which apply to the workload of those in the first year of teaching, which will not only reduce their teaching timetable but also require supervision by a senior member of staff, which will also have an impact on their time.

Teachers are only required to cover for absent colleagues “rarely” which, in practice, means covering emergencies. Section 4, paragraph 55 of the School Teachers’ Pay and Conditions Document (STPCD) 2011 notes that teachers may still be required to cover, but “only rarely, in the case of circumstances that are not foreseeable”. As a result the costs of covering absence for illness or professional development or tasks out of school, will need to be built into the budget. This could be through supply teachers, either directly employed on a casual basis, or through an agency, or cover supervisors from within the

school support staff. Supply costs may be covered by an insurance scheme if the school has opted into such an arrangement.

Classroom and administrative support staff will be on different pay scales and contracts of varying hours and possibly term-time only. There is a great deal of flexibility in these arrangements but there are occasionally pitfalls to watch out for, particularly in costing school plans. If support staff colleagues are to be asked to do additional work, it is likely to require longer hours or some tasks to be dropped. In addition if they are to attend meetings or undertake professional development, particularly on training days, allowance for these will need to be built into their contracts or they will need to be paid for the extra hours. Joint training involving teachers and support staff is not cost-free.

One of the former Standards Fund grants devolved to schools in the past and now within the school budget covered the costs associated with continuing professional development (CPD). It may be tempting to reallocate this to help support other budget headings but it is worth reflecting that a school does not just need the right number of staff, it also needs them to have up-to-date skills in order to be effective. Schools should have a CPD policy which ensures that priorities in the SDP are properly backed up by appropriate staff development and which also meets the needs of teachers and other staff identified in their performance management. Many schools also try to have a progressive approach to succession planning, aiming to ensure that staff members gain the skills they need for the next

stage in their career. They believe this helps staff motivation but also ensures that, while not limiting the possibility of recruitment from outside, the school is more likely to have someone equipped to step into additional responsibility within the school, either as short-term cover or as a permanent promotion.

Remember also that governors as well as staff need relevant training and support, whether for the induction of new members or the development of the skills and knowledge of existing governors. Governors may access this training from the LA or choose to provide it "in-house" but it will need to be resourced properly through the budget process.

At present some personnel costs are generally held centrally by LAs to help cushion the impact on schools. These may include some redundancy payments associated with school closures and early retirement costs. Any financial impact, which might result from employment tribunals or unfair dismissal will normally be covered, but only if LA advice has been sought and followed. There is an increasing trend to shift these funds into schools and incorporate them into the budget share. This obviously has a major significance for any school which may be in that position in the near future. It would be worth checking the current position with the LAs before proceeding.

Premises

The premises from which the school operates will account for around 10% of the budget and will need to be carefully managed by any governing body.

Within the budget, the school will undertake the basic repair and decoration of the building together with heating, lighting and grounds maintenance where there are playing fields.

The basic running costs of heating and lighting will have been kept under review for many years and it is unlikely that there will be massive savings to be made under that heading, but it is fair to say that sometimes things slip and it is worth checking on a regular basis whether consumption is rising, as well as taking into account the inflationary increases which have been considerable in recent years and may be significant when the current contract comes up for renewal.

Building maintenance will also be an issue, with the need to ensure that there are proper schedules to keep the building in good repair. Just like with home maintenance, it is usually a false economy to cut back on essential repairs and it may well result in higher bills later on. The LA will have an interest in the buildings of the schools where it is the landlord and will be likely to act if it believes the future of the premises are at risk, charging costs back against the budget. In schools where the governors are the owners of the premises, do not expect others to help cover the costs of maintenance problems which have been caused by the school's decisions.

Decisions on how to maintain the premises will largely rest with the school. Governors will need to seek the best price for contracts and to ensure that the work is properly managed, especially these days in relation to health and safety issues. Larger schools may do this through a premises manager or as part of the administrator's role, but smaller schools may choose to use the services of the LA's property management service.

Routine maintenance may be carried out as part of the responsibilities of the school staff, but it is important for the governing body, as the effective employer, to ensure that it is not undertaking tasks beyond its competence or skills simply as a means of saving money.

Cleaning and grounds maintenance may be undertaken by school staff or an external contractor. Ensure that they are not only being provided at the best cost but to the standard the school would wish to see. Regular review would be considered essential for good resource management in the school.

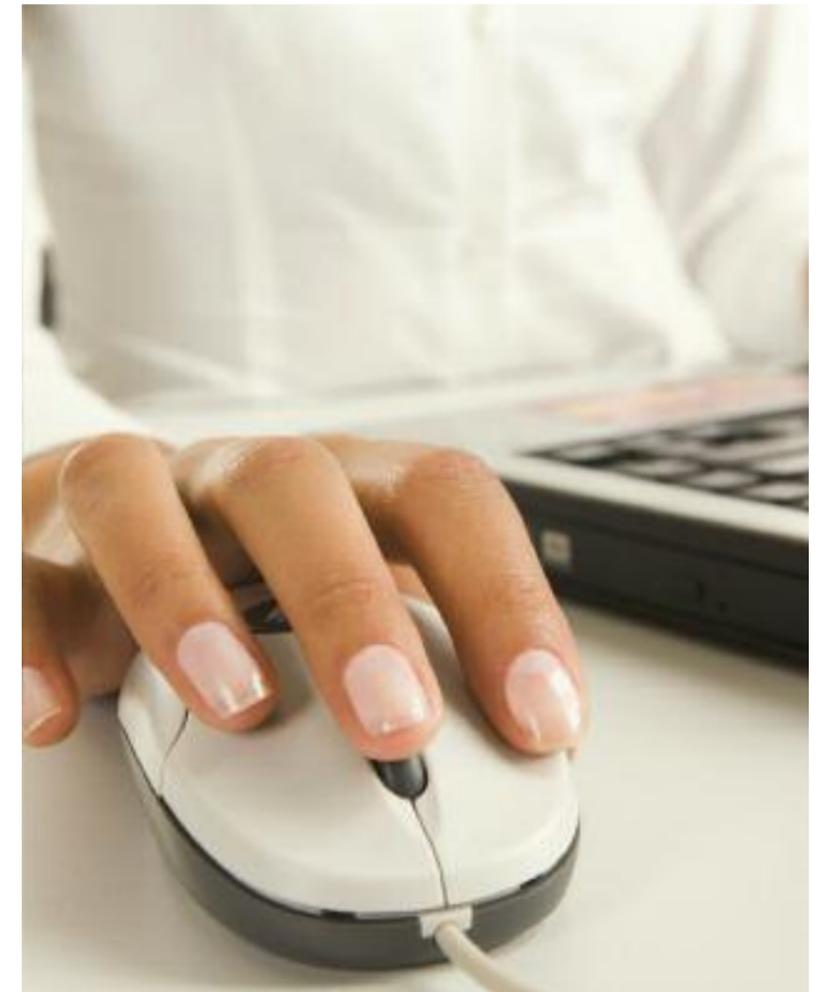
Many schools now let out their buildings and sometimes their playing fields, to external users. The school will need a charging policy for this and governors will want to keep this under regular review to ensure that costs are genuinely being covered by the income received. It is quite easy to subsidise the activities of others if charging is not carefully controlled. As with building maintenance contracts, it is important to ensure that proper insurances are in place before letting out the premises or grounds, which means both the school's public liability and the users' own insurances, where

appropriate, ensure that there is no come-back on the governing body if the worst happens.

Devolved Capital Funding (DCF)

The repair and maintenance of the school are part of the revenue budget but there will also be an allowance for structural improvements. This is described as devolved capital funding and the difference between this and other elements of the budget is that it is ring-fenced to provide for major refurbishment, which would go beyond routine maintenance. For example improving laboratory provision, or restructuring the library and learning resources space would be capital spending, simply redecorating them would not. It is possible that the school may be allowed to spend on other things, often ICT equipment, but these will be tightly defined. Governors are not allowed to move this funding to another budget heading such as staffing.

This funding is much reduced, around 20% of previous levels, pending a government review of building programmes. Nevertheless, as with all other spending it needs a clear purpose and plan. The governing body will want to ensure that there is a clear learning outcome to the building work. In the examples above it might be higher standards in science, or improved literacy and evidence of pupils' independent learning. It is legitimate for the finance committee to ask for evidence of these outcomes as well as simply allocating the funding and ensuring that the spend stays within budget.



Premises costs in Private Finance Initiative (PFI) schools

The PFI ensured that new schools were built in a rather different manner. Typically the contract was made for both the construction and maintenance of the premises and grounds and probably for other services such as catering over a defined period of 20 or 25 years, with the costs being repaid over that period. This has the advantage of simplicity in that the school budget share will take account of this contract which is fixed in advance. Effectively it is a "straight in, straight out" arrangement. However, it has a disadvantage in that the governing body will lose the flexibility and any possible

savings that local management brings and any change to the original PFI contract comes at a cost and will require renegotiation.

Major capital projects

Major rebuilding or extensions are not part of the delegated budget governing bodies receive. If there is a need for such a project, the school will need to make a case to the LA and the DfE. Diocesan schools will need to make a contribution from the school itself towards these costs, at present this is 10%. Academies will need to deal directly with the EFA.



Purchasing services

The school is likely to buy in three different markets.

- Services which LAs have traditionally provided either free to schools, or at cost. These could vary from support for curriculum development or professional development to provision for SEN pupils to administrative services such as finance advice, payroll and personnel services, governor support or clerking. Governors can challenge schools to compare LA services with other LAs or external providers to see who offers the best quality of service, at the best price. Value for money may be at risk equally if schools either fail to take advantage of the economies of scale that LAs can secure, or default to LA services through familiarity, when cheaper or better options are available.

- High-volume items that tend to be priced more competitively if purchased in greater bulk than an individual school. Governors can question whether routine supplies are purchased most effectively direct, through a central purchasing consortium through the LA, or perhaps through a network of local schools
- Some costs relate to specialised markets with few possible suppliers such as energy or telecommunications where LAs or professional buying organisation contracts are likely to be the cheapest as they are able to aggregate demand. Many schools, particularly the bigger ones, have found that catering services are sometimes more effectively provided in-house but equally many feel that provision of school meals is a distraction to their core purpose which outweighs any savings.

LA budget information

The LA will usually make it clear what the likely levels of budget change will be at the time of the Chancellor's autumn statement, even if only in percentage terms. Now there is less LA discretion, by the beginning of the spring term the budget will probably be clear. In any event the LA must provide the school's budget share by 31 March though most will do so earlier. Governors must agree the budget for school by the LA's deadline.

Bank accounts Pay and non-pay

Schools can choose to have full control of their funding and operate their own bank accounts. Governors may choose to do this for either the obvious "cash-type" activities such as payment of invoices for materials, or maintenance costs, or can have full control including all the salary and staffing elements and all the payroll costs. Some schools like the former option because it ensures that they can clearly reconcile payments and feel they can monitor the budget situation more efficiently. Processing payments through the LA central payment system may result in a time lag before they are recorded on the school administration system.

The second, full bank account option is, of course, more complex as the school will need to operate some form of payroll system and will become responsible for the administration of all elements of the staffing costs including taxation and National Insurance. Although your LA (or another external provider) will charge you for this service, governors may find it more cost-effective than to use internal staff time for this function. Schools can also use

LA financial systems to pay bills and salaries through the LA.

Returns and the Consistent Financial Reporting (CFR) system

The LA will expect clear returns indicating the school's spending patterns since it has a legal responsibility to ensure that the spending is within the rules. LAs will also provide schools with a service (at a charge) giving them monitoring and outturn information, usually monthly, or at least quarterly, showing how spending matches estimates. There is now also a national system called "Consistent Financial Reporting" to ensure that every school reports its spending against the same headings in the same manner. One of the reasons for this, apart from the government wanting to know how schools spend their money, is so that governors can make comparisons with other schools, which are believed to be similar, to check where their spending may differ. Governors must provide the final version of the year end accounts in this format each year by the date given by the relevant LA.

VAT considerations

LA schools can claim back the VAT on their purchases. In essence, governors can ignore VAT costs. If the school manages its own bank account it will need to make provision for its own VAT records and accounting. (VA schools cannot recover VAT on capital projects paid through the revenue budget for amounts in excess of £2,000.) The Government has indicated that it is making arrangements to allow Academies non-business VAT costs to be reimbursed by Her Majesty's Revenue and Customs through a refund scheme similar to that which

applies to local authority maintained schools. The DfE will issue further guidance to Academies about the process during 2012.

Other funds

Other money such as School Fund, or accounts held by Friends of the School, or through other voluntary donations, will need to be kept clearly separate from public funds. It is a good idea to have different signatories

from other school accounts and for them to be audited independently. It is often difficult to make the distinction, as everything is being spent for the benefit of the school, but in principle these funds should not be being spent on elements of the SDP or used to support the main school budget. Target spending on desirable extras rather than essentials.

Thoughts and questions

- Do you have a process for regular review of the school cost headings and their effectiveness?
- Are staffing levels what you will need for the future?
- Is the balance between support staff and teachers in need of change?
- Is your leadership team still appropriate or should it be strengthened or reduced?
- When did you last formally consider the school structure?
- Have you an annual maintenance plan for the premises?
- Tackling repairs on an "as and when" basis can lead to long-term problems
- Is there a redecoration programme as well as structural repair?
- Has improvement to the school grounds been costed?
- Playing fields will deteriorate over time
- What would be the main priorities for a capital programme?
- What improvement should be made to support the educational aims of the school?
- When did you last reconsider the provision of management support for the school comparing costs and levels of service?
- Could you consider a rolling programme for review of these services to avoid renewal decisions all being made in the same timeframe?
- Does your budget cycle match the deadlines for returns?
- Try to give yourself some space for decisions or you may end up "rubber stamping" because of time pressures.
- If you've not yet decided about bank account arrangements, discuss whether the level of control you gain is important to you. It will take more administration.
- Are you providing the LA or DfE with all the returns needed promptly and effectively?
- Delays tend to suggest lack of control.
- Are accounts ready for audit including VAT records and independent sources of finance such as School Fund?

What is meant by budget monitoring?

The table on page 26 is an example of a school budget shown against the CFR headings which shows what governors may be asked to approve. It is for a primary school. For a secondary school the figures will be greater but the headings will be the same. The example gives the current figures and also the projected budget for the next two years.

A couple of points should be noted:

- In the “Income” section, the budget declines over the next two years by some £58,000 but “Expenditure” by only £32,000 and that the difference is covered by spending reserves.
- The SEN element seems to be reducing and governors might want to check why this is so. Perhaps there are funding changes or differences in the pupil population?
- What implications are there for the school? If there is lower SEN, which this figure suggests, does expenditure need to be adjusted to match that decline?
- In the “Other income” section, several headings are showing “£0” as grants are progressively dropped and incorporated into the main budget.

- The school is carrying a surplus of more than 10% in the first year but governors can see how rapidly this declines as the school spends more than its income.
- If the trend continues, in the year following these figures, there will be an actual deficit rather than the current operating loss, which is being covered by the previous surplus carried forward. The school will need to take action to bring the budget back into balance.

The projections for the next two years do not seem to take account of any inflationary pressures except perhaps more accurate projections for staffing costs. Is this realistic?

Monthly outturn reports

Once the budget has been set, it will be broken down into more detailed series of category headings, depending on the reporting system used and the level of detail governors require. These will vary from school to school and between LAs, if the school uses their financial advice service, but typically show each line of the budget with the projected spend and then, as the year progresses, the actual expenditure to date can be presented in outturn reports.

It may look something like the table on page 24, which shows a section of an outturn report for staffing costs towards the end of the autumn term. The differences between the projected and actual expenditure can be seen and also the possibility of commentary explaining the variance. These are really intended for the headteacher and whoever is charged with day-to-day finance in the school but may be presented to governors in a similar format.

However, the role of the finance committee is not to check budget outturn reports or invoices line by line, pound by pound. Although there is a logic that says looking after the small

amounts ensures the overall budget stays under control, it is easy to be deflected by small sums and lose sight of the big picture, which is the governors’ function. Try to ensure that reports are presented in a way that is meaningful. Essentially, governors need to know whether spending has progressed as planned and, if not, why not? After that governors will have to consider what action needs to be taken. Has spending just been delayed, but will still happen? Has there been an increased cost, or a saving? If there has been a change in the spending pattern, how will you adjust the budget, moving funding between headings to accommodate the change (called virement).

It may seem obvious but spending will not be neat and consistent over the year. Governors should expect spending on materials and teaching resources to be weighted towards the end of the summer and beginning of the autumn terms. For example if 80% of the learning resources budget has been committed by October that probably is not an issue. On the other hand, if the budget for supply teaching is spent to the same extent it is likely that there is a real problem to resolve. Similarly, governors

Budget v Actuals - Account detail

Account heading	Cost centre	Account code	CFR category	Account description	2011-12 Budget £	2011-12 Actual £	Committed £	Actuals + CY Comm'ts	Predicted to year end	Projected total expend.	Variance £	Comments
Direct Employee Exps	1234000	1111	E01	Tchs - General	590,477	294,908	0	294,908	290,957	585,865	4,612	Budgeted for KS to finish 15 April. Also £685 salary adjustment re NF
	1234000	1211	E01	Music tutors	9,421	4,413	0	4,413	4,692	9,105	316	
	1234000	1411	E02	Tchs - Supply	49,000	11,027	0	11,027	37,973	49,000	0	
	1234000	3111	E05	LGO - Professional	0	0	0	0	0	0	0	
	1234000	3211	E05	LGO - Admin and clerical	41,463	23,653	0	23,653	23,166	46,819	-5,356	£1404 retro pay and basic salary adjust for RK and PN. Also £1642 costs for LP not included in budget (salary to date of leaving)
	1234000	3311	E05	LGO - Casual	0	242	0	242	0	242	-242	
	1234000	3511	E03	LGO - Teaching assistants	76,863	38,988	0	38,988	38,658	77,646	-783	Offset by 05211
	1234000	4511	E04	LGO - Site maint officer	21,102	10,381	0	10,381	10,614	20,995	107	
	1234000	5211	E03	LGO - Sp Nds Tching Assts	74,125	34,370	0	34,370	36,282	70,652	3,473	Offset by 03511
	1234000	7711	E07	Mday Sup - Assts	18,334	12,650	0	12,650	9,102	21,752	-3,418	Costs for Out of School club appearing on this code. Journal required (£4216)
	1234000	8212	E05	Admin and clerical staff OT	0	0	0	0	0	0	0	
	1234000	8214	E03	Education support staff OT	0	133	0	133	0	133	-133	
	1234000	8215	E04	Premises related staff OT	0	0	0	0	0	0	0	
	1234000	8217	E07	Other staff OT	150	0	0	0	150	150	0	
	1234000	8811	INVALID	Ext - General agency	0	0	227	227	-227	0	0	Journal required to a/c 8821
	1234000	8821	E26	Ext - Agency supply	3,688	535	0	535	3,153	3,688	0	
	1234000	8871	E27	Visiting lecturers	0	339	0	339	0	339	-339	
	1234000	8881	INVALID	After school contracted	0	0	0	0	0	0	0	
Total Direct Employee Exps					884,623	431,639	227	431,866	454,520	886,386	-1,763	

Thoughts and questions

- Do you receive reports from the school management, which show variance from the school spending plan in a clear manner?
- Is there a narrative which explains key issues, gives reasons and suggests alternatives to bring spending back into line?
- Are your meetings productive?
- No repeat discussion of items at other governor committees.
- No extended discussion of minor items or amounts.
- Is there a focus on thinking ahead and the impact of spending on pupils?

will expect consistent spending on energy costs based on historic patterns and if there is a variation, governors will want to know.

It can help to have some desirable, but not essential (and

probably limited cost), items in a SDP, which can be undertaken if funds become available, or dropped if there is a financial problem, to give some options for how the budget could be modified. Spending windfalls on what seems like a good idea at

the time, but has not been seen as a priority, or cutting spending on a key development simply to ensure a balanced budget without considering other options is not what is meant by efficiency.



2011-12 Consistent Financial Reporting (CFR) Summary

	Year 1	Year 2	Year 3
Balance bought forward from previous year	171,704	141,588	103,562
LMS funding	1,163,456	1,122,263	1,116,344
I01 Funds delegated by the LA	1,050,116	1,031,539	1,038,219
I02 Sixth form funding	0	0	0
I03 SEN funding	113,340	90,724	78,125
Other income	36,407	25,500	25,500
I04 Funding for minority ethnic pupils	0	0	0
I05 Standards fund	3,555	0	0
I06 Other Government grants	0	0	0
I07 Other grants and payments	4,090	0	0
I08 Income from facilities and services	16,238	13,500	13,500
I09 Income from catering	524	0	0
I10 Receipts from supply teacher insurance claims	0	0	0
I11 Receipts from other insurance claims	0	0	0
I12 Income from contributions to visits, etc.	12,000	12,000	12,000
I13 Donations and/or private funds	-0	0	0
I14 SSG pupil focussed	0	0	0
Total income	1,199,863	1,147,763	1,141,844
Salaries	882,359	847,520	862,719
E01 Teaching staff	594,970	554,862	577,658
E02 Supply teaching staff	49,000	49,000	49,000
E03 Education support staff	148,431	156,899	147,876
E04 Premises staff	20,995	21,167	21,228
E05 Administrative and clerical staff	47,061	47,126	48,250
E06 Catering staff	0	0	0
E07 Cost of other staff	21,902	18,466	18,707
Other expenditure	347,620	338,269	334,269
E08 Indirect employee expenses	400	400	400
E09 Development and training	5,939	5,939	5,939
E10 Supply teacher insurance	15,553	15,553	15,553
E11 Staff related insurance	2,218	2,218	2,218
E12 Building maintenance and improvement	22,238	17,000	17,000
E13 Grounds maintenance and improvement	10,000	10,000	6,000
E14 Cleaning and caretaking	35,908	35,553	35,553
E15 Water and sewerage	16,386	16,386	16,386
E16 Energy	24,820	26,820	26,820
E17 Rates	19,593	19,593	19,593
E18 Other occupation costs	12,081	12,381	12,381
E19 Learning resources (not ICT equipment)	54,709	53,043	53,043
E20 ICT Learning resources	12,392	12,300	12,300
E21 Exam fees	0	0	0
E22 Administrative supply	15,436	11,613	11,613
E23 Other insurance premiums	5,262	5,262	5,262
E24 Special facilities	28,083	28,083	28,083
E25 Catering supplies	10,827	10,689	10,689
E26 Agency supply teaching staff	3,688	3,688	3,688
E27 Bought in professional services - Curriculum	15,049	14,710	14,710
E28 Bought in professional services - Other	37,037	37,037	37,037
E29 Loan interest	0	0	0
E30 Direct revenue financing (Revenue cont. to capital)	0	0	0
Total expenditure	1,229,979	1,185,789	1,196,988
In year	Deficit -30,117	Deficit -38,026	Deficit -55,144

Section 8

Defining 'value for money' and 'efficiency' in schools

The widely accepted definition of value for money in schools, supported by the DfE in its own guidance, refers to three elements described as the "three Es": economy, efficiency and effectiveness. In simple terms, this means making the best use of available resources, including getting better outcomes for the same spending, or freeing up resources, that are being used inefficiently, to be used for other purposes. It is important to recognise that value for money does not necessarily mean cheapest and one of the roles of the governors is to help assess whether the outcomes for the school justify the cost however great or small.

Economy is minimising the costs of resources used for goods, services or activities. An example of this would be: are school supplies purchased at the best available price?

Efficiency is the relationship between outputs and the resources used to produce them. Does the timetable make best use of teachers?

Effectiveness is the extent to which objectives have been achieved. An example would be the extent to which the deployment of teaching assistants has raised levels of attainment and pupil well-being?

Regular reviews of high-cost goods and services, such as administration, management services or ICT, will reveal

whether they are meeting the school's aims and have the expected performance levels. Governors can challenge the school to undertake reviews and take any appropriate action. The reviews will help the school with decisions about future suppliers. It does not follow that what has been right in the past is still the best option. Governors may wish to bring a service



under a dedicated member of staff in the school, or may feel that the need for increased professionalism or economies of scale mean that provision through an outside agency would be better.

Benchmarking

One of the purposes of the CFR system is to enable schools to compare their levels of expenditure with other schools. There is a national website which now enables you to do this, showing one school's costs against those of another, similar school. This enables governors to then compare, for example, staffing or premises costs with others. Of course, like much data, this will give no answers but it will give more questions to pursue with the staff. For example, if the pupil teacher ratio or senior management costs are significantly out of line with other schools, it may encourage governors to find out why. Governors would certainly want to question any further increase in staffing levels if that were proposed. It does not mean this would be refused but governors would probably want to know clearly how the additional staffing would contribute still further to standards in the school.

The benchmarking data goes beyond financial information and can allow you to compare results as well as costs. If your staff costs are higher but your pupils' performance is not, that might be a reasonable area to investigate.

Partnerships, Federations and clusters

The government is keen to see schools working more cooperatively as a means of making efficiency savings. This could be through informal

arrangements between schools on joint activities or shared timetables. It could be through a more formal governance arrangement such as the establishment of a joint governance committee with defined terms of reference, as allowed for in the School Governance [Collaboration] Regulations, 2003. Further advice can be obtained from the local authority.

The idea is to enable schools to get either better purchasing power by placing joint contracts or to make savings by sharing staffing costs. It might be possible to organise a joint grounds maintenance contract in a local area for example or to employ grounds maintenance staff jointly where it could not be justified in a single school. Other examples of staffing

Thoughts and questions

- **As budgets become tighter are you sure that each major contract is being reviewed and if necessary renegotiated at the best price?**
- **Do you consciously seek alternative suppliers (while being aware of the cost of management time this may take)?**
- **Do you establish quality standards in contracts and check these?**
- **Cheap may not be value for money.**
- **If savings can be made do you consider how they can be reallocated within the budget to achieve more for your pupils?**
- **Cost saving is not an end in itself.**
- **Have you taken the trouble to check your costs against those of schools in similar circumstances?**
- **Have you also considered within the benchmarking data the differences in outcomes for pupils as well as costs?**
- **If faced with a priority or a problem, which seems unaffordable, might collaborative working be of help?**
- **Networks and partnerships take time, particularly of the leadership team, but without them the risk is that you may become isolated as a school and not only lose the financial benefits of sharing services, but the educational benefits of shared innovation.**

collaboration might be employing a finance officer shared between a group of small schools; it might be possible to employ a specialist musician jointly where there would not be a full timetable for a single school; a group of schools could make use of specialist sports coaching to give PPA time to teaching staff; it might even be possible to establish joint leadership teams for a cluster of schools. Governors would need to take care not simply to drift into arrangements, which almost seem like they replicate the services of a mini-LA. The immediacy, control and consequent effectiveness gained may be as important as any cost savings.

Section 9

A final note of caution

Remember that the governing body is using public money and there are processes which will hold them to account. The LA or the DfE will have audit systems which will expect the school to demonstrate that it has acted properly and within the legal framework and governors must ensure that it can meet all these requirements.

Perhaps it is also worth remembering that the funding is there to promote high standards of education for the pupils and the LA can act if those standards are not what might be expected, or if the quality of governance or management is such that it put standards at risk. If the LA believes that to be the case it may issue a warning notice to the governing body stating what the problem is and giving a timescale in which they would expect to see improvement. Financial management is part of overall good management of the school and spending decisions need to be justified in terms of their impact on pupil achievement.

It is also the case that the LA can intervene if schools are placed in

an Ofsted category. It very much depends on the policy of the LA concerned, but they do have the power to suspend financial delegation to a school which requires action following an inspection. This is done on the basis that it is not enough just for the figures to add up but, as has been indicated throughout, the funding has to have been used effectively. As a result the LA may choose to take away financial management from the school temporarily, managing finances directly until such time as the situation improves and control of the school is returned to the governing body. This is extremely unlikely to happen in isolation and other support will have been put in place such as strengthening the

governing body, additional management support, an executive headteacher, for example, or some other measures. It is not possible to remove financial delegation permanently and control must be returned to the governing body when the underlying issues have been resolved.

These measures are not mentioned as a threat or as a prospect of doom but to reinforce the simple fact that when school spending is being assessed it is against the outcomes for the pupils. If all decisions are made with that in mind then no more can be asked and the time devoted to being a governor, with an interest in the finances of the school, will have been well spent.

Glossary

ASC (formerly PLASC): Annual School Census (Pupil Level Annual School Census) -

The collection of pupil data by the Department of Education, one key element of which is the January pupil numbers then used in the budget share calculation.

Academies - Publicly funded independent schools.

Age weighted pupil unit (AWPU) - The sum of money within the budget calculation assigned to each pupil of the age in the school. Decided locally it will differ from one authority to another and is usually a lower value for primary pupils than secondary.

Associate member - A person who is appointed by the governing body as a member, but who is not a governor. They may join discussion on financial matters but not vote.

Budget share - The element of the funding for schools directly given to individual governing body which they may determine spending through their budget.

Audit Commission - An independent body set up by government to monitor the use of funds by LAs and certain other bodies. (Now disbanded).

Capital expenditure - Spending on building projects and large items of equipment.

Collaboration - Two or more governing bodies carrying out functions jointly, ideally with shared arrangements.

Community school - A state school wholly owned and maintained by the LA.

Consistent Financial Reporting (CFR) - The government's required system for public reporting of school and LA spending under a common set of budget headings.

Contingency fund - Money set aside for unexpected costs.

Current expenditure - Spending on the day-to-day running of schools, including staff costs, heating and lighting and consumables, sometimes called revenue or recurrent expenditure.

Dedicated Schools' Grant (DSG) - The government grant to each LA identifying how much money is available for distribution to schools

Delegation - A process where one body or person gives another body or person authority to take decisions. The governing body may, in certain circumstances, delegate a specific function or responsibility to a committee or an individual.

Education Funding Agency (formerly the Young People's Learning Agency).

Extended school - Activities, often beyond the school day, to help meet the needs of its pupils, their families and the wider community. These activities may not be funded from the school budget.

Federation of governing bodies - Several schools joined together under a single governing body. The schools remain separate but are have one governing body. They may choose to have one or more Headteachers.

Formula funding - The method by which funds for school budgets are calculated. The most important factor is the number of pupils.

Foundation school - A state school which has more freedom than community schools in how it is managed and with its admissions procedures. At foundation schools, the governing body is the employer and the admission authority. The school's land and buildings are owned by either the governing body or a charitable foundation. Funding comes from the LA on the same basis as other schools in the LA.

LA - Local Authority (formerly Local Education Authority).

Maintained school - A school for which an LA has financial and administrative responsibility.

Nonteaching staff (also known as support staff) - Members of school staff employed by the governors to provide services in a school other than teaching, such as classroom assistants, cleaners and school secretaries.

NQT - A newly qualified teacher.

Ofsted - Office for Standards in Education, Children's Services and Skills. It brings together the regulation and inspection of day care and children's social care and the inspection of LA children's services, schools, colleges, initial teacher training, work-based learning, adult education and more.

Outturn - A statement prepared annually by a school, and ultimately the LA for all schools, showing expenditure during the financial year. The statement is in a form prescribed by Regulations (see Consistent Financial Reporting).

Private Finance Initiative (PFI) - A way of financing public building projects including schools whereby private sector partners build and manage assets and the long-term delivery of services.

Pupils on roll - Pupils registered at a school.

School company - A company set up by schools to provide goods and services for schools in the company and other schools. Accounts for this company must be clearly separate from the school budget. Profits may be used for the benefit of the school but the budget may not subsidise the activities of the company.

Scheme for Financing Schools - A document which must be prepared and maintained by each LA showing how the schools within the LA will receive the funds required to run the school and the conditions attached.

Schools' block - The element of the Dedicated Schools' Grant allocated specifically to schools

Schools Forum - A body which must be established by each LA which represents the governing bodies and Headteachers of schools maintained by the LA as well as the interests of other persons. Its purpose is to advise the LA on matters relating to the schools budget. Members are elected by the various groups represented.

School Improvement Plan (School Development Plan) - An outline of the school's priorities and areas for improvement setting out what is to be achieved, by when, and how it will be measured. Included within the plan should be an indication of how each element will be funded.

School Teachers' Pay and Conditions Document - Teachers' conditions of employment of school teachers, including pay are contained in an Act of Parliament and governors must follow the national scheme.

Special educational needs (SEN) - Learning difficulties for which a child needs special educational help.

Voluntary aided school - A school set up and owned by a voluntary body, usually a religious faith, largely financed by an LA. The governing body employs the staff and controls pupil admissions and religious education. The school's land and buildings (apart from playing fields, which may belong to the LA) will normally be owned by a charitable foundation.

Voluntary controlled school - A school set up by a voluntary body, often a church body (generally Church of England). These schools are totally funded by the LA, which employs the staff.

YPLA - Young People's Learning Agency. From 1st April 2012, to become the Education Funding Agency, see above.

Useful documents and further reading

Keeping your balance

Ofsted and the Audit Commission 1993 and revised 2000

<http://www.auditcommission.gov.uk/nationalstudies/localgov/pages/keepingyourbalance.aspx>

<http://www.auditcommission.gov.uk/SiteCollectionDocuments/AuditCommissionReports/NationalStudies/brbalanc.pdf>

Valuable lessons: Improving economy and efficiency in schools. Briefing for school governors

Audit Commission 2009

<http://www.auditcommission.gov.uk/SiteCollectionDocuments/AuditCommissionReports/NationalStudies/valuablelessonsforgovernorsguide30jun2009.pdf>

Financial Efficiency in Schools

Department for Education 2010

<https://www.education.gov.uk/publications/standard/publicationDetail/Page1/DFE-RR007>

Efficiencies: helping schools balance the budget.

Case studies and recommendations for school leaders

National College for School Leadership 2010

<http://dera.ioe.ac.uk/2096/1/download%3Fid%3D134049%26filename%3Defficiencies-helping-schools-balance-the-budget.pdf>

Securing the best for less: making resources go further

National College for School Leadership 2010

<http://www.education.gov.uk/nationalcollege/index/about-us/news/press-release-detail.htm?id=133814>

Funding - Basic Tools

Association of School and College Leaders (undated)

http://www.ascl.org.uk/resources/library/funding_tools

Governing Body Value for Money Health Check

Department for Education 2010

<http://media.education.gov.uk/assets/files/ppt/g/governing%20body%20value%20for%20money%20health%20check.ppt>

SDP and Budgets tool

Department for Education 2010

<http://www.education.gov.uk/schools/adminandfinance/financialmanagement/b0069984/vfm/casestudies/abington-high-school/step-by-step-process-of-making-improvements-linking-the-school-budget-to-improvement-plans>

School Financial Value Standards (with support notes)

Department for Education 2011

<http://www.education.gov.uk/schools/adminandfinance/financialmanagement/schools%20financial%20value%20standard/a00192114/schools-financial-value-standard-sfvs>

School funding reform: an empirical analysis of options for a national funding formula

Institute for Fiscal Studies 2011

<http://www.ifs.org.uk/publications/5754>

Schools Forums; Operational and Good Practice Guidance

DfE 2010

<http://www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding/financeregulations/b0064735/guidance-on-updated-reg>

Fraud risks in schools advice for school governors

<http://www.auditcommission.gov.uk/SiteCollectionDocuments/Downloads/20111109fraudschoolgovernorsflyer.pdf>

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