



National Audit Office

**REPORT BY THE  
COMPTROLLER AND  
AUDITOR GENERAL**

**HC 1517  
SESSION 2010–2012**

**19 OCTOBER 2011**

---

**Department for Education**

# Oversight of financial management in local authority maintained schools

# Summary

**1** The Department for Education (the Department) is responsible for the quality of school performance and the academic achievement of pupils. In the decade to 2009-10, schools received an average annual increase in spending per pupil of nearly 5 per cent. Up to 2007-08, schools collectively spent less money each year than they were given, and the sum of unspent primary and secondary school balances peaked at £1.76 billion. As a result, many did not need to prioritise efficiency to remain within their budgets. However, more schools are now facing reductions in their budgets in real terms, at the same time as significant changes to qualifications and curricula, and continuing pressure for improved performance.

**2** Weak financial management and weak academic performance often go hand in hand. In our 2009 report examining financial management in the then Department for Children, Schools and Families<sup>1</sup> we compared Ofsted's judgements of the overall effectiveness of schools with school surpluses and deficits. We found that schools in deficit generally performed worse than schools in surplus. Financial management in schools must be strong for the Department to be assured that teaching and learning will continue to improve while schools make cost reductions.

**3** The Department does not directly spend most of the funding voted to it by Parliament. Nevertheless, it must have an effective framework for gaining financial assurance to demonstrate to Parliament and the public that schools and local authorities are achieving value from the £34.1 billion funding provided for maintained schools in England in 2011-12. This report explores how the Department gains assurance on the financial management capacity and capability in maintained schools, through local authority oversight and intervention. This report examines:

- the information available to the Department about schools' financial management, and local authorities' monitoring systems and intervention;
- how the Department helps improve schools' financial management expertise; and
- the Department's and local authorities' arrangements to support good financial management and cost reduction in schools.

A summary of our methodology can be found in the Appendix.

<sup>1</sup> Comptroller and Auditor General, *Financial Management in the Department for Children, Schools and Families*, Session 2008-09, HC 267, National Audit Office, April 2009.

## Key findings

### Assurance on financial management

**4 The Department's objective is for all schools to demonstrate strong financial management.** The Department does not have a direct relationship with schools, and its role is limited in relation to schools' financial management. It relies on local authorities for oversight and intervention. The Department principally gains assurance on school spending through annual statements from local authority Chief Finance Officers, confirming the proper use of the Dedicated Schools Grant. The statement will be expanded from 2011-12 to include confirmation of the assurance provided by the local authority's system of audit for schools.

**5 The Department has strengthened the framework providing assurance that schools secure value from their spending by publishing schools' expenditure data on its website.** The Department links school expenditure data to demographic data and results, and expects that increased disclosure, and scrutiny by parents and the public, will drive improvements in financial management and performance.

**6 The Department has reduced the administrative burden on schools and local authorities by requiring less detailed financial management self-assessment.** The Department sets standards against which schools' financial management is assessed. In July 2011, the Department replaced the former Financial Management Standard in Schools with a shorter standard, the Schools Financial Value Standard. The new Standard contains fewer, more focused criteria for assessing financial management capability and also includes a new section on improving efficiency. In our view, the new Standard is overall an improvement on the previous Standard.

**7 Local authorities do not publish systematic data to demonstrate how they are monitoring schools' financial management and intervening where necessary.** Some elements of the framework involving independent scrutiny are ending, reducing the assurance that can be taken from it:

- Schools assess their own compliance with the new Schools Financial Value Standard, in contrast with the previous Standard where there was an element of independent validation.
- The Department has ended compulsory independent supervision of schools through School Improvement Partners.
- From January 2012, Ofsted's new inspection regime will no longer include a value-for-money assessment.
- Over a quarter of local authorities responding to our survey are planning to reduce internal audit coverage of schools in 2011-12, compared with 2010-11.

**8 The Department has not concluded on the actions it will take if schools do not meet the financial management standards, nor if local authorities do not resolve serious financial difficulties in schools.** Local authorities report annually to the Department on the number of schools which meet the standards. Ninety-two per cent of primary and secondary schools were compliant with the previous Standard, the Financial Management Standard in Schools, by the deadline of March 2010. The recent Committee of Public Accounts report *Accountability for Public Money*<sup>2</sup> emphasised the need for a framework that includes how a department should respond to financial failure.

**9 Local authority capacity, and access to schools' financial information, are set to decrease.** Forty-seven per cent of local authorities responding to our survey said that they did not have sufficient resources to monitor schools' financial management effectively. Furthermore, over a third of these are planning to reduce the amount of staff time spent on monitoring school finances. As more schools take up the opportunity of greater autonomy, for example, by buying financial services from the private sector, local authorities may have less access to schools' financial data.

**10 The Department has not explored the causes and consequences of schools' deficits.** The Department expects schools to clear deficits within three years, but between 1999-2000 and 2009-10, 2 per cent of primary schools and 10 per cent of secondary schools ran deficits for five or more consecutive years. At the end of 2009-10, 7 per cent of primary schools and 18 per cent of secondary schools were in deficit. The Department could further analyse the data it receives on schools' annual budgets and financial balances to identify and enquire into schools with long-standing deficits.

### Schools' financial management capability

**11 Schools' financial management capability has improved as more schools have employed or have had access to a school business manager with appropriate training.** Since 2002, the Department has promoted the profession of school business management. Almost all secondary schools employ a school business manager. However, some 27 per cent of local authorities responding to our survey said that most of their primary schools had no access to one.

**12 School business manager training courses provided by the National College for School Leadership (the National College) improve participants' financial management skills.** While school business managers are not required to have a qualification, by May 2011, around 9,500 people had attended school business management courses leading to recognised qualifications. From April 2011, the Department reduced funding for these courses, and the National College introduced charges to recover some of the costs. To date, these changes have had no impact on the number of applications for the courses.

<sup>2</sup> HC Committee of Public Accounts, *Accountability for Public Money*, Twenty-eighth Report of Session 2010-11, HC 740, April 2011.

**13 Most local authorities believe that their headteachers have the financial expertise necessary for their role, but many have no personal experience of leading a school during a period of financial constraint.** The governing body and headteacher are responsible for the performance of a school. Eighty-five per cent of local authorities responding to our survey said that all or most of their headteachers had the necessary financial management expertise. Just 11 per cent stated that only a few of their schools had headteachers with this expertise.

**14 Some 27 per cent of local authorities responding to our survey stated that a minority of their primary schools had governing bodies with sufficient financial expertise.** The Department plans to improve this through the new Schools Financial Value Standard, through training for chairs of governors, and by making it easier for schools to select governors for their expertise.

#### Support to improve financial management

**15 The annual time frame for determining funding makes it difficult for schools to set budgets and, where necessary, to plan to reduce costs.** Maintained schools receive information on their annual funding only a few weeks before the new financial year. For 2011-12, schools received this information for that year only. The Department is proposing further reform of the schools' funding regime from 2013-14.

**16 Many schools consider that they need to reduce staff costs, and need guidance on how to do so while maintaining high-quality education provision.** The Department has historically focused on supporting schools to improve procurement and back-office functions. It expects schools collectively to achieve savings of £1 billion over the period 2011-12 to 2014-15 through reducing procurement and back-office costs. This equates to a 3 per cent decrease in schools' spending on these functions. However, a July 2011 survey of school governors indicated that many thought that their schools need to reduce staff costs over the next two years to meet budget constraints. In our surveys, schools and local authorities identified staff costs as the top area for saving money.

**17 The Department encourages schools to identify savings by comparing their spending with that of similar schools through its schools' financial benchmarking website, but nearly half of all schools did not use this service in 2010-11.** The website is potentially very beneficial, and the Department has plans to enhance it. However, the Department has not identified those local authorities and schools that are not using it.

**18 The Department no longer provides certain direct support.** In 2010, in line with its policy of increasing school autonomy, the Department stopped giving direct support for financial management and efficiency improvement, and began to influence schools' behaviour through guidance and signposting, for example, to good procurement contracts.

**19 Some local authorities are reducing their capacity to monitor and support schools' financial management, at a time when some schools may need it most.** This could result in poorer use of resources, and adversely affect school performance. Forty per cent of local authorities responding to our survey do not believe that they have sufficient resources to provide effective support to schools. Furthermore, almost half of these are planning to reduce the amount of staff time spent on support.

**20 Local authority assessments of schools' progress in reducing costs are limited.** Local authorities need to know how schools are achieving cost reductions and whether reductions will risk degrading school performance. Their support can then be better targeted. The Department is planning to undertake analysis of cost reductions in schools at the national level.

## **Conclusion**

**21** The Department is accountable to Parliament and the public for the proper management of the money given to schools. In the current financial environment, more schools are having to manage with reduced funding. Strong financial management in schools is more important than ever. The Department has set standards for financial management in maintained schools, and has a framework in place for gaining assurance which relies on local authority oversight of schools. The Department needs to know that this framework is meeting the intended objectives, and is capable of alerting it to systemic issues with schools' financial management that require action or intervention as they emerge.

## Recommendations

**22** The Department devolves the delivery of education to over 20,000 schools, supported by 152 local authorities. Our recommendations are designed to help meet the challenges of assuring effective financial management in the schools' system.

- a** **The production of the accountability systems statement<sup>3</sup> provides an opportunity for the Department to communicate its approach to securing a coherent and effective system.** It should set out in the statement how it intends to review how the system is working, and whether any changes are needed as the financial risks to schools change over time.
- b** **Greater use of the information the Department receives on schools' finances would improve its oversight of financial management in the schools' sector.** Without adding to the information burden on schools and local authorities or challenging their autonomy, the Department should:
- further analyse the financial information it already collects, for example, on surpluses, deficits and schools' spend, to better understand the actions local authorities and schools are taking and their consequences; and
  - use this analysis to inform the development of support for good financial management in local authorities and schools.
- c** **The Department has limited knowledge of how schools are using its financial benchmarking website.** Benchmarking is potentially a powerful tool for helping schools improve their financial management and make savings. The Department should:
- systematically monitor the website's usage to identify those local authorities and schools that are not using it, and promote its use; and
  - promote the website as a tool to help the Department and local authorities to identify efficient schools which could serve as examples of good practice.
- d** **The Department accepts that it needs to strengthen its response where it has evidence that local authorities are not fulfilling some functions in relation to schools as well as they should.** The Department should:
- establish what its response will be if any of a local authority's schools fail to meet the Schools Financial Value Standard by the set deadlines; and
  - develop contingency plans, and criteria for implementation, in case a local authority is ineffective in dealing with serious financial difficulties in its schools.

<sup>3</sup> *Accountability – adapting to decentralisation*, Department for Communities and Local Government, September 2011, paragraphs 49-54.