Adding up the Sums: Schools' Management of their Finances
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Preface

State schools in England and Wales are responsible for managing £11.6 billion of public funds through two initiatives introduced by the Education Reform Act 1988: local management of schools and the introduction of grant maintained schools, which receive their funds from the Department for Education or the Welsh Office, rather than from local authorities. These initiatives invest a significant degree of responsibility for financial management in the schools themselves rather than the local authorities. Ninety per cent of ordinary schools already have responsibility for managing their finances and the rest will take over that responsibility by 1st April 1994.

The success of these initiatives should be judged by the degree to which schools manage their finances to improve the education of pupils. It will be some years before pupils have been educated under this new regime for long enough for this to be evaluated. However, the importance of education and the sums of money involved make it appropriate to evaluate now whether the preconditions for success are in place.

This report is based primarily on a study (Appendix 1) of 88 local authority and 12 grant maintained schools which took over management of their finances on or before 1st April 1991. Grant maintained schools are not covered by the Audit Commission's remit to promote value for money. However, when the Commission consulted a range of organisations about the study there was a high level of interest in any lessons arising from a comparison of the management of finances in both types of school. The Commission therefore invited the 64 grant maintained schools which received grant maintained status on or before 1st April 1991 (and therefore had some experience of managing their own finances) to participate in the study. Twenty-eight schools (44%) accepted the invitation and auditors visited 12 of them as part of the study.

The Audit Commission would like to thank the 100 schools, their governors and head teachers for giving their time during this study and for sharing openly their experience. Thanks are due also to the local authorities (Appendix 1) for participating in the study and for giving the benefit of their experience.

An advisory group was set up for the study (Appendix 1). The Audit Commission is grateful to the members of that advisory group for the help and advice that they gave. The conclusions drawn and recommendations made in the report are those of the Commission alone.

The study was led by Paul Vevers of the Local Government Studies Directorate of the Commission under the direction of Bob Chilton, Director of Local Government Studies and Jon Vaughan Jones, Associate Director. Most of the school visits were conducted by a team of four auditors instructed by the Commission: Frederika Bingham from the District Audit Service, Mike Sexton from KPMG Peat Marwick, Raj Sinhal from Price Waterhouse and Martin Webster from Robson Rhodes. The fieldwork was undertaken between November 1992 and May 1993.
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Schools have generally taken well to managing their own finances. More than 90% of them keep expenditure within income. A few schools are now drawing together their financial and educational planning and are questioning whether they can get better value from their resources by changing historic patterns of expenditure.

When schools take over management of their finances, among the schools studied there has been an increase in the pupil:teacher ratio. This is in part because as teachers become more experienced they command higher salaries. This leads to a rising claim on the schools' budgets. In order to keep expenditure within means schools have not increased teacher numbers commensurately with an increase in pupil numbers. Other factors also affect the pupil:teacher ratio. Some schools have decided that it is more effective to spend a smaller proportion of the budget on teachers and more, for example, on classroom assistants. A particular success of primary schools is to have funded this increase from savings in running costs.

Schools that are locally managed tend to appoint teachers less experienced than those who leave. This is not solely due to a desire to save money. It is often a deliberate strategy to ensure that the school has a balance between newly qualified and more experienced teachers.

All schools have increased their levels of administrative staff. Some increase is to be expected as schools take on new financial responsibilities. But there are startling differences between schools. Schools of the same size can vary by a factor of five in the amount which they spend per pupil on administrators. There is evidence of inefficiency in some schools. Further, in some of the schools with the highest levels of administrative staffing, head teachers spend the greatest time - up to 60% of their week - on managing the budget, when their colleagues in comparable schools with lower levels of administrative staffing spend less than half this time. This indicates a lack of delegation. By contrast, many secondary school head teachers have delegated too much and have not critically reviewed patterns of expenditure.

Schools usually hold unspent balances of funds at the end of the year, amounting to 5% of the school budget on average for primary schools and 3.5% for secondary schools. But some schools hold as much as 15% of the budget and some have cumulative balances of £200,000. Grant maintained schools tend to have larger balances than their local authority counterparts. Balances can enable schools to minimise disruption arising from year-on-year changes in their resources. However, some schools hold large balances without plans as to the best use of them. In contrast, 9% of schools went into deficit, although most rectified this situation in the next year.

Schools are growing in financial independence. It is of concern that questionable practices are emerging, particularly with regard to some decisions about larger purchases. Further, 25% of schools administer voluntary funds in ways which, if public funds were involved, would require corrective action.
With regard to schools’ accountability for their finances, in most schools there is a supportive, open relationship between head teachers and governors when determining the overall priorities for the schools' resources. But in some 40% of schools, accountability is weak or non-existent.

Four main conclusions concerning schools' management of their finances emerge:
— overall, schools have taken well to financial management
— schools will need to exercise greater discretion in their management of the staff salary element of their budgets
— some schools have exercised discretion in ways which are of questionable probity
— the accountability of schools for their use of public money could become a matter of growing concern.

Most of these issues can be addressed by schools, governors, local authorities and the Commission itself. Prescription at a national level as to how schools should manage their finances is unnecessary if safeguards can be established and school managers can be better equipped to cope.

Schools should link their financial planning with their school development plans and should exercise the greater discretion now available to them in determining teachers' salaries. All schools may be able to streamline their administration - some significantly — and local authorities should produce timetables for establishing the computerised exchange of information between schools' and authorities' financial systems to reduce wasteful duplication in administration.

Schools should make clear the purpose of balances of funds and local authorities should keep this area under review.

Local authorities should stimulate independence in schools' financial management by delegating to them the funds currently spent on providing financial advice. Schools can then decide whether to buy back that support or not. Additional in-service training in budget management also could be made available.

Increasing independence for schools should be accompanied by robust systems for accountability. Schools which do not already do so should report not less than termly to governors on the state of the school finances. All schools should involve governors in major purchasing decisions, as many already do.

The audit of schools will help them in managing their finances and will steer schools away from danger areas. The process of external audit also reassures the taxpayer that public funds are being used properly and that value for money is secured.

Further, the Audit Commission will issue advice to local authorities on the auditing of schools. The Commission's external auditors will conduct, where appropriate, value-for-money studies at a local level which replicate this national study. This does not apply to grant maintained schools for which the Commission has no remit to promote value for money. Those local studies and this report also respond to the request from head teachers and governors for more information about how other schools deploy their budgets and to what effect.
Most English and Welsh schools manage their own budgets. These budgets amounted to £11.6 billion in 1992/93. A primary school with 200 pupils on roll may manage a quarter of a million pounds and a secondary school with 1,000 pupils on roll is likely to manage a budget exceeding £2 million. Schools are also responsible for the deployment of large numbers of staff. Some 400,000 teachers and approximately 80,000 other staff work in schools. The delegation to schools of responsibility for such large sums of public money and numbers of staff arises from the Education Reform Act, 1988. This Act gave school governors extensive control over school budgets in an initiative referred to as local management of schools. The Act also introduced grant maintained schools. These schools receive their funding directly from the Department for Education or the Welsh Office.

The objective of delegating financial management from local authorities to schools was to empower schools to use their closer knowledge of pupils and their communities in determining how resources could be applied to greatest effect. A further aim was to improve efficiency by enabling schools, through their day-to-day management, to use resources efficiently. Local management was also intended to strengthen accountability by more sharply focusing responsibility for the management of resources on schools themselves.

Schools took over management of their finances at different times (Exhibit 1, overleaf). Usually local authorities delegated financial management to a small number of pilot schools, so that other schools and the local authorities themselves could learn from the experience. Since 1989, increasing numbers of schools have become locally managed and from April 1994, almost all 26,000 schools in England and Wales will manage their own finances.

School governors (there are approximately 335,000 of them in England and Wales) have responsibility for school budgets, although they usually delegate day-to-day management to head teachers. Therefore head teachers have authority to spend large sums of public money.

The development of schools' financial management is monitored by the Department for Education and the Welsh Office. Its success should be judged by its contribution to improving children's education. However, it will be some years before enough pupils have spent sufficient time in schools which manage their own finances to enable this to be assessed. Education is so important and the sums of money involved so large that an early assessment is necessary of whether the preconditions for successful financial management are in place.

Additionally, the governors and head teachers of many of the schools which participated in this study pointed out that they lack objective comparative information on financial management. Comparative information is a useful management tool which can trigger investigation of areas of expenditure which may not previously have been questioned. Further, although one school may decide not to follow the example of another, it is helpful to use the experience of other...
schools to inform decisions. This report and Appendix 2, (which will he published later), respond to this request for a range of objective comparisons for school staff and governors.

7. The next chapter analyses how schools spend their money. The report then provides an evaluation of the strength of financial management and considers the robustness of the systems in place to call schools to account for their use of public money. The fourth chapter recommends developments in schools' financial management.
1. How Schools Spend Public Money

TEACHERS

8. Seventy per cent of schools' budgets is spent on teachers' salaries (Exhibit 2). The way in which schools manage this element in their budgets is the most important factor in the management of the budget. As head teachers and governors regard a good pupil:teacher ratio as a precondition for the educational progress of children, the question arises as to the relationship between local management of schools and this ratio.

9. In schools which manage their budgets, there is a tendency for the pupil:teacher ratio to increase (Exhibit 3, overleaf). The increases are small and it is too early to establish whether this trend will continue or whether local management of schools is critical in causing it. However, the pupil:teacher ratio is considered so important that these early indications merit investigation.

10. The increase in the pupil:teacher ratio does not appear to be caused by reductions in the amount of money allocated to schools. The local authorities from which the sample of local authority schools was drawn, increased both the total amount allocated for expenditure on schools (the general schools budget) and the amount allocated for expenditure by schools (the aggregated schools budget). The budget increases are broadly in line with the annual teachers' pay awards - an important factor when teachers' pay accounts for 70% of school budgets (Exhibit 4, overleaf). Nor did the increase in the pupil:teacher ratio occur because schools reduced the proportion of their budgets spent on teachers. This has remained constant.

11. Amongst other factors the increase in the pupil:teacher ratio has occurred because there has been an increase in the teachers' total pay bill over and above the annual increase in the basic pay scale. This arises from four related factors:

- The longer teachers remain in post, the more they move up the pay scale by incremental progression. School governors can intervene to prevent this happening on the grounds that a teacher's performance has been unsatisfactory, but they rarely do.
Source: Audit Commission analysis of statistics provided by local authorities and the Department for Education

- Schools report that the employment opportunities for teachers are increasingly restricted and this has led to a reduction in the turnover of teachers. This means that schools are not employing sufficient numbers of less experienced, less expensive teachers to balance an increase in the proportion of teachers at the top of the pay scale (Exhibit 5).

- There has been an increase in the number of teachers receiving payments in addition to the main pay scale rates. For example, the number of teachers receiving incentive allowances increased from 175,000 in 1990 to an estimated 186,500 in 1992.1 This is due in part to the increase in the percentage of teachers receiving allowances in the 1992 conditions of service.

Exhibit 3
PUPIL:TEACHER RATIOS
Pupil:teacher ratios have increased slightly in schools which have several years’ experience of managing their finances.

Source: Audit Commission fieldwork in schools which took over their budgets in 1989 or 1990

Exhibit 4
TRENDS IN RESOURCES ALLOCATED TO SCHOOLS AND TEACHERS’ PAY RISES
Resources allocated to schools increased in line with teachers’ annual pay awards.

Source: Audit Commission analysis of statistics provided by local authorities and the Department for Education

1 School Teachers’ Review Body Second Report. HMSO. 1993
Finally, the number of children of school age has increased by about 1.5% per annum since 1990/91 without a commensurate increase in the number of teachers. In effect some teachers are receiving better pay in return for teaching larger classes.

Further, the variation between schools in the proportion of schools' budgets which is spent on teachers' salaries suggests that some schools have scope to re-prioritise resources into teaching should they so wish (Exhibit 6, overleaf). Schools of similar size and levels of funding may spend quite different proportions of their budgets on teachers (Box A, overleaf). It may be appropriate for a school to spend either 60% or 80% of the budget on teachers' salaries - indeed, an aim of local management is that schools should exercise discretion in deploying staff. There will be an increase in pupil:teacher ratios in schools which choose to employ fewer teachers and use more of other resources, but the increase is then not necessarily related to the amount of funds the schools are allocated or the basis on which the allocation is made.

This upward drift in salaries creates a problem because schools have to pay increasing salaries from limited budgets which do not relate directly to the cost of teachers' salaries (Box B, overleaf). This gives rise to two questions:

— Should schools be responsible for the teacher salaries element of their budgets?
— Should the basis on which schools are funded relate to the teachers' salary costs in the school?

To remove teacher salary costs from the school budget would result in 70% of schools' current budgets being removed from their control. This would undermine the concept of local management.

As schools now have increasing discretion over teachers' salaries, to change the formula for funding schools to reflect the salaries which schools pay teachers would separate the authority to make decisions from the responsibility for the financial consequences of those decisions. This would undermine the accountability of schools and expose local authorities to a potentially large increase in costs which they could not control.
THE PROPORTION OF SCHOOL BUDGETS ALLOCATED TO TEACHERS’ SALARIES

There is a significant variation between schools in the proportion of their budgets allocated to paying for teachers.

Note: Grant maintained schools are grouped at the lower end because their base budgets contain money for items not included in the budgets of local authority schools. Therefore the percentage spent on teachers is not directly comparable with local authority schools. To assist comparison between grant maintained schools, budgets have been adjusted to remove capital expenditure and special facility costs.

Source: Audit Commission fieldwork

Box A
COMPARISON OF TWO PRIMARY SCHOOLS’ EXPENDITURE ON TEACHERS

Although the schools are of similar size and have similar funding, their different mixes of staffing result in different pupil:teacher ratios.

School A is a primary school in the north of England with 226 pupils of statutory school age on roll. The school budget for 1992/93 was £343,000. The school pays for 12.7 teachers at an annual cost of £263,086, i.e. £20,715 per teacher, including national insurance and other costs associated with employing a member of staff. The school allocated £2,393 for supply teachers, and so in all 77% of its budget is spent on teachers. The pupil:teacher ratio is approximately 18:1.

School B, a primary school in London, has 194 pupils of statutory school age on roll. The school budget for 1992/93 was £316,374. The school pays for 8 teachers. A London pay allowance explains in part why the cost of salaries and associated payments comes to £189,648 - an average of £23,706 per teacher. The total teaching salaries bill, including £4,741 for supply cover, is 61% of the school budget. The school has a pupil:teacher ratio of 24:1. School B spends almost twice as much as School A on educational support staff, such as classroom assistants. It also spends twice as much as School A on administrative staff. Neither education nor administrative support staff numbers are included in the pupil:teacher ratios.

Source: Audit Commission fieldwork
16. The responsibility for teachers' salary costs is therefore an essential element of local management. But it is difficult for schools to manage this situation if they have no control over the pace at which teachers progress up the pay scale. Schools need managerial discretion in this area to manage their budgets. But the School Teachers' Review Body found a reluctance to exercise discretion on pay issues. One reason which some schools give for this is that they cannot afford to exercise discretion which might lead to increases in salary costs. There is also a more general reluctance to exercise discretion and in this Audit Commission study even schools with significant balances of funds did not want to do so on the grounds that it would be divisive amongst staff to increase the pay of only some teachers unless such increases were justified by precise additional responsibilities. Schools' reluctance to take control of this area has mattered less to date than it will in the future. The difference between the top and bottom of the teachers' pay scale until September 1993 was £8,000 a year and 70% of teachers were already at the top. From September

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1993 there is a new pay scale and the difference between the top and bottom of that scale is approximately £18,000. As progress beyond point nine of the new scale will be subject to a positive-decision of governing bodies, schools will have discretion as to the pace at which teachers progress up that pay scale. If they do not exercise discretion - for example if they automatically allocate the maximum allowable number of pay points to each teacher who qualifies under the criteria for pay enhancements - they will have to consider increasing the pupil:teacher ratio in order to keep expenditure within means.

THE APPOINTMENT OF TEACHERS

17. Schools can reduce the size of the teachers' salaries element of the budget by employing less experienced teachers, which saves money because they are usually placed lower down the pay scale on appointment. This could give schools an incentive to employ cheaper teachers - irrespective of whether they are the most appropriate people for the job. In practice, the average point on the salary scale at which schools which manage their finances appointed teachers has reduced (Exhibit 7). A change in the number of points on the pay scale explains part, but not all, of the difference. Grant maintained schools began by appointing teachers higher up the pay scale, but there is now no difference between them and their local authority counterparts (Exhibit 8).

Exhibit 7
AVERAGE POINT ON THE TEACHERS' PAY SCALE AT WHICH SCHOOLS APPOINT TEACHERS
The average point (in the salary scale at which schools which manage their finances appointed teachers has reduced.

18. Reducing costs was not the only motivation for this. Most governors and head teachers of schools which adopted this strategy did so in part to bring in 'new blood' and, by employing recently qualified teachers, to stimulate the implementation of new teaching methods currently being taught to teachers in training. Schools emphasised that this had become more important in view of the reduced turnover and hence increased level of experience and length of time since qualification of their existing teachers.
Exhibit 8
COMPARISON OF THE POINT ON THE PAY SCALE AT WHICH GRANT MAINTAINED AND LOCAL AUTHORITY SCHOOLS APPOINTED TEACHERS
Grant maintained schools did not sustain the higher average level at which they initially appointed teachers.


g)[118x750] 11

Source: Audit Commission fieldwork relating to the appointment of 306 teachers in 42 schools

HEAD TEACHERS
19. Most head teachers have taken well to managing the school budget. Primary school head teachers have been particularly successful in reducing the proportion of the budget spent on running costs (Exhibit 9). This has enabled them to increase the number of classroom assistants. Most secondary school head teachers delegate the administration of the budget to a deputy head teacher or an administrator. That is appropriate: head teachers' time is too valuable and expensive to spend on routine administration. But they should find time to scrutinise the use which their schools make of money. Many secondary schools lack a top management review of how money is being spent and whether it can be redirected away from running costs, such as energy and office costs, into classroom staff or other educational resources.

Exhibit 9
PROPORTION OF SCHOOL BUDGETS SPENT ON RUNNING COSTS
Primary schools have been particularly successful in reducing the proportion of the budget spent on running costs.

Source: Audit Commission fieldwork in local authority schools which took over management of their finances in 1989 or 1990. The chart does not include expenditure on books, educational equipment and services
20. There is an opposite danger of spending too much time on financial issues. Although most primary school head teachers have avoided this, it is a problem area for a significant minority. There are large variations in the amount of time which primary school head teachers spend on this task (Exhibit 10). A study by primary school head teachers of how they spend their time revealed that many of them spend too much time on minor administrative matters. This Audit Commission study encountered head teachers with several years’ experience of managing their schools’ budgets undertaking tasks such as:
- entering invoices into the computer
- chasing the local authority concerning delays in payments to suppliers
- administering the school voluntary fund.

Many of these head teachers have not delegated administrative tasks, either through fear of losing control of the budget or because the school clerical staff have found it difficult to adjust to the range of financial tasks which they now have to undertake. In most cases it is a question of management approach rather than a question of the amount of deputy head teacher or administrative time available in these schools. How schools use these resources will be considered in the next section.

**Exhibit 10**

**ESTIMATED TIME WHICH HEAD TEACHERS SPEND MANAGING THE BUDGET**

There are wide variations in the amount of time which head teachers intimate they spend on managing the school budget.

![Graph showing estimated time spent managing the budget](source)

**Source:** Audit Commission fieldwork

**ADMINISTRATIVE STAFF**

21. As schools take over their budgets, they employ significantly more administrators and it is argued by the Department for Education that there is growing evidence of a compensating reduction in local education authority administrative staff. Since 1989, grant maintained schools have paid for 45% more administrators' hours, local authority primary schools 40% more and local authority secondary schools 20% more (Exhibit 11). The scale of variation between schools in terms of pounds per pupil spent on administrators is startling (Exhibit 12) - even excepting the

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**Exhibit 11**

**TRENDS IN EMPLOYMENT OF ADMINISTRATIVE STAFF IN SCHOOLS**

There have been significant increases in the number of administrators' hours paid for by schools.

![Graph showing trends in employment of administrative staff](image)

*Source: Audit Commission fieldwork in schools which managed the staffing element of their budgets in 1991 or before*

**Exhibit 12**

**COST OF ADMINISTRATORS PER PUPIL**

There is a wide variation, even between schools of similar size, in the amount of money spent per pupil on administrators.

![Graph showing cost of administrators per pupil](image)

*Source: Audit Commission fieldwork. Budgets for 1992/93*
smallest schools which have a higher cost per pupil because there is an element of fixed cost in managing a budget which is spread over a smaller number of pupils. Although larger schools are generally more economic in this area, there are wide variations between them. Grant maintained schools have relatively more administrators per pupil, but they also have additional administrative functions which local authority schools do not have. However, there is also a wide variation amongst grant maintained schools. Uniformity between schools may not be desirable, but low administrative costs in schools are desirable.

22. A large number of administrators' hours may be justified, for example, if the result is:  
— head teachers are released from inappropriate tasks of financial administration  
— deputy head teachers spend more time teaching, where this is the school's aim  
— teachers spend more time in contact with pupils or on directly educational tasks.  
Excessively low administrative costs may represent a false economy, for example, if they result in:  
— head teachers or teachers undertaking inappropriate administrative tasks  
— inadequate financial management or improper use of money.

It is helpful to compare schools, taking some of the above factors into account (Exhibit 13). It is evident that a high level of administrative staffing does not necessarily lead to the potential benefits and a low level does not necessarily lead to the false economies outlined above.

23. A number of schools increased administrators' hours sharply as they took over their budgets. Eight per cent of schools increased them by 100%. At this stage the schools could not have known what the workload would be. Many have not subsequently reviewed whether increases of this order remain necessary.

DUPLICATION OF ADMINISTRATION

24. Although schools are increasingly using computerised systems, many are not linked to the local authority's computer systems. Therefore, they record transactions on the school computer, send them manually to the local authority which enters them in its computer and makes any payments. For payroll information, the situation is the other way around. The local authority sends the school details of salary payments made to the school's staff. In both cases the school has an additional task of ensuring that its own records and those of the local authority tally. This is a waste of time and money. If the records were transferred by computer, the administrative burden for schools and local authorities would be reduced. Some authorities blame computer software suppliers for the delay as well as the introduction of local management over a relatively short time scale. This prevented the implementation of ideal computer systems in the time available. The problem should be transitional. Administrative arrangements should catch up with the new management arrangements.

25. This element of duplication is compounded by the practice of some 20% of schools to run cumbersome financial systems. In one school, for example, the finance officer records a payment by cheque in five different systems. Two of them predated the introduction of the computerised system and duplicate functions it now serves. The school finance officer continues to maintain them because they have always been maintained. This may arise from a natural desire
on the part of school administrators to keep proper financial records. But it is time-consuming to keep several sets of records and to keep several systems reconciled with each other.

26. In sum, three reasons explain the higher administrative costs of some schools:
   — a lack of review of initial sharp increases in administrators' hours
   — duplication of administration between some local authorities and their schools
   — unnecessarily cumbersome procedures within the schools.

If schools could reduce the proportion of the budget which they spend on administration by one percentage point, £110 million annually would be released and could be redirected into other areas.

OTHER STAFF AND EXPENDITURE

27. Education support staff, such as technicians, librarians, classroom assistants, and midday supervisors account on average for 4.5% of a primary school's budget and 2.5% of a secondary school's budget. When schools take over management of their finances, they tend to employ more education support staff, particularly classroom assistants, whose numbers increased significantly, although from a low base (Exhibit 14, overleaf). Almost all of these classroom assistants are employed by primary schools.
16

Source: Audit Commission fieldwork in 97 schools. 10% of these schools took over responsibility for this element of their budgets in 1992. Figures include assistants working in nursery classes.

28. The growth in the number of classroom assistants, whose salaries cost approximately half those of teachers, has not been at the expense of teachers. Schools have not reduced the proportion of the budget they spend on teachers. The increases in the use of support staff in primary schools have been made possible by reductions in general running costs, excluding maintenance, educational equipment and books.

BALANCES OF INCOME OVER EXPENDITURE

29. Most schools end the financial year with balances of unspent money in their budgets. The average balance at the end of the 1991/92 financial year in schools which have several years' experience of managing their finances is 5% of the budget at primary and 3.5% at secondary level. The trends in cumulative balances which schools hold vary between the types of school (Exhibit 15). Whilst excessive balances are undesirable, progressive unjustified growth in balances is even less attractive. Local authority schools held increasing balances. It is not clear if that trend will continue as figures for the budgeted balances for 1992/93 are unlikely to reflect the actual balances held by schools once that figure is known. Many schools start the year by drafting their budgets cautiously on the assumption that they will not manage to increase their balances by the end of the year, but in fact do end up with increased balances.

30. Even when grant maintained school budgets are adjusted to remove funding for items such as capital expenditure, the proportion of their budgets represented by balances varies considerably between schools. This may not be representative of all grant maintained schools, as the sample of grant maintained schools in the study was self selected. The Department for Education does not publish aggregated figures for English grant maintained schools' balances and so a national picture is not available. The balances of these schools contain items not included in the balances of local authority schools and are not directly comparable.
17

Source: Audit Commission fieldwork in 82 schools. One grant maintained school was holding a surplus of £284,000, but £142,000 of it was for a specific potential legal liability and that amount has been discounted.

Source: Audit Commission fieldwork. Local authority schools which managed finances from 1990 or before. Grant maintained figures are for 10 schools and are adjusted to exclude funding for capital expenditure and special facility costs. Grant maintained school balances contain different elements from local authority school balances.

31. The average balance disguises wide variations amongst individual schools, ranging from 15% downwards. The amounts of money held by some secondary schools are significant, up to £200,000 (Exhibit 16). Grant maintained schools tend to hold larger balances, with five out of 12 holding balances of over £130,000, compared to two out of 25 local authority secondary schools.

Exhibit 16

THE SIZE OF SCHOOL BALANCES
Some secondary schools in particular hold large balances.

Source: Audit Commission fieldwork in 82 schools. One grant maintained school was holding a surplus of £284,000, but £142,000 of it was for a specific potential legal liability and that amount has been discounted.
WHY SCHOOLS HOLD BALANCES

32. It is difficult to understand what unforeseen circumstances not covered by insurance could merit holding balances of £200,000 as a general contingency, as a few secondary schools do. The largest balances are bigger than the entire annual budgets of several primary schools in the sample.

33. Most schools hold balances as a general contingency. Two factors explain this. Firstly, schools are uncertain about the future. They hold some money back in case of future reductions in the amount of money allocated to them. The second reason is because the financial and academic years are not co-terminous. Schools do not usually receive notification of their budgets until March. If the amount they receive is less than anticipated, schools can avoid disruptive changes to staffing during the academic year by using balances to tide them over to the end of the academic year.

34. These factors do not explain some of the larger balances. A few schools save up money for specific projects outlined in their development plans. But in most cases there is no reason for the balances other than a general caution. Whilst the establishment of an appropriate level of balances at the start of local management of schools was sensible, such balances should not be allowed to increase without rational justification. There are examples of schools carrying £100,000 forward from one year to the next with no particular objective in mind. One effect of balances is that a sum approaching 5% of the annual grant for school education is not being used. Another effect is that schools are seeking to achieve 100% of the required output with 95% of the resources. It is appropriate that schools should hold balances as a contingency and for specific projects outlined in the development plan. It is the element of balances held for no clear reason which causes concern.

DEFICITS

35. Some 9% of local authority schools have run into an overall deficit, i.e. spend more than the sum of their income and any cumulative balances, and this deficit is carried forward to the next financial year. This is not as serious as it might seem as almost all of them manage at least to balance their budgets by the following year. But in each case individual lessons can be learned.

36. Trends in expenditure reflect considerable caution in some areas and a lack of it in others. Schools have begun to exercise their discretion in changing patterns of staffing, but unless schools exercise the greater discretion which they now have over the rate at which teachers progress up the pay scale, it is likely that the pupil:teacher ratio will continue to rise. In contrast, some schools have exercised considerable discretion in increasing administrative resources with the result that there are wide variations in costs between similar schools. This factor and an element of duplication of administration between schools and local authorities and within schools indicate that some schools have unnecessarily high administrative costs. A natural caution has prompted schools to carry forward balances of funds as a contingency or for specific projects, although some are holding large balances for no clear reason. Caution has also led some primary school head teachers to retain administrative tasks which they should delegate. By contrast, many
secondary school head teachers have delegated responsibility for the finances to a degree which results in there being insufficient top management review of expenditure. Caution is understandable as the first priority for many schools has been to establish systems for sound financial management. But once these are in place, schools should exploit the freedom available to them to maximise the benefit of their budgets for pupils, including evaluating and pursuing value for money opportunities. Putting these sound financial systems into place is the subject of the next chapter.
2. The Strength of Schools’ Financial Management

MANAGING THE SCHOOL BUDGET

37. Schools’ estimates of how they will spend the current year’s budget are usually based on what the school spent in the previous year. Few schools see the process of setting the budget as a means of achieving educational objectives which they have set out in the school development plan. In primary schools, the most common approach is firstly to allocate from the budget an amount required to replicate the current year's staffing for the next year, then to scrutinise the running costs of the school and set aside money for those costs, and finally to consider how the remainder may be spent. Secondary schools face a different situation in that some of their pupils have choices as to the subjects which they study, and the demand for subjects can vary from year to year. Therefore, staff changes may be needed in order to match those changing patterns of demand. Even among secondary schools, it is not universal to consider the development plan for the school when deciding which areas should be a priority for expenditure. In addition, unforeseen changes in, for example curriculum provision, result in the diversion of funds away from objectives identified in the school development plan.

38. The room for manoeuvre within school budgets is often small. Even so, traditional patterns of expenditure are given too much importance in setting budgets. Such an approach can prevent schools from considering whether they can use different patterns of staffing or expenditure to achieve their aims. It is not surprising that schools which have only limited experience of managing their budgets have not achieved this dovetailing of financial and educational management, but schools which are now in their fourth year of financial management still do not appear to be linking their objectives for the school with their allocation of resources. Schools which have adopted such an approach describe it as being an extension to the normal process of planning the delivery of the curriculum and development of the school undertaken by the school management team.

MONITORING BUDGETS

39. A strength of most schools is the rigour with which they monitor budgets. Budget managers are involved in monthly, or even weekly reviews of the budget to ensure that expenditure follows predicted patterns. In only a few schools is budget monitoring weak; there it is accidental that expenditure has not gone out of control. In those schools, the staff responsible for monitoring

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1 In its paper, Management within Primary Schools, 1991, the Audit Commission set out good practice guidelines on the integration of financial and educational planning in schools.
the budget do not have a clear idea of the budgetary position. In some cases the budget reports which they receive from the local authority or the reports which they generate themselves are seriously inaccurate.

40. This general picture of good budget monitoring has not been achieved by schools alone. Most local authorities monitor schools' expenditure and provide advisers to visit schools, often monthly, to help them with their financial management. They do not usually charge schools for this service. This help is necessary as schools learn to manage their budgets. However, if local authorities continue to provide it even after schools have gained experience and no longer require it, there is a risk that local authorities will not enable schools to develop expertise and the acceptance of their full responsibility for financial management.

PURCHASING

41. Primary schools often use their local authorities to help manage the selection of suppliers and to monitor the completion of work where large sums of money are involved. When this involves formal tenders, the process is almost entirely managed by local authorities, with schools involved in making the final decisions. Primary schools which use this arrangement are universally happy with it. This is not surprising since they rarely have to pay the local authority for acting as their purchasing agent, and yet they retain the decision making power. Many secondary schools also involve the local authority in an advisory capacity when making large purchases of several thousand pounds, but increasingly they are not doing so. Grant maintained schools are more frequently involved in going out to tender for large purchases. Overall the picture is one of a commitment to securing value for money and most head teachers and governors are gaining experience gradually and safely.

42. However, there are two areas of concern. In a small but noticeable number of schools there have been questionable practices (Exhibit 17). Typically the agreement of governors to the selection of a supplier was not sought, although in most cases governors knew that the item or services would be bought. This is possible and legal because in many schools governors have delegated to head teachers unlimited authority to spend money. Only 10% of head teachers reported that they had any limit on their authority to spend money.

43. Some of these practices are questionable in themselves. Others raise questions because governors had either not been asked for their consent or not been informed of all the relevant circumstances, in situations where there is an obvious potential conflict of interest for the person making the purchasing decision.

44. In grant maintained schools, there are examples of schools awarding contracts to firms other than the lowest bidder without clear justification for this. One school had itself recognised a problem in that it retained an architect to manage the short-listing of tenders. Under this arrangement the architect obtained six tenders; however, the school could not know whether the architect had selected the three highest or lowest tenders from them - an important point because he was paid a percentage of the final contract. Some grant maintained schools do not follow formal guidelines for going out to tender. Although it is common for them to seek technical advice about the nature of the purchase which they are making, for example by retaining architects or surveyors.
EXHIBIT 17
EXAMPLES OF QUESTIONABLE PRACTICES
Questionable practices in schools' purchasing decisions are emerging.

- The allocation of repairs work to the husband of a member of staff, even though his quotation was £2,500 higher than the lowest with the reasons for this not apparently being reported to the school governors.
- A head teacher buying paint and re-selling it to other schools, using the school accounts.
- A head teacher employed her daughter during the vacation to help with the school administration at a much higher rate than the normal administrative staff rate, without reporting this to the governors.
- A contract for repairs was not awarded to the company with the lowest quote on the grounds that the school had no knowledge of the firm - either in the firm's favour or against it - whereas one of the governors was a friend of the owner of the firm awarded the contract and this was given as a reason for awarding it.
- Three teachers formed a consortium to undertake repairs and maintenance on a commercial basis for the school at which they were employed as teachers and were awarded a contract by the school, undertaking the work in evenings and at weekends.
- A head teacher awarded over £3,000 of work to her husband without getting competitive quotations or discussing this with governors.
- A deputy head teacher ordered £14,000 of computers without seeking competitive quotations.
- A school awarded one of its teachers a contract for £1,600 of electrical work, without other quotations being sought or the health and safety implications being fully covered.

Source: Audit Commission fieldwork

to evaluate contractors' bids for building work, the absence of formal guidelines is not compensated for by external advice on the process of competitive tendering.

45. The second area of concern relates to the degree to which schools are seen to act properly and to secure value for money. Although most schools have not undertaken formal tendering, all schools seek competitive quotations for work or purchases worth several thousands of pounds. Yet it is rare to see evidence of this as the quotations are frequently destroyed. In some schools, invoices are not kept after payment, so that it is not always clear what has been paid for. In the most extreme case, a secondary school had gone out to tender for computers worth £65,000. The head teacher then stated that he had destroyed all the paperwork, as he was 'not one for keeping paper'. Although it was still possible for an auditor to investigate the case, it was more costly than it would have been if a few documents had been retained. Further, it would have been almost impossible for a governor to review what had happened if he or she had wanted to do so.

46. Schools should not keep unnecessary paperwork. They should promote the most economic and efficient administration which is compatible with proper financial management. However, decisions concerning the expenditure of public money must be open to scrutiny.
47. These practices are not yet general. But the future of good practice is in part dependent on good external audit which protects schools through advice and, in rare cases, intervention. There is a need for sound financial controls and procedures within schools and regular reviews of these controls to ensure compliance. Most schools have only just begun to use the autonomy in making large purchases which they have had for some time. There is limited evidence that, as schools grow in independence, there is greater scope for questionable practice. That is not to suggest that schools should be discouraged from growing in independence of financial management, but the safeguards and accountability should be commensurately robust.

COUNTING PUPIL NUMBERS

48. Each year schools have to count the numbers of pupils of various ages on roll and return this information to the Department for Education or Welsh Office. Local authorities often use this information as a basis for determining the amount of money to allocate to schools. With some seven million pupils in schools, it would not be surprising if there were some discrepancies between the number of pupils on roll on the day of the count and the number filled in by schools on the official forms. There was a discrepancy in 19% of schools, including some grant maintained schools.

49. It might be expected that where discrepancies arise, equal numbers of schools would overstate and understate the number of pupils on roll. In fact, almost four times as many schools overstated as understated the number. Schools have a financial incentive to do so. One school with 46 full-time pupils on roll entered a further 12 part-time pupils as being full-time, giving the appearance of there being 58 full-time pupils on roll. Another school overstated the number on roll by 14 (4% of the number actually on roll) but still insisted that the figure provided to the Department for Education was correct. Such an overstatement could result in £14,000 or more in additional funding being allocated to the school at the expense of other schools. This area requires auditing.

SCHOOL VOLUNTARY FUNDS

50. All schools raise money for school trips and special activities or to supplement the public money allocated to the school. In England and Wales an estimated £330 million flowed through school voluntary funds in the year 1991/92, with a total of £100 million held on average at any given time in 1992. Whilst it is rare to find schools with unacceptable standards for accounting for money in their main school bank accounts, one in four schools engages in practices in relation to voluntary funds which would require corrective action if public funds were involved (Exhibit 18).

51. Care must be taken that the costs of administration are not a disincentive to schools to raise money. These funds pay for valuable educational activities. But there is no reason to suppose that parents, teachers, governors and others whose time and money are spent raising these funds are happy to accept poor standards of control and administration which increase the risk of misuse or accidental loss of those funds. Further, if three-quarters of schools can administer these funds properly, it is difficult to accept that the remaining schools should not do so.

ACCOUNTABILITY

52. In schools which manage their own finances, head teachers decide on the day to day use of money within a framework laid down by elected and appointed school governors, to whom
head teachers are accountable. Schools are also subject to the financial regulations of local authorities or - in the case of grant maintained schools - the Department for Education or the Welsh Office. Accountability for the proper use of public money is safeguarded by the process of auditing schools. Further, the Audit Commission has a role in promoting value for money in local authority schools.

53. Although the responsibility for school finances is relatively new to many governing bodies, in 60% of schools the system works well. The hallmarks of good practice require a good and proper relationship between the head teacher and governors (Exhibit 19, overleaf). Some 60% of all schools with two or more years' experience of managing their finances have most or all of these elements of accountability in place. Neither the head teachers nor governors in these schools describe these arrangements as onerous. Indeed these head teachers generally welcome the opportunity to benefit from governors' expertise and to gain their commitment to head teachers' proposals. They find that the process of review and debate leads to improvements in the decisions reached.

54. But in 40% of schools, accountability is weak, and in a few cases there is no accountability in practice. In these schools, governors are often ill-informed (Exhibit 20, overleaf). In such schools, the responsibility for large sums of public money is left almost entirely in head teachers' hands. These head teachers are left without the support and expertise in the management of finances which governors can offer. They are also less accountable for their use of public money.

55. Accountability to governors is generally robust in the sample of grant maintained schools visited. Governors usually receive regular reports, are aware of the main financial issues facing the schools and have an active involvement in the key financial decisions throughout the year. None of the head teachers report that governors undermine their role in managing the school. However, even within the small sample of grant maintained schools visited there are some which provide only an annual report to governors on the schools expenditure during the year and some practices are worrying - one school reported that it had decided not to allow auditors access to the minutes of governing bodies' meetings on the grounds that these were confidential.
There are four causes of the lack of accountability, all of which can be addressed:

— There may be no governors with an interest in financial management. In the overwhelming majority of schools there is at least one governor (although it sometimes is only one governor) with a lively interest in finance.

— Lead teachers may be nervous that the governing body will get involved in the day-to-day management of the school, undermining the executive role of the head teacher. There have been cases where this has happened, but they are relatively rare. There were only two cases in the sample where there was evidence that this may have happened. Most governors do not want to take over the head teacher’s role as manager of the school. Most express a desire to support the head teacher.

— Governing bodies, even in some schools where accountability is otherwise strong, have surrendered the formal controls which would act as safeguards. In particular, most have delegated to head teachers unlimited authority to spend money and to move money from one area to another of the budget (Exhibit 21, overleaf). It is normal that the manager of a two-three million pound budget - as a head teacher may be - should have wide discretion over day-to-day expenditure. However, purchases involving several thousands of pounds of public money, or purchases of any size which may be contentious, should be agreed by the people responsible for the stewardship of public funds - in this case, governors.

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Exhibit 19
THE HALLMARKS OF SCHOOLS AND GOVERNING BODIES WHERE ACCOUNTABILITY WORKS WELL

The hallmarks of good practice require a good and proper relationship between the head teacher and governors.

- Governors see their role as supporting the school and head teacher but are able to question priorities for expenditure in open debate with the head teacher.
- School staff discuss plans for the next financial year's expenditure with governors in autumn, or before.
- Governors see the final budget in time to review it and approve it in March, or before.
- The head teacher provides regular and simple reports comparing expenditure with budget in a format which governors have agreed.
- Governors have adopted a scheme of delegation devolving defined responsibilities for day-to-day financial decisions to the head teacher.
- There are formal procedures which mean that governors review and decide on major items of expenditure or changes to the budget.
- School staff identify any likely surplus in the budget and consult governors on how it should be used.
- There are sound financial controls and procedures.
- Financial decisions are recorded.
- The school is audited regularly and governors and head teacher informed of the outcome.

Source: Audit Commission fieldwork
Governors may be uncertain how to evaluate proposals for expenditure. In particular, many governors lack comparative information about how other schools deploy their resources. Many head teachers have also said that this type of information could inform their decision making and strengthen a case which they may be making to governors to adopt a particular course of action.

It is understandable that schools and their governors will take time to develop their approach to accountability. That some 60% of schools use the system well is a measure of the strength of the basic mechanisms for accountability. But it cannot be assumed that the passage of time alone will lead to the development of accountability in those schools where it is weak or non-existent. Some schools where accountability is weak are in their fourth year of managing their finances. Without proper attention, time may lead to a further deterioration in accountability. If scandals emerge, they will undermine the credibility of local management and weaken public confidence in the education service. The freedom to use money to best effect must be accompanied by appropriate safeguards if future benefits are to be secured.

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**Exhibit 20**

**CHARACTERISTICS OF SCHOOLS AND GOVERNING BODIES WHERE ACCOUNTABILITY IS WEAK**

In schools where accountability is weak governors are often ill-informed.

- Governors have little discussion of financial issues.
- Governors' first sight of the draft budget for the financial year comes a few days before, or even some time after, the start of the year and the school staff present the budget as a fait accompli.
- School staff do not give governors regular, or any, reports on the progress of expenditure and income against the budget.
- Governors do not ask for such reports.
- Governors do not or could not reasonably be expected to understand reports which are produced.
- The head teacher has unlimited discretion to spend money or move it between budget headings.
- School staff do not consult governors on the use of any balances of funds in the budget.
- Governors may not be aware that there are balances if the draft budget contains unnecessarily high allocations of money to some categories of expenditure giving the appearance that there will be no balance and the head teacher does not inform the governors of expenditure against the budget.
- Large purchases are not discussed with or reported to governors.
- The records of financial decisions are vague, if they exist at all.
- Governors do not have access to reports of audits.

Source: Audit Commission fieldwork
HEAD TEACHERS' DISCRETION TO VIRE MONEY FROM ONE AREA OF THE BUDGET TO ANOTHER
In most schools there is no limit to head teachers' discretion to vire money from one area to another of the budget initially agreed by governors.

Source: Audit Commission fieldwork.
3. Conclusions and Recommendations

58. The preceding analysis of schools' management of their finances gives rise to four conclusions:

— schools have taken well to the management of their finances

— schools need to make more use of their managerial discretion in some areas, in particular in relation to teachers' salaries

— some schools have gone to the other extreme and have exercised discretion in ways which have caused sharp increases in administrative costs or which are of questionable probity

— there are more general concerns about the accountability of some schools for their use of public money.

Action is required to address the last three issues and to help schools develop their financial management from what is for most of them a position of strength. The recommendations outlined below are made in respect only of local authority schools. Grant maintained schools are not covered by the Audit Commission's remit to promote value for money, although they may find that the issues highlighted in this report are relevant. These recommendations do not cover the issues of teachers' pay scales and performance pay as these have recently been reviewed by the School Teachers' Review Body.

THE LINK BETWEEN THE BUDGET AND SCHOOL DEVELOPMENT PLAN

59. Schools should make clear the link between their budget and the school's objectives, which are usually outlined in the school development plan. This plan should influence schools' decisions over competing priorities for expenditure. It is not a complex or bureaucratic process. Some schools are already familiar with it (Box C, overleaf).

DISCRETION IN MANAGING TEACHERS' PROGRESS UP THE PAY SCALE

60. Schools should use the discretion now available to them in determining the rate at which teachers progress up the pay scale. If schools adopt pay policies under which enhancements continue without review or under which there is an automatic entitlement to a certain number of points under each criterion for progression, then the early signs of an increase in the pupil:teacher ratio will become a trend as schools respond to the tension between an upward drift in salaries and limited budgets.
MANAGING THE STAFFING MIX

61. All schools should follow the example of schools which have reviewed their staffing mix. Many secondary schools regularly re-structure their staffing to respond to pupils' choices for different subjects within the curriculum, which can vary from year to year. There is also an increasing trend to achieve more flexibility by employing staff on short-term contracts, and all schools should consider whether this would help. Smaller primary schools may be constrained in their flexibility because the numbers of staff are less and most schools wish to maintain a stable relationship between class teachers and their classes. However, even in such schools, there is scope for making changes in the staffing element of the budget which can help schools achieve their developmental objectives (Box D).

THE HEAD TEACHER'S ROLE IN FINANCIAL MANAGEMENT

62. Secondary school head teachers should re-assess the degree to which they have delegated financial management within the school. Without becoming involved in routine administrative matters, they should review the overall pattern of expenditure, identifying areas
where funds might be redirected, setting targets and then reviewing brief financial summaries to ensure that targets for redirecting expenditure are reached. This task is important educationally. Primary schools have reduced the proportion of their budgets spent on running costs from 10% to 7%. If all schools had achieved change of this magnitude, £330 million would have been available to be deployed on direct educational resources.

63. Primary school head teachers involved in routine tasks of financial administration should consider how they can delegate these. Many head teachers have not done this for fear of weakening financial control. They should discuss with their auditors which areas can be safely delegated. There is also a continuing role for local authorities in training school administrators who should undertake these tasks.

**BALANCES OF INCOME OVER EXPENDITURE**

64. Almost all schools allow for some contingency in case of unexpected events - and that is reasonable. Local authorities used to do the same when they managed school finances. The total amount retained may be greater now because almost all schools have some contingency.
whereas the local authority held one sum of money for all schools and all other services resulting in economies of scale. Schools may have long-term objectives, such as equipping a laboratory, which they could not achieve with the resources available in one year. In this case, a proportion of the balances represents savings for appropriate objectives. If schools do intend to save money over several years, governors should report that fact to parents in the governors' annual report, as it is reasonable that parents whose children may leave the school before they can benefit from savings in current expenditure should be informed.

65. The Department for Education allows English grant maintained schools to carry forward from one year to the next up to 12.5% of their budget (10% of which is identified as a premises related reserve) - or more with the permission of the Secretary of State. This is much more than most local authority schools hold as a balance, annual or cumulative, and should not be taken as a guideline. A different approach for grant maintained schools is appropriate in part because they could not rely on the intervention of a local authority in case of an emergency in the way in which a local authority school might.

66. Local authorities are right to review the size of school surpluses but they should bear in mind that schools hold some funds as a contingency and for the completion of developments identified in school plans. Local authorities should take into account that money is earmarked for future projects when setting the general schools budget. Local authorities, governors and auditors should monitor whether such funds are eventually used as intended. If a balance of funds continues to be held for no particular purpose, then it would be understandable if local authorities take this into account when setting the general schools budget even though the extent of surpluses may not be evenly spread amongst schools. But local authorities should take a measured approach which allows schools which have only one or two years' experience of managing their budgets time to gain in confidence and skill.

PROBITY OF EXPENDITURE

67. As schools develop their financial skills, they are gaining confidence in undertaking major purchases with reducing help from local authorities. It is right that schools should become more independent in this respect, but the decreasing involvement of local authorities will result in less external input to school purchasing decisions and therefore this safeguard for the probity of expenditure will diminish. There are 'green shoots' of questionable practice. Action is required to secure the probity of expenditure in a new environment where schools act autonomously.

68. Governors should re-consider their decisions to delegate to head teachers authority to spend money without limit. They should set a limit at which they expect to approve not only the decision to make a purchase but also the decision about the supplier of goods and services, as it is in this latter decision that there is greatest need for openness. Most governors and head teachers will welcome such an open relationship. It is a protection for all parties. Schools should also ensure that they are seen to act properly and to secure value for money by retaining information about such purchases for the scrutiny of auditors, governors, or local authorities.

69. The Audit Commission has already addressed some of the above issues, and will take further action. The Commission and the Office for Standards in Education have prepared standards for financial management in schools which auditors and inspectors will use when
making their respective evaluations. These standards provide a tool for schools to evaluate their own financial management and identify any gaps. The Commission will also issue guidance to local authorities on the auditing of schools. Grant maintained schools have an annual external audit of their accounts. The involvement of local authorities in the administration of school finances means that an annual external audit is not merited or cost effective for local authority schools. Local authorities already have programmes for auditing schools. To help ensure that authorities continue to provide adequate auditing, the Commission will issue guidelines on the frequency and the focus of audits and the external auditors appointed by the Commission will review audit programmes, in particular to ensure that the probity of expenditure is safeguarded. External auditors will also, where appropriate and in consultation, replicate locally this national study of schools' management of their finances. They will evaluate the strength of schools' financial management and make recommendations to help schools develop in this area.

**SCHOOL VOLUNTARY FUNDS**

70. All school voluntary funds should be administered to the same standard as public funds as is the case in grant maintained schools. They should be audited and that audit should include not only an assessment as to whether the accounts are correct, but also a review as to whether expenditure has been properly incurred. Schools should ask their internal auditors to advise them on standards of administration of these accounts. Guidance is also available in the forthcoming Audit Commission / OFSTED publication, *Keeping your Balance: Standards for Financial Administration in Schools*.

**CONTROLLING ADMINISTRATIVE COSTS**

71. Action is required to reduce the cost of financial administration in schools and local authorities. Local authorities which have not done so should publish timetables for the achievement of the computerised transfer of financial information between themselves and their schools to reduce wasteful duplication. Schools should review their own administrative procedures to eliminate unnecessary duplication. They may find it helpful to discuss with their auditors how they can achieve this without weakening financial control. Schools with the highest costs should undertake a fundamental review of their administrative arrangements and levels of staffing. There is evidence that comparable schools can manage with significantly lower administrative resources with no weakening of financial administration.

**LOCAL AUTHORITY HELP TO SCHOOLS**

72. Many local authorities, anxious to help schools, have continued to provide a 'minding' service to schools. It is understandable that local authorities should support schools as they take over the management of their finances. But if they continue to provide a high level of support once schools have gained in experience, they risk inadvertently stifling the development of financial expertise in schools and the acceptance of full responsibility for financial management. For some schools, a service of this nature may be a cost-effective way of managing the school finances. Others do not need it. All local authorities should now consider delegating the money for this service to schools, for schools to buy back the service if they wish to retain that level of support. Some authorities have already done this.
ACCOUNTABILITY TO GOVERNORS

73. These proposals for action recognise that governors volunteer their time and already have wide-ranging responsibilities. They also acknowledge that the relationship between governors and school staff should be a supportive relationship. With this in mind, school staff should present draft budgets to governors well before the financial year begins so that school staff and governors can discuss options for expenditure or reductions in expenditure. Some 60% of schools already do this, and most find the process of review by governors helpful.

74. All head teachers should follow the example of providing governors with regular reports on the progress of the budget. School staff and governors together should determine the format of those reports so that governors can understand the overall picture without time consuming analysis. An extract from the reports used by some schools is given in Box E. Governors at other schools have asked for more detailed or sophisticated reports than the one illustrated, and some prefer to see the full computer print-out from the local authority, but sometimes the important messages get lost in the detail. Governors with limited financial expertise need only a simplified report (Box E). It is for governors to decide how frequently reports should be provided. The Audit Commission's advice is that governors should receive at least a termly report on expenditure and the budget. Some governing bodies already receive more frequent reports, and that is their prerogative.

AUDIT

75. The Audit Commission will also act to help improve accountability. The guidelines for the auditing of schools will advise auditors to review the content and frequency of financial reports to governors and to provide guidance for individual schools and their governing bodies on the issue of accountability. The Commission will set out a framework for external auditors' review and testing of the arrangements made by local authorities to help improve the accountability of schools where it is weak.

76. Local authorities and their auditors should keep this area under review. If all the measures outlined in this section are put into practice, accountability will be strengthened. If they are not, then local authorities should consider preparing alterations to their schemes of local management to ensure that these recommended practices become part of their schemes and are implemented. But for the time being schools and governors should be allowed to develop this aspect of their relationship without unnecessary prescription.

COMPARATIVE INFORMATION FOR SCHOOLS AND GOVERNORS

77. One aim of this report is to respond to the request from many head teachers and governors for comparative information on the way in which schools deploy their resources. Appendix 2 (to be published separately) contains more comparative information and head teachers and governors may find it helpful to use this information and the charts in the report to compare their school with others. Such information can trigger a review of areas of expenditure and inform schools' and governors' decisions. In addition, the external auditors appointed by the Commission will, in consultation with local authorities, be able to provide more finely tuned local information as part of their studies of schools' management of their finances.

* * *

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As most schools have taken well to the management of their finances and others are gaining in experience, these improvements can be achieved by guidance and help followed-up with monitoring, rather than by prescription at this stage. Action is required initially by schools, governors, local authorities and the Audit Commission (Box F). The Department for Education and the Welsh Office should continue to monitor the development of schools’ management of their finances, particularly in relation to accountability. If it does not develop or the deficiencies outlined are not addressed in line with the above recommendations, action at a national level will be required. The Department and the Welsh Office should not remove or weaken the defence of accountability, particularly external audit, as independent review and open reporting are essential in securing probity and value for money. These recommendations should improve what is in most schools already a healthy situation. They are designed to help schools build on their achievements. Once implemented, schools will be able to manage their finances more independently, to greater effect and with full accountability for their use of public money.

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**Box E**

**A BASIC FINANCIAL REPORT FOR GOVERNORS**

<table>
<thead>
<tr>
<th>Type of expenditure</th>
<th>Budget allocation</th>
<th>Amount spent or committed so far</th>
<th>Amount we estimate will be spent/received by year end</th>
<th>Balance</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teachers</td>
<td>172,570</td>
<td>86,285</td>
<td>168,700</td>
<td>3,870</td>
<td></td>
</tr>
<tr>
<td>Supply teachers</td>
<td>5,300</td>
<td>4,577</td>
<td>6,500</td>
<td>-1,200 overspend</td>
<td>Heavy bout of sickness</td>
</tr>
<tr>
<td>Support staff</td>
<td>8,840</td>
<td>2,412</td>
<td>6,840</td>
<td>2,000</td>
<td>Vacancy for class assistant</td>
</tr>
<tr>
<td>Caretaking</td>
<td>12,300</td>
<td>6,100</td>
<td>12,000</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>Administrative staff</td>
<td>8,200</td>
<td>4,130</td>
<td>8,200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational equipment and services</td>
<td>9,400</td>
<td>4,600</td>
<td>9,000</td>
<td>400</td>
<td>Purchase of computers</td>
</tr>
<tr>
<td>Energy</td>
<td>7,600</td>
<td>7,600</td>
<td>7,600</td>
<td></td>
<td>Await winter before adjusting</td>
</tr>
<tr>
<td>Office costs, and printing</td>
<td>1,020</td>
<td>466</td>
<td>1,000</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Maintenance and repairs</td>
<td>7,580</td>
<td>2,600</td>
<td>8,700</td>
<td>-1120 overspend</td>
<td>Redecoration of hall planned</td>
</tr>
<tr>
<td>Other items</td>
<td>5,800</td>
<td>4,300</td>
<td>5,800</td>
<td></td>
<td>Rates = £4,300</td>
</tr>
<tr>
<td>Contingency</td>
<td>1,000</td>
<td>0</td>
<td>0</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td>4,700</td>
<td>4,400</td>
<td>7,400</td>
<td>2,700</td>
<td>Additional use of hall</td>
</tr>
<tr>
<td>Total expenditure</td>
<td>236,910</td>
<td>118,670</td>
<td>226,940</td>
<td></td>
<td></td>
</tr>
<tr>
<td>This year's allocation</td>
<td>233,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Last year's balance</td>
<td>3,910</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Cumulative balance forecast for end of year: 9,970**
**Box F
RECOMMENDATIONS FOR ACTION**

<table>
<thead>
<tr>
<th>Recommendations</th>
<th>Governors</th>
<th>School staff</th>
<th>Local authorities</th>
<th>Audit Commission</th>
<th>Dept for Education/ Welsh Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Link budget plans to the school development plan</td>
<td>u</td>
<td>u</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implement more pro-active management of staffing budget</td>
<td>u</td>
<td>u</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Review administrative procedures (all schools) and review staffing levels (schools with highest costs)</td>
<td>u</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indicate intended purpose of balances of funds</td>
<td>u</td>
<td>u</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Keep school balances under review</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>u</td>
</tr>
<tr>
<td>Agree deployment of balances</td>
<td></td>
<td></td>
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<td></td>
<td>u</td>
</tr>
<tr>
<td>Review administration of school voluntary funds and submit to an annual audit which checks for probity of expenditure</td>
<td>u</td>
<td>u</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implement top management review of expenditure (secondary schools and primary schools which have not done so)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>u</td>
</tr>
<tr>
<td>Review decision to delegate unlimited authority to spend money or move money from one area to another of the budget</td>
<td>u</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal auditing of schools</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>u</td>
</tr>
<tr>
<td>Produce guidance on the auditing of schools</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>u</td>
</tr>
<tr>
<td>Produce and implement timetable for computerised exchange of financial information</td>
<td>u</td>
<td>u</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consider delegating to schools money for financial advice</td>
<td></td>
<td></td>
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<td>u</td>
</tr>
<tr>
<td>Report regularly to governors on use of finances</td>
<td></td>
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<td>u</td>
</tr>
<tr>
<td>Agree a format for financial reports</td>
<td></td>
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</tr>
<tr>
<td>Produce local evaluations of and guidance concerning schools’ management of their finances</td>
<td></td>
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<td>u</td>
</tr>
<tr>
<td>Monitor schools’ management of their finances, take action nationally if desired changes not implemented and ensure that a robust regime of audit is in place</td>
<td></td>
<td></td>
<td></td>
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<td>u</td>
</tr>
</tbody>
</table>
THE CONDUCT OF THE STUDY

The sample of 100 schools visited as part of the study was made up as follows:

- 12 managed their finances from April 1989
- 55 managed their finances from April 1990, 10 of which did not take over responsibility for the staffing element of their budgets until April 1992
- 33 managed their finances from April 1991.

The breakdown of the sample into phase and type of schools is as follows:

- 56 were local authority primary schools
- 32 were local authority secondary schools
- 12 were grant maintained secondary schools.

The distribution of the schools by the number of pupils on roll in January 1993 was as follows:

**Primary schools**

<table>
<thead>
<tr>
<th>Pupil Range</th>
<th>Number of Schools</th>
</tr>
</thead>
<tbody>
<tr>
<td>50 to 100</td>
<td>7</td>
</tr>
<tr>
<td>101 to 200</td>
<td>12</td>
</tr>
<tr>
<td>201 to 300</td>
<td>22</td>
</tr>
<tr>
<td>301 to 400</td>
<td>9</td>
</tr>
<tr>
<td>401+</td>
<td>6</td>
</tr>
</tbody>
</table>

**Secondary schools**

<table>
<thead>
<tr>
<th>Pupil Range</th>
<th>Number of Schools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 600</td>
<td>12</td>
</tr>
<tr>
<td>601 to 900</td>
<td>16</td>
</tr>
<tr>
<td>901+ pupils</td>
<td>16</td>
</tr>
</tbody>
</table>

The local authority schools were drawn from Dudley, Ealing, Gateshead, Gwent, Kingston, North Yorkshire, Redbridge, South Glamorgan and Surrey. The grant maintained schools were located across England.

In addition, the following evidence was gathered:

- 100 head teachers were interviewed
- 100 governors were interviewed
- Officers from the above local authorities were interviewed
- 300 budget statements were analysed
- 300 sets of minutes of governors’ meetings were analysed
- The general and aggregated schools’ budgets for most local authorities in England were reviewed.
The Audit Commission was helped by an advisory group comprising the following members:

S Freer, County Treasurer, Warwickshire County Council
R Hewins, Head Teacher, Holliers Walk Primary School and representative of the National Association of Head Teachers
R Little, Chairman, East Midlands Technologies Ltd
C Lowe, External Relations Adviser, IBM (UK) Ltd
P Mathews, Assistant Director, Office for Standards in Education
P Morris, Chairman, National Association of Governors and Managers
S Szemerenyi, Head Teacher, Finchley Catholic School and representative of the Secondary Heads Association
D Trickett, Director of Education, London Borough of Hounslow
Sir Robert Wall, Member of the Audit Commission and Leader of the Conservative Group, Bristol City Council
C West, Member of the Audit Commission and General Manager, Portsmouth and South East Hampshire Health Authority
P Wood, Member of the Audit Commission and Chairman of Huddersfield District Health Authority.
ADDITIONAL COMPARATIVE INFORMATION

The main body of this report contains a number of exhibits which compare schools. This appendix, which will be published subsequently, provides some further comparisons between schools. Care should be taken when making comparisons. Objective information of this nature only describes the position of a school relatively to other schools, it does not explain why it is in that position or indicate whether the school should be in that position. Comparative information is a trigger, not a substitute, for detailed management review. There will be positive reasons for one school being different to another. However, managers generally find comparative information useful as it can trigger questions when it reveals that the school is in a different position to that which was previously assumed. It can also provide a reference point for decisions about priorities for expenditure or savings.

In this appendix, the comparisons show in more detail and by reference to the different sizes of school:

- the proportion of the budget spent allocated to teachers' salary costs
- the pupil:teacher ratio
- the number of administrators' hours per pupil
- the total number of paid administrators' hours
- the size of school balances
- income to school voluntary funds
- head teachers' positions on the pay scale
- head teachers' progression up the pay scale
- the number of deputy head teachers and the proportion of head and deputy head teachers' time spent teaching.
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