

Valuable lessons

Improving economy and efficiency in schools

Briefing for school governors

July 2009



The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Improving economy and efficiency in schools

Introduction

As a school governor, you play an important role in the financial decisions made by the school, deciding how to spend the school's budget and agreeing an annual budget plan. This briefing provides you with a guide to going beyond good financial management to improving value for money. This will help you ensure as much money as possible can be spent on improving outcomes for children.

School budgets are growing more slowly than in recent years and the financial future looks challenging. This briefing is designed to help you ensure your school gets the best from its budget.

The briefing is aimed at the chair of governors and those governors with financial responsibilities, although we recommend that all governors consider the questions at the end of each section and use them to challenge their school. Our messages are for all schools, but we recognise that the diversity across schools may make some messages more, or less, applicable to your own school.

The Audit Commission supports and challenges public bodies to improve value for money. Many governing bodies already consider value for money within their financial planning and review processes. For those who do, this guide provides information to take your work further. For those new to the concept, the guide will provide information about what value for money is and how governing bodies can include it in their planning.

What is value for money?

The widely accepted definition of value for money refers to three elements described as the 'three Es': economy; efficiency; and effectiveness.

Securing value for money means more than just securing good outcomes for pupils. Achieving value for money also means:

- minimising the costs of running the school, including buying goods and services of the right quality at the lowest possible price (economy);
- getting the most out of every pound spent in the school;

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- using all resources – staff, buildings and equipment – to best effect and avoiding waste (efficiency); and
 - ensuring that all activities are focused on achieving the schools' goals – outcomes for children and the local community (effectiveness).

Governing bodies can help achieve the best outcomes for children by placing value for money at the heart of all their planning decisions.

What should governors do to improve value for money?

There are seven areas where governors can have a significant impact on value for money:

- supporting and challenging school management;
- ensuring the school has considered the financial implications of its plans;
- reviewing school financial balances;
- ensuring that the goods and services that the school buys are value for money;
- ensuring that the school uses its workforce to best effect;
- encouraging greater collaboration with other schools; and
- using financial information when making spending decisions.

This guide takes each of these areas in turn and includes questions to help you challenge your school. Schools can assess themselves against these and other questions on effective use of resources in our online Managing School Resources toolkit.

1 Supporting and challenging the school

Head teachers deserve governors' support, but in the best schools, governors provide constructive challenge to head teachers. They have an independent perspective that helps children get the best education for the available money. Governors can promote a culture of openness by sharing information about the resource decisions the governing body makes with those it is accountable to – staff, parents and pupils. The school committee structure should provide an opportunity to discuss and evaluate value for money.

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Questions to consider

How much time does your finance committee spend on value for money?

How can you improve the consideration of value for money by the finance committee?

How well does your finance committee challenge the head teacher on value for money?

How does the finance committee keep the full governing body informed about its decisions?

How well does the full governing body understand them?

What information on value for money have you made available to staff, parents and pupils?

2 Ensuring the school has considered the financial implications of its plans

Plan for the year ahead

Governors can challenge whether financial decisions made by school management are improving outcomes. Most schools have development plans that set out their aims and objectives and the activities that will enable them to meet those objectives. A good plan will help target resources efficiently. At the start of each planning year, governors can challenge school management to:

- put costs against every significant activity in the school development plan; and
- include staff costs in the school development plan, especially if this has an impact on delivering the existing curriculum.

Through reviewing the implementation of the school development plan, governors can check that money is spent on priorities. The school should be able to show governors how actual spending matches the planned activities during the financial year. By comparing the costs and outcomes of individual activities, governors can evaluate value for money.

Plan for the medium term

To help the school to prepare for possible future financial difficulties, governors can challenge the school to develop a budget and school development plan for the next three financial years.

Questions to consider

How well do the spending patterns in your school reflect the school's development plan and overall vision?

How well does the school development plan cover staff costs?

How are you using this information to challenge your school on the use of its funding?

How does the three-year financial plan assess potential changes in pupil numbers or major costs?

What contingency arrangements does it include?

How will you know if the assumptions in the plan prove to be too optimistic?

3 Reviewing the school's financial balance

Excessive school revenue balances are an inefficient use of public money, as retained budget surpluses are not being used to improve outcomes for children. Surplus balances should only be held for contingencies and pupil number fluctuations. A primary school should hold no more than 8 per cent of its income and a secondary school no more than 5 per cent (Ref. 1). If primary schools and secondary schools with excessive balances reduced their balances to those levels, they could release £270 million and £260m respectively.ⁱ Since 2008, councils are required to claw-back excessive surplus balances from schools.

You can ensure that current revenue balances are spent appropriately on current pupils by:

- checking that there are realistic plans in place to spend balances on specific projects; and
- challenging school management to spend balances that are above the excess levels.

Although most schools are in surplus, approximately 10 per cent are in deficit. In these schools, governors can ensure that there is a realistic recovery plan in place to restore the school to sustainable financial balance.

ⁱ Primary and secondary schools in England held revenue surpluses of £1.76 billion as at 31 March 2008 and nine out of ten schools had a financial surplus.

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Questions to consider

Is your school's surplus balance in excess of the recommended level?

If so, what is the school's plan to reduce the balance?

How confident are you that the plan will reduce the balance?

Is the school on track to reduce the surplus this year?

School balances can only be spent once; can you be sure that your balance is not committed to recurring spending?

For schools in deficit

Does your school have a deficit management plan?

How will you achieve it?

4 Supporting the school in purchasing goods and services

Primary and secondary schools have increased spending on goods and services from £4.0 billion in 1999/2000 to £6.8 billion in 2007/08, a real terms increase of 40 per cent. The variation in spending for each item between similar schools implies that some may be spending substantially more than necessary. We have calculated that schools collectively could have saved more than £400 million in 2007/08.

Table 1: **Substantial savings are possible even if only the highest spending schools reduce their expenditureⁱ**

Area of expenditure	Potential savings: primary schools	Potential savings: secondary schools	Potential total savings
Learning resources (non-ICT)	£45m	£65m	£110m
Catering ⁱⁱ	£55m	£40m	£95m
Cleaning and caretaking	£35m	£45m	£80m
Administrative supplies	£25m	£40m	£65m
Energy	£20m	£20m	£40m
Insurance premiums	£15m	£10m	£25m
Total	£195m	£220m	£415m

Governors can challenge schools to minimise running costs, including buying goods and services of the right quality at the lowest possible price. Schools that buy in the most cost-effective way will focus on the following four areas:

How well the goods or services meet the needs of the school

Regular reviews of high-cost goods and services, such as administration and ICT, will reveal whether they are meeting the school's aims and objectives, and whether services are meeting the performance levels expected. Governors can challenge the school to undertake reviews and make any appropriate changes. The reviews will also help the school with decisions about future suppliers.

ⁱ The savings in this table are rounded to the nearest £5 million.

ⁱⁱ Catering savings will accrue to different recipients depending on local subsidy arrangements.

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Questions to consider

How well do the goods and services that your school buys meet your requirements?

If they do not, has your school considered alternatives?

Buying value for money goods and services in different markets

Your school is likely to buy products in three different sorts of market.

Ensuring that the school understands each of these markets is important to ensure value for money.

- Markets for services where **councils have traditionally been the providers**. These services can include payroll and caretaking. Governors can challenge schools to compare council services with other providers to see who offers the best quality of service, at the best price. Value for money may be at risk if schools either fail to take advantage of economies of scale that councils can secure, or default to council-traded services due to familiarity, when cheaper or better alternatives are available. One school we visited saved £133,000 over three years by moving from a council-traded caretaking service to in-house provision.
- **Markets for high-volume items** that tend to be priced more competitively. Governors can challenge the school to buy fit-for-purpose routine supplies, such as exercise books, as cheaply as possible. Some schools in our fieldwork found using electronic procurement systemsⁱ saved schools both time and money.
- **Unique specialised markets** with few possible suppliers. Examples are:
 - Energy: council or professional buying organisation contracts are likely to be the cheapest as they are able to aggregate demand.
 - Catering: we visited one school that brought its catering service in house and generated a £30,000 surplus in 2008/09.
 - Telephony: we visited a school that switched telephone supplier and achieved a 40 per cent saving on call costs.

ⁱ For example, the Department for Children, Schools and Families (DCSF) On-line Procurement for Educational Needs (OPEN) system - <http://www.dcsf.gov.uk/open/>

Questions to consider

Which goods and services cost the school most and which does the school spend more on than other schools?

Has the school reviewed whether there are better or cheaper alternatives?

Is your school reviewing the quality and cost of each individual service bought from the council annually?

How is the school using technology, including electronic procurement, to minimise the cost of purchasing its goods and services?

Undertaking the process of purchasing appropriatelyⁱ

Governing bodies are responsible for the school's purchasing policies. The governing body must set out in writing, and review regularly, the functions and powers it delegates to the head teacher.

Questions to consider

How do you know that:

- the financial limits on buying decisions made by the head teacher, and other school staff, are appropriate?
- you have purchasing thresholds over which quotations or tenders must be sought?
- you have effective separation of duties between the authorisation and processing of purchasing decisions?
- there is an audit trail for all major buying decisions?

Using goods and services efficiently

In addition to cost-effective buying, schools can also make savings by using fewer specific goods and services. A secondary school that we visited worked with the Carbon Trust to improve its energy efficiency rating and saved nearly £25,000 on its energy bills over three years. Another school saved £2,500 a year by introducing a controlled stock cupboard for books and other study materials.

ⁱ This is described in greater detail in DCSF's *Purchasing Guide for Schools*. The Audit Commission and Ofsted's joint publication, *Keeping Your Balance*, includes a checklist for these and other parts of the purchasing process.

Questions to consider

Has your school made savings by using goods and services more efficiently?

How can your school use goods or services more efficiently to reduce costs?

5 Ensuring the school uses the workforce to best effect

Primary and secondary schools spent more than £24 billion in 2007/08 on their workforce – 78 per cent of their revenue expenditure. Ensuring good quality teaching is the most important factor, but schools that plan well will deploy teachers and teaching assistants where they have the greatest impact. The deployment of classroom staff is the most important financial decision in a school.

Governors can challenge the school on the value for money implications of any significant changes to the deployment or cost of staff. The curriculum will affect staff deployment and the school's costs. Both the balance between different curriculum subjects and the offer of additional options may change staff costs. When a new teaching or non-teaching post is planned, governors can ask the head teacher to show that the appointment represents value for money. The questions below will help you understand and challenge decisions on staff deployment.

In addition to the deployment of teaching staff, governors can also ensure schools have considered:

- the most economic and efficient way to provide staff absence cover.ⁱ This may include a review of the options for sourcing supply staff; and
- the deployment of non-education staff. In one example, a school employed a full-time ICT technician and generated income from this by contracting with other schools.

ⁱ Schools provide cover in different ways. Cover options include cover supervisors, directly employed supply teachers or cover sourced from agencies. The best value for money option will vary with local circumstances.

Questions to consider

For existing staff

How well does the pattern of staff deployment follow your school's vision and the priorities outlined in the school development plan?

How do you ensure this happens?

How well does the workforce deployment by subject or year group match your school's priorities?

How well does your school understand the cost of changes to the breadth of the curriculum or class structures?

To what extent is the current, or desired, curriculum offer affordable?

If it is unaffordable, what options for working with other schools have you considered?

For new posts

How well does your school understand the long-term financial consequences of creating a new post?

How does any proposed new post support the school's vision and school development plan?

Does the school know from which budget a new post will be funded?

Absence cover

How has the school assessed the value for money of different supply and cover staff arrangements and any temporary staff?

What options has it explored?

6 Encouraging collaborative working with other schools

Schools can improve value for money by working more closely with each other. In our research, schools showed different collaborative approaches that ranged from informal networks to formal federationsⁱ, and delivered benefits including:

- sharing information and awareness about markets for goods and services;
- economies of scale in purchasing;
- sharing leadership and other staff resources; and
- mutual specialisation, for example in different subjects.

ⁱ When two or more governing bodies combine to become a single governing body delivering joint governance. DCSF provides a full definition: http://www.standards.dfes.gov.uk/federations/what_are_federations/?version=1

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Federation is rare but can deliver significant savings. We saw one example that reduced recurring management and administration costs by 30 per cent; approximately 6 per cent of overall spending. Another example saved £220,000 from rationalisation of the leadership structure and joint procurement, or 2 per cent of revenue expenditure. However, there can be extra costs associated with federation, for example extra transport, so a decision to federate needs to consider whether the benefits outweigh these possible costs.

Schools that have considered the range of collaboration will be better placed to understand the benefits that they could achieve. Local circumstances will determine the most effective way of working together. In the update to our Managing School Resources tool, we provide three examples of federations and an example of geographical clusters of schools supported by the council.

Questions to consider

Have you challenged your school to consider buying goods and services or carry out joint training with other schools?

What opportunities are there to save money by sharing teaching or non-teaching staff with other schools?

What are the opportunities to buy or sell specialist staff skills between local schools?

Has your school reviewed the costs and benefits of federation or clustering with other schools to achieve possible economies of scale?

What did it find?

7 Using financial information to inform decision making

Governors can challenge school management decisions constructively if they have financial reports that contain relevant, high quality and well presented information (Ref. 2). Good financial reports enable governors to spend less time reviewing details and more time considering the impact of financial decisions. Governors can ask for financial reports that give them a clear indication of the overall financial position of the school, while also focusing on where expenditure on individual items varies from the budget. Large variations should be challenged and reported in the minutes of the finance committee and, in turn, reviewed at the full governing body.

The finance committee needs good information on how spending relates to outcomes. Governors can challenge the school on the financial consequences of decisions to support outcomes for children and young people.ⁱ Governors are well placed to review and challenge the links between good outcomes for pupils and the financial choices of the school.ⁱⁱ

All schools have access to the national financial benchmarking website, allowing them to compare spending with others and identify the potential for savings.ⁱⁱⁱ However, only about half of schools used the national schools financial benchmarking website in the year to July 2008. The benefits of benchmarking come from a comparison with others and understanding why differences exist. Governors can challenge schools to use benchmarking and ensure that significant differences are investigated so that areas of possible savings can be identified.

Questions to consider

How well do you understand the financial reports and performance data you receive?

How do they help you to make decisions about economy and efficiency?

Do you know which areas of spending in your school are higher than in a similar school?

And in which areas is it lower?

Do you know why?

What savings has the school made in the last year?

What further savings can the school make this year?

What was the cost to your school of improving outcomes?

What will the school's future improvement plans cost?

i The Every Child Matters framework gives five priorities: be healthy; stay safe; enjoy and achieve; make a positive contribution; and achieve economic well-being.

ii Resources that can be used include: school improvement partner reports; RAISEonline reports; budget reports; and the Ofsted self-evaluation form.

iii Available at <https://sfb.teachernet.gov.uk/login.aspx>

Developing governor skills

Governors with good financial skills will be well placed to challenge the school to improve value for money. The Audit Commission recommends that all governing bodies can show that members have undertaken financial management and resource training. The National Governors' Association (NGA) considers training should be seen as an entitlement to ensure active governance (Ref. 3). In 2005, financial management training for governors was provided by 94 per cent of councils (Ref. 4).

Recommended resources

- The Financial Management Standard in Schools (FMSiS) includes a skills audit for governors.ⁱ This may be helpful in understanding the skills available to the governing body, and can also be used as an indicator of future governor training needs.
- Governors may find the DCSF value for money unit website useful. It provides access to good practice on value for money and support with strategic planning. <http://www.dcsf.gov.uk/valueformoney/>
- The NGA has signed a national agreement with the Association of School and College Leaders and the National Association of Head Teachers that sets out the essentials of the relationship between head teachers and governing bodies.
<http://www.nga.org.uk/uploadfiles/documents/GovernorsandHeadsfinal08.pdf>
- The GLM Partnership's Governor Mark, a self-review of the governing body's contribution to leadership and management, may also be a useful resource.
http://glmpartnership.org/governor_mark.html

ⁱ Document R20 on FMSiS website <http://www.fmsis.info/uploads/R20.doc>

References

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We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: nationalstudies@audit-commission.gov.uk

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