

## Financial Management in Schools

### 1. Purpose Of The Report

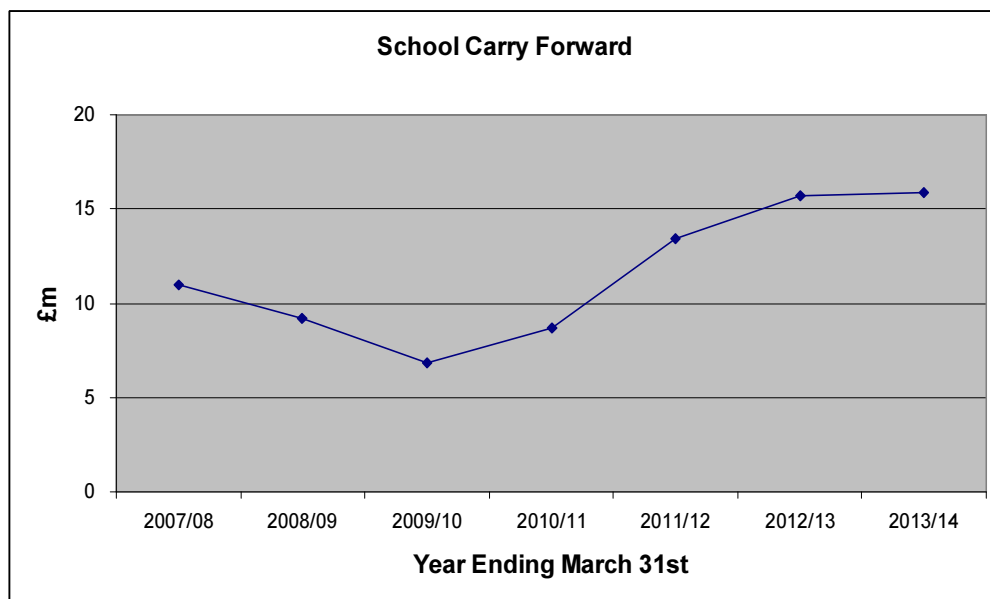
At the Forum meeting on 19 June 2014 the schools' carry forward position was discussed. The report also highlighted the recent press reports regarding poor financial management and probity in schools, particularly in academies and free schools. This reports provides carry forward comparisons with other Local Authorities and then considers actions that could be taken to help schools or allow schools to support themselves.

### 2. Recommendation

- i) The Forum note the position on the benchmarking of the carry forwards
- ii) The Forum agree to setting up on a trial basis a peer review system on schools finance

### 3. Carry Forwards

- 3.1 At the end of the 2013/14 financial year (31 March 2014) the total year end balances in schools was £15.9m. The balance at the end of the previous year stood at £15.7m (31 March 2013). This has stopped the trend of recent years where the carry forward balance in schools was increasing significantly year on year. The amount of funds that are deemed as excess balances (8% of schools budget in Primary and Special schools, 5% in Secondary) has fallen from £5.5m to £4.7m.



As a percentage of the DSG the level of carry forward has fallen between 2012/13 and 2013/14. The figures since 2007 are as follows

Year	Carry Forward	%
	£	
2007/08	£10,984,353	6.3%
2008/09	£9,239,829	5.2%
2009/10	£6,863,450	3.7%
2010/11	£8,671,814	4.4%
2011/12	£13,408,488	6.6%
2012/13	£15,694,267	7.6%
2013/14	£15,875,366	6.9%

**3.2** The average percentage balance for Primary schools is 8% and 3% for Secondary Schools. For schools overall the percentage carry forward is 7%.

**3.3** Schools have the opportunity to highlight amounts that they feel should be taken into consideration when the balances are reported. For example internal payments on PFI schemes, advancements of future years' federation funding and balances held on behalf of other schools. These adjustment total £1.9m. Taking these into account, the balance in schools would reduce to £13.9m

**3.4 Benchmarking Data**

At the current point in time the 2013/14 data has not been published by the Department for Education. The latest data for Inner London Authorities is shown below. The table shows that Lewisham's position compares well with all Local Authorities in London.

**Schools  
Forum  
25 September 2014  
Item 6**

	Total number of schools	Total revenue balance *(£000)	Average revenue balance (£000 per school)	Rank	Total revenue balance as a % of total revenue income	Rank
Camden	56	£14,179	£253	7	8.7%	9
City of London	1	£302	£302	5	14.9%	1
Hackney	66	£22,586	£342	1	12.3%	2
Hammersmith & Fulham	48	£12,465	£260	6	11.4%	4
Haringey	78	£7,174	£92	14	3.5%	14
Islington	56	£10,175	£182	12	6.8%	12
Kensington & Chelsea	36	£8,892	£247	8	10.9%	5
Lambeth	76	£13,880	£183	11	6.7%	13
<b>Lewisham</b>	<b>85</b>	<b>£16,234</b>	<b>£191</b>	<b>10</b>	<b>7.2%</b>	<b>11</b>
Newham	88	£28,296	£322	3	8.7%	9
Southwark	84	£17,195	£205	9	9.1%	8
Tower Hamlets	93	£30,691	£330	2	9.8%	6
Wandsworth	72	£22,105	£307	4	12.2%	3
Westminster	48	£8,465	£176	13	9.6%	7
	887	£212,639	£240			

\*This includes external funds

- 3.5** It would appear from the above that Lewisham benchmarks quite well with other inner London Authorities. That is not to say that we should not continue to review annually the balances position in Lewisham schools.

#### **4. Background – Financial Management in Schools**

- 4.1** There have been a number of issues highlighted in the press recently regarding poor financial management and probity in schools, particularly in academies and free schools. It is probably right that consideration be given to how to help improve and strengthen all schools financial management in all schools.

- 4.2** The DFE now require all Local Authorities to report to them, on an annual basis, instances of fraud within maintained schools.

## **5 Judging the Standard of Financial Management in Schools**

- 5.1** It is difficult to judge the standard of financial management in schools without some form of individual assessment. There is though some evidence readily available that will allow us to draw conclusions. This includes

- Internal Audit Reports
- Schools Financial Value Standard
- Bank Reconciliations
- Budget plans outstanding
- Unexpected deficit carry forwards
- Unpredicted excess carry forwards
- Lateness of returns
- Number of audit recommendations outstanding

- 5.2** A summary of schools performance is shown below

<b>Cumulative carry forward forecast of schools in Lewisham</b>		
	£'000	%
When setting the Budget	6,842	43%
September budget monitoring	10,414	66%
December budget monitoring	12,058	76%
Final Carry forward	15,875	100%
<b>VAT returns</b>	6 out of 12 returns are late	
<b>School Finance Value Standard(SFVS)*</b>		
	Averages per school	Overall Total
Yes	22	1833
Part	1	61
No	0	14
TOTAL	23	1908
<b>Internal Audit Reports</b>		
	Averages per school	Overall Total
Total Recommendations	5	411
High Priority	0	21
Medium Priority	2	151
Low Priority	3	239
	On average 2.3 out of 4 returns are late	
<b>Bank reconciliations returned late</b>	On average 2.3 out of 4 returns are late	
<b>Bank reconciliations not agreed</b>	15	

\* **School Finance Value Standard (SFVS)** is a self assessment questionnaire consisting of 23 questions to evidence the effective financial management of school resources. School Governors have to answer "Yes" they meet the requirement, "no" they do meet the standard or "part" to indicate they are working towards the standard.

The following are examples of individual schools

	<b>School 1</b>	<b>School 2</b>	<b>School 3</b>
<b>Number of Audit Recommendations</b>	5	23	10
<b>Audit assurance level</b>	satisfactory	no assurance	limited
<b>SFVS</b>	22 Yes answers	21 Yes (1 part 1 no)	23 yes
<b>Financial Forecast</b>	£60k surplus January to £50k deficit at year end	£10k forecast to overspend final position £3k overspent	£45k surplus in January to end year position £349k
<b>VAT returns</b>	Half of them late	8 of 12 late	Over half made on time

The question that is difficult to determine is whether this data is sufficient to indicate good or poor financial management. Certainly, it is hard to reconcile a position where an Internal Audit assesses a school as providing “No Assurance” but the Governors assess the school meets 21 of the standards in the SFVS.

## **6. Other aspects**

- 6.1** The financial management discussed above mainly concentrates on system controls and looks at accuracy of forecasting. There are other aspects to ensure the appropriate use of resources. It is more difficult to predict the strength of this within schools. One of the expectations of a finance professional would be the ability to use benchmarking data and to challenge the norm so the most effective use of resource decisions are made. To know the extent to which individual schools can do this is uncertain and no evidence is readily available.
- 6.2** We do know that the performance of a school is often reflected in their cost structure. How widely this is looked at by schools is uncertain. The table below compares the cost per pupil for Lewisham schools who are in the lowest performance quartile with those schools in the highest quartile.

Heading	Lowest quartile of schools performance £	Highest quartile of schools performance £
Teaching Staff per pupil	2790	2868
Supply per pupil	203	154
Education Support Staff per pupil (excl SEN matrix)	1059	995
Admin & Clerical per pupil	274	277
Premises Staff per pupil	184	198
Caretaking and Cleaning per pupil	40	37
Energy per pupil	70	58
Learning Resources per pupil	271	306
ICT Learning Resources per pupil	108	120
Bought in Professional Fees per pupil	63	132

- 6.3** In total cost terms the differences are not in themselves significant but the better performing schools appear to invest less in Education support staff and supply costs and invest the savings mostly in teaching staff but also in curriculum resources and bought in services. This mirrors the data produced by DFE in their report last year. There is some evidence therefore, that a schools with better performance invest in their teaching staff.

## **7. How do we improve financial management?**

In order to answer this we firstly need to assess where room for improvement may lie.

- Is it governors not providing the right challenge?
- Headteachers providing the right challenge?
- Is Audit too system based?
- Are the current central finance support procedures purchased by schools appropriate?
- Are the skill set and mindsets of finance teams within schools appropriate?

It is probably true that all areas could be improved and that marginal improvement in all areas would contribute to a significant impact. It is likely that schools will have different strengths and areas for improvement.

**7.1** With less and less resource there is limited capacity at the centre to provide close scrutiny and the range support that maybe required. There are other approaches that need to be considered.

- Efficiency benchmarking club - this has started but has had little impact to date – and will be re-invigorated.
- Strategic Finance Consultancy service - This maybe helpful in providing an independent view, but there would appear to be insufficient resource to provide a service that could be valued by schools. A service would need to be grown through additional capacity with the risk that schools interest did not cover the costs incurred.
- Peer review with finance professionals across the sectors, drawn from maintained schools, academies and local authority staff. This would bring in an extended range of skills that could combine together to provide a more comprehensive package for schools.

## **7.2 How could a peer review work**

Such a review would entail bringing together a team of finance experts and related disciplines. The structure of the team may consist of a Headteacher, governor, school business manager as well as a finance professional. They would be tasked with reviewing a school by holding discussions with senior staff in the school and governors and providing a report. The aim of the process would be to identify and share good practice in financial management. This would include:

- Governor processes to exercise challenge;
- the use of benchmarking data to drive change;
- the use of unit costs in assessing value for money;
- the approaches to delivering support services e.g. sharing or collaborative arrangements that promote vfm.



A secondary school review may need different personnel to that for a primary review.

The whole process would need volunteers to be involved and in the initial period, it would also require a school willing to be subject to the review. Follow this an assessment would be made of whether this programme could have a wider remit.

## **8. Conclusion**

While the actual performance of schools in terms of financial management is important it is perhaps more important that we should be striving for continuous improvement. The peer review is a way to bring together a multi-disciplinary team that could command respect in schools and provided a well rounded approach. In order to be successful it will need to function on a voluntary basis.

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## **For information**

CIPFA top tips on financial management

### **1. Know who you are employing**

Employing someone who does not have the qualification can lead to both reputational and financial damage. Look out for original documents, proper references on headed paper and check what you are given.

- Check qualifications and references, check employment history.

## **2. Ensure you have the right governance in place to prevent fraud**

Make sure you have written processes in place, staff are trained and understand responsibilities. Put in place checks where finance and payments are involved.

- Spot checks and segregation on duties on pay awards, payroll, claims, and expenses

## **3. Sensible procurement**

Letting contracts, ordering supplies and payments opens the door to opportunities for fraud and corruption if proper procedures are not in place.

- check you have governance in place
- make sure you have declarations of interest, hospitality books and that these are checked
- are contracts split and who is awarding them and what processes are they using?
- check leasing agreements are necessary and genuine
- watch out for photocopier leasing details, this is a common problem.

## **4. Financial management**

Put in place governance over financial agreements, cheque books, income from leasing halls or rooms and what funds are spent on.

- make sure there are checks on payments
- ensure revenue streams are monitored
- watch out for false invoices.

## **5. Mandate fraud**

Make sure if a supplier asks for his bank details to be changed that this is correct and the genuine supplier.

Finally, make sure you have a procedure for staff and governors to report concerns through and that there is an independent route. Publicise the reporting route - and make sure you give staff and governors some basic fraud awareness training.