



The Audit Commission promotes the best use of public money by ensuring the proper stewardship of public finances and by helping those responsible for public services to achieve economy, efficiency and effectiveness.

The Commission was established in 1983 to appoint and regulate the external auditors of local authorities in England and Wales. In 1990 its role was extended to include the NHS. In April 2000, the Commission was given additional responsibility for carrying out best value inspections of certain local government services and functions. Today its remit covers more than 13,000 bodies which between them spend nearly £100 billion of public money annually. The Commission operates independently and derives most of its income from the fees charged to audited bodies.

Auditors are appointed from District Audit and private accountancy firms to monitor public expenditure. Auditors were first appointed in the 1840s to inspect the accounts of authorities administering the Poor Law. Audits ensured that safeguards were in place against fraud and corruption and that local rates were being used for the purposes intended. These founding principles remain as relevant today as they were 150 years ago.

Public funds need to be used wisely as well as in accordance with the law, so today's auditors have to assess expenditure not just for probity and regularity, but also for value for money. The Commission's value-for-money studies examine public services objectively, often from the users' perspective. Its findings and recommendations are communicated through a wide range of publications and events.

For more information on the work of the Commission, please contact:
Andrew Foster, Controller, **The Audit Commission**,
1 Vincent Square, London SW1P 2PN, Tel: 020 7828 1212
Website: www.audit-commission.gov.uk

money matters

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1

Managing Schools Locally, Funding Schools Fairly

Schools' financial responsibilities have grown enormously over the last 12 years. This has posed major challenges for schools, LEAs and government.

2

Getting the Best from School Budgets

Schools have responded well to the challenges of local management, but there are still concerns over how money is managed.

3

Helping Schools to Get the Best from their Budgets

Schools need external support and challenge to manage their budgets. Most LEAs carry out these roles well in relation to financial management, but need to focus more on wider resource management issues.

4

A Fair Deal for Schools?

Overall, the funding system seems to be working but there needs to be greater transparency, and the wide variations in funding should be challenged.

5

The Future of Education Funding

Action is required, but the answer is not the greater centralisation of funding.

6

Moving Forward

Central and local government need to work together, towards a better understanding of their own and each other's roles.

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Preface

The Audit Commission oversees the external audit of local authorities and National Health Service (NHS) agencies in England and Wales. The Commission is also required to undertake studies to enable it to make recommendations for improving the economy, efficiency and effectiveness of the services provided by these bodies, and to comment on the effects of statutory provision or guidance by central government on the economy, efficiency and effectiveness of these agencies.

Over £23 billion will be spent this year on education, and schools themselves will control 82 per cent of it. Over the last 20 months, the Commission has researched how this money is distributed and managed. *Money Matters* explores how schools and LEAs have responded to the fundamental shifts in financial responsibility brought about in the last ten years by local management of schools and Fair Funding. It looks at the extent to which schools have mastered day-to-day financial management and how well strategic decisions on the deployment of resources are made. This report also examines the nature and quality of the support provided by LEAs to help schools manage their resources. It moves on to assess how far the current funding framework is equipped to meet the needs of schools by presenting a detailed analysis of the different decision points in the funding system.

Money Matters is based on fieldwork and research that has been carried out over the last 20 months. The study team consisted of Nick Ville, Michael Carpenter, Sarah Harty and Ruth Liss, under the direction of Peter Thomas and with assistance from Adrian Rowles. Detailed fieldwork was carried out in 10 local authorities, supported by a review of published work in the area and two surveys on aspects of financial management in schools.

In preparing this report the Commission has benefited from the insight and guidance of members of the study advisory group. The Commission is also grateful to the many other people who contributed to the study including headteachers, governors, school staff, local authority staff and numerous other bodies and individuals. However, we would particularly like to acknowledge the close co-operation and assistance of colleagues in OFSTED which led to the related joint publications, *Keeping Your Balance* (Ref. 1) and *Getting the Best from Your Budget* (Ref. 2).

The Audit Commission is also grateful to the bodies and individuals who have given their time to advise and comment on the development of the self-evaluation tools and on drafts of this report. As always, responsibility for its content and the conclusions rest with the Commission alone.

1



Managing Schools Locally, Funding Schools Fairly

Schools now control 82 per cent of the money spent on school education. The new framework has had a significant impact on schools, on LEAs and the way in which schools are funded.

1. Over £23 billion of public money will be spent this year on educating eight million children in England and Wales. Over the last ten years the distribution and management of this vast amount of money has changed out of all recognition. School governing bodies and headteachers now control over 82 per cent (£19 billion) of all money spent on school children [EXHIBIT 1]. The amount of public money involved and the value placed on education makes it vital that this money is spent wisely and to maximum effect. This report examines the impact of the changes on how this money is managed and distributed and asks whether we are getting the best out of the money being spent in schools.

The introduction of local management

2. The last decade has seen a series of major changes to the English and Welsh education systems introduced with the overarching objective of raising educational standards. Less visible to the public, but a significant part of these developments, have been the changes that have taken place in how schools are funded and managed. Until 1990, LEAs managed and controlled the majority of school expenditure, including key resourcing issues such as the number of staff a school needed. The remit of schools was usually limited to a 'capitation' budget to pay for books and equipment – typically less than 5 per cent¹ of the money being spent

I Audit Commission school expenditure database.

II This figure is slightly lower than the 84 per cent delegation figure quoted by the DfEE. This is because the expenditure figures are based on the gross expenditure of LEAs and schools (ie, including specific grants from DfEE and the National Assembly for Wales) and data for Wales is included.

EXHIBIT 1

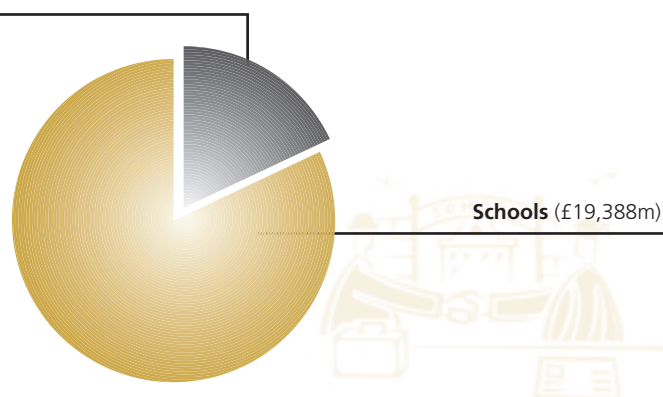
Expenditure on school-age children 2000/01

School governing bodies control over 82 per cent of all money spent on school children.^{II}

Notes: Figures include £1,267 million of specific grant income from the DfEE and National Assembly for Wales which form part of the gross expenditure of LEAs and schools (£1,094 million relates to Standards Fund and Grants for Education Support and Training (GEST). The figures also include the School Standards Grant of £290m announced in March 2000.

Source: CIPFA Education Estimates 2000/01, the Department for Education and Employment (DfEE), National Assembly for Wales (NAW)

LEAs (£4,134m)



on schools. The 1988 Education Reform Act (Ref. 3) heralded the arrival of a major new policy – the Local Management of Schools (LMS). ‘Local management’ aimed to help raise educational standards in two key ways:

- to improve decision making, so that best use would be made of all the money going into education; and
- to make the distribution of resources between schools more needs-led and transparent to ensure a more equitable allocation of resources between schools.

3. How were these aims to be achieved? Decision making was to be improved by delegating to schools as many as possible of the financial and managerial responsibilities previously held by LEAs. Delegation would enable those closest to the day-to-day education of children to deploy the resources available to maximum effect. Schools would have to live within their cash-limited budgets but had the incentive that any savings that they made would belong to the school and could be used for the benefit of pupils.^I To make funding more needs-led and transparent, each LEA was required to develop a funding formula for allocation of school resources that was ‘clear and explicit...and...based on objective needs rather than simply on historic spending’ (Ref. 4).

Improving decisions through delegation to schools

4. Schools have generally welcomed the power to decide how resources should be allocated and managed. Although many headteachers were initially wary of taking on new responsibilities outside their traditional area of professional expertise, few would want to hand back day-to-day control of their budget to their LEA. However, as is the case with other areas of educational performance, schools do vary in how well they manage budgets and resources. Questions have been raised about the volume of money held in balances by some schools and about the proportion of schools (11 per cent) (Ref. 5) in deficit. The findings of school inspection reports, the research of the Funding Agency for Schools and the National Audit Office all identify that some schools could improve their deployment and use of resources.^{II} The Better Regulation Task Force has also questioned whether existing reporting and governance arrangements promote real accountability at school level. Moreover, although local management has brought new powers it has also brought additional work for schools, governors and headteachers.

I Readers seeking further information about the history of LMS and its replacement by Fair Funding are referred to Appendix 1.

II The Funding Agency for School’s VFM unit and the National Audit Office have produced a number of reports on resource management in grant maintained schools.

The impact of local management on LEAs

5. The changes in schools were mirrored in LEAs, who, over the last ten years, have been expected to rethink their role and focus on more strategic activities. The introduction of formula funding has led LEAs to review how resources are allocated to schools while delegation targets have challenged them to put more control and money into school hands, including decisions over what services the LEA themselves should be providing. LEAs have had to change from a hands-on role to monitoring and challenging school decision making and providing support services for schools to purchase. Inspections in England have shown a range of good and bad practice in how LEAs have responded to the challenge.

Making funding fairer

6. Local management has led to greater transparency in how education resources are allocated. It has also led, in some LEAs, to schools being more closely involved in decisions about how much is spent and how it is distributed. Nonetheless, funding remains a highly charged topic. Government has published comparative tables of LEA expenditure to exert pressure on LEAs to pass more money on to schools. LEAs have expressed concern that central government spending assessments are unfair (Ref. 6) and, in the case of England, understate how much should be spent on education. There have also been concerns about the variations in funding per pupil between schools. A number of organisations have called for greater national consistency, with some asking for a single national funding formula. Options for changing the funding system have recently been published in both England and Wales (Ref. 7 and 8).

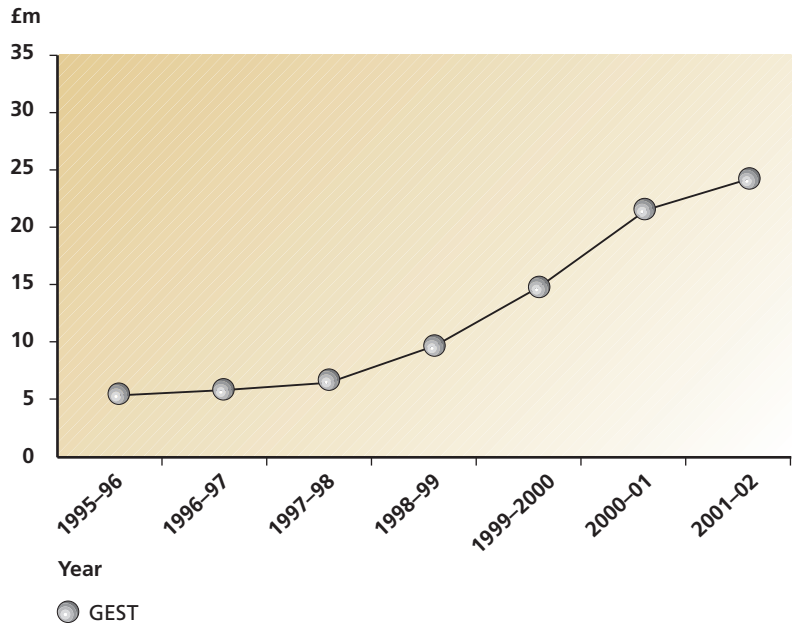
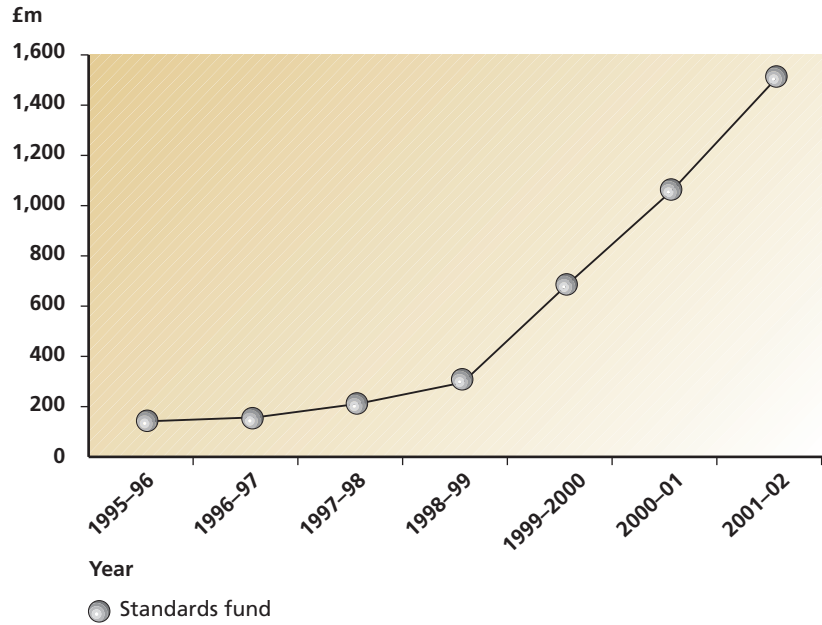
7. Another key change has been the significant growth in the number and value of funding streams controlled by government, in particular the Standards Fund in England and Grants for Education Support and Training (GEST) in Wales [EXHIBIT 2, overleaf]. Central government now directs how over £1.9 billion¹ or 8 per cent of all money spent on educating school-age children in 2000/01 is spent. In many respects schools have welcomed such funding because it has helped support initiatives such as the literacy hour. But it has also brought problems. The fairness of how funds have been distributed has been questioned and the administration of a 'plethora of funding streams' (Ref. 9) has not been easy. In response to some of these criticisms the Standards Fund for 2001/02 has been streamlined.

¹ This figure includes the matched funding provided by LEAs.

EXHIBIT 2

Standards Fund and GEST

Standards Fund and GEST grants have increased significantly in recent years.



Notes: The figures are for grant aid only and do not include contributions from LEAs. The DfEE and NAW estimate that LEAs will provide matched funding of £638 million or 37 per cent of all Standards Fund and GEST expenditure in 2000/01. All figures are for revenue expenditure only. The above figures do not include the School Standards Grant announced in March 2000.

Source: DfEE and NAW

Taking the debate forward

Although local management is now an established feature of the education system in England and Wales there are still problems to be overcome.

8. Education decision making and funding have changed markedly over the last decade. Although local management is now an established feature of the education system in England and Wales there are still problems to be overcome. Against this background, *Money Matters* asks:

- *How well are schools managing their resources?* How good is basic financial management and control? How are schools using their budgets to deliver improved standards and other priorities? (Chapter 2)
- *Do schools get the support and challenge they need to manage their budgets?* Is adequate support available to help schools manage their resources? What external challenge is provided to schools' resource management? (Chapter 3)
- *Do schools get a fair deal from the funding system?* How transparent are funding allocations? Do they reflect the needs of different schools and children? (Chapter 4)

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Getting the Best from School Budgets

Day-to-day financial control in the majority of schools is sound, and schools are good at identifying their priorities for improvement. However, some schools need to adopt a more strategic approach to their management of resources.

As their financial responsibilities have increased, schools have been under pressure to get the best from their budgets.

9. In order to deliver the best possible education to their children, a wide range of choices have to be made by schools: How many teachers do we need? What mix of skills and experience? How many support staff? How should they be deployed? What range of subjects can be offered? What learning materials do we need? What should be invested in the school buildings and how can best use be made of them? How can we get best value from the goods and services we need to purchase externally? ‘Resource management’ – in other words, the way in which these choices are made – is an essential part of school leadership and management.

10. As their financial responsibilities have increased, schools have been under great pressure to get the best from their budgets:

- The government has expressed high expectations of the capacity of schools to use both their delegated powers and increased resources to deliver higher standards.
- Schools have been under considerable pressure to improve performance – from school inspections, the publication of examination results, expectations of governors, parents and others.
- Many schools now have control not just over their staff and equipment, but, under Fair Funding, over how they use and pay for many of the services traditionally provided by LEAs (such as school meals and buildings maintenance).
- Schools have had to cope with the increased use of short-term and earmarked funding streams.
- The costs of teaching and maintaining premises place heavy demands on school budgets and require a long-term outlook. Careful planning is required to make best use of such resources.

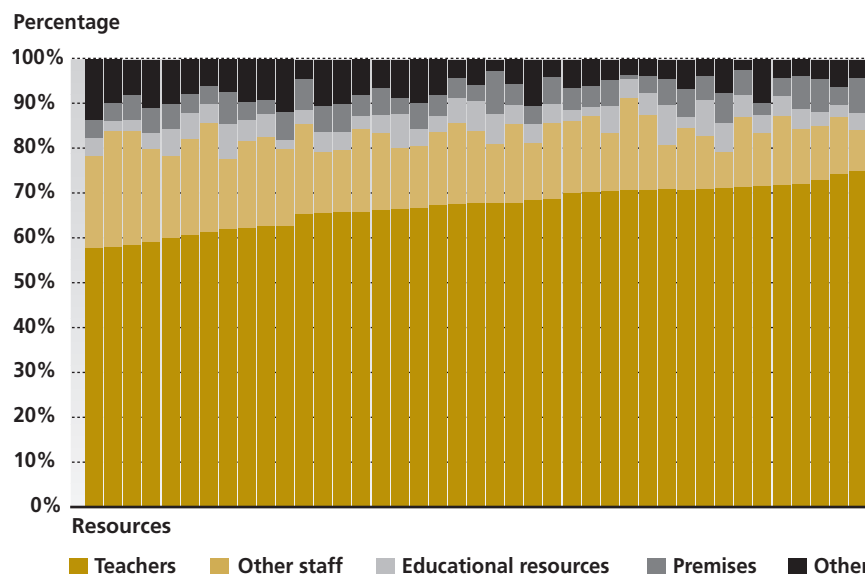
11. There is no blueprint for the mix of resources that will bring about effectiveness and improvement – no single right ‘resource mix’. Even schools in similar situations will make very different choices – basing their decisions, for example, on the condition of their buildings or the levels of experience of their staff [EXHIBIT 3, overleaf]. Government has issued guidance over matters such as class sizes and the use of particular earmarked monies, but overall there is little conclusive research over ‘what works’ and no magic formula by which to make resource decisions. Instead, effective resource management relies on the quality of judgement exercised by the headteacher and governing body about where best to target resources.

12. Effective resource management enables schools to link ‘what they want to do’ to the resources they have available. It ensures that a school’s expenditure aligns with its objectives and that plans are sustainable in the light of their current and future financial position. On the other hand, this study found that poor strategic management of resources can have serious consequences [TABLE 1, overleaf].

EXHIBIT 3

How schools deploy their resources

Similar schools make different choices about how to use their resources.



Note: Primary schools: 250–400 pupils, 8–12% pupils, eligible for free school meals, 12–18% SEN.

Source: Database used for the Audit Commission’s Schools Financial Comparisons website

TABLE 1

The impact of poor resource management

Problem area	Examples
Forward planning	<ul style="list-style-type: none"> Poor staff-planning in relation to predicted falling pupil numbers led to crisis cuts in staffing and damage to staff morale. Failure to look at all options led to a cut in staffing which had to be reversed. As a result, there was a negative impact on staff morale and the quality of teaching. The school development action plan had to be abandoned mid-year due to a failure to anticipate the impact on income of a predicted drop in pupil numbers.
Planning of support	<ul style="list-style-type: none"> Slimming down the senior management team to save money resulted in increased workloads and pressure on remaining managers. One headteacher took on administrative tasks due to an inadequate level of administrative support and then found that this compromised their professional role. An over-reliance on voluntary work from secretaries/administrative staff.
Overstaffing	<ul style="list-style-type: none"> Maintaining high levels of staff at the expense of building repairs and learning resources had an impact on the quality of education. Instead of addressing the difficult issue of overstaffing directly, the school simply waited for someone to retire.
Committing to unsustainable developments	<ul style="list-style-type: none"> Classroom support was funded for classes in one year group without considering whether funding could be sustained beyond that year.

Source: Audit Commission fieldwork and resource management survey

How well are schools managing their resources?

13. To understand how well schools are managing their resources this chapter focuses on the management processes underpinning school decision making. These include how priorities are identified, how available resources are identified, how schools decide what to do, what goes on in day-to-day financial management and how schools evaluate the impact of spending decisions [EXHIBIT 4].

EXHIBIT 4

The key steps in school resource management

Resource management enables schools to link their priorities to the resources they have available.



Source: Audit Commission

14. This chapter will look at each of these steps in turn, drawing in particular on the results of a national survey of 400 schools about their resource management, as well as detailed interviews with headteachers, governors and support staff at the 35 schools visited during the study. It goes on to identify how barriers to effective resource management operate, and how some schools have overcome them to get more from their budgets. It will also highlight where and why support and challenge are sometimes needed from outside the school in order to ensure the efficient and effective use of public money.

Identifying priorities

15. Priorities for school improvement are identified in a number of ways:

- government has set demanding national targets to raise standards;
- further local targets are set in their LEA's Education Development Plans (in England) or Education Strategic Plans (in Wales);
- areas for improvement can be highlighted by school inspections, by a school's own self-evaluation work or through identifying the needs of individual pupils; and
- many schools are involved in local initiatives related to employment, regeneration and cutting crime.

16. Most schools cope well with these demands. In his 1998/99 annual report, Her Majesty's Chief Inspector of Schools in England reported that 'Clear educational direction is now provided in almost two-thirds of schools'. Schools review information from a range of sources (the DfEE, National Assembly for Wales, OFSTED, their LEA and schools' own data) to compare their results against other schools and national targets. A number of schools were making use of 'value-added' information to measure pupil progress and identify more closely where improvements were needed. Most also have mechanisms in place to consult on priorities with staff. However, the survey did find some variation in the extent to which governors were involved – 55 per cent of headteachers recognised that the principal responsibility for identifying and agreeing priorities lay with governors, while 45 per cent stated that they only consulted with them.

'Clear educational direction is now provided in almost two-thirds of schools.'

Financial planning

17. Once priorities have been identified schools need to determine what resources can be made available to meet them. They need to establish a clear picture of the total income available to the school (from all sources) and the likely demands on those resources (such as committed expenditure on staff and buildings). This is necessary as part of annual budget preparation as well as for planning in the longer term. While all the schools visited had established routines to put their annual budget together, some schools did not challenge existing spending patterns sufficiently:

- In two of the LEAs visited some schools accepted ‘indicative’ budgets prepared by their LEA with little question, although the LEA calculations were based mainly on broad averages and took little account of individual school circumstances.
- Only half the schools who were provided by their LEAs with financial benchmarking data were actively using it.

18. Most schools make some attempt at medium-term planning – for example, all schools make regular use of pupil projection figures (the key determinant both of a school’s budget and the demands on it) and 67 per cent have development plans covering at least three years. However, fewer had plans in place to look in more detail at what they needed to spend in the medium term (taken to be three years or more): only 13 per cent have asset replacement plans; only 24 per cent have redecoration/repair plans; and only 12 per cent have costed staffing plans. Since staffing and premises costs take up the majority of schools’ budgets they are areas which need medium-term planning. Any indications that staffing levels may need to change have to be considered well in advance if appropriate action is to be taken.

19. Schools with effective resource management strategies have a detailed one-year development plan, which incorporates resource implications in detail, supplemented by a three-year outline of future needs, priorities and costs. This enables them to form a long-term view of how priorities will be delivered within the resources available. One school visited used a detailed analysis of its future pupil numbers and class organisation to foresee the need to make a redundancy and plan for it constructively. A number of schools were making effective use of spreadsheets to help them plan and make decisions, by enabling headteachers and governors to analyse in detail the medium-term financial implications of different options.

Linking priorities to resources

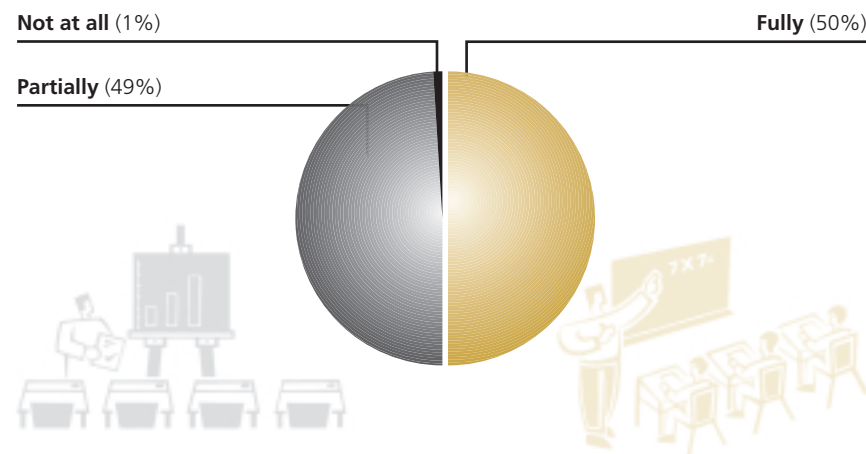
20. Although most schools have clear priorities, and most have processes in place to set their budgets, they are less good at making a link between the two. This is partly attributable to the historic division between the school development plan (SDP) which was originally designed to address only new curriculum developments and the budget, over which schools originally had very limited control. Some schools have not yet managed to integrate their development planning with their budget setting. The resource management survey revealed that only 50 per cent of headteachers felt that these links were fully in place [EXHIBIT 5]. Problems identified during the study included:

- failure to link development planning and budget planning cycles, resulting in the setting of budgets before action plans agreed;
- budget responsibilities divorced from strategic school management: the manager in charge of the budget had little (or no) input to the SDP;
- SDP action plans with spending implications were not costed; and
- where action plans are costed, there was no indication of where the sums involved had been included in the budget.

EXHIBIT 5

How well is your SDP linked to your budget?

Only 50 per cent of headteachers felt that these links were fully in place.



Source: Audit Commission survey of resource management in schools

...schools also need good financial management and control during the year to get the best from their resources.

Day-to-day financial management

21. Most of the decisions considered so far are taken before the start of the financial year. But schools also need good financial management and control during the year to get the best from their resources. Site-visit evidence suggested that basic controls, for example for purchasing, income and banking, are sound in most schools. That said, the study found that internal audit sections across several fieldwork authorities had found significant weaknesses in the control at public money in 7 to 15 per cent of schools – particularly significant given the amount of public money in school hands.¹ The most common areas of concern related to asset registers, voluntary funds, purchasing arrangements, corporate governance and the separation of duties.

22. Most schools were successfully monitoring their expenditure either by creating their own reports, or by using information provided by the LEA. However, some schools lacked the expertise to extract clear and meaningful monitoring reports from their financial software, which left governors unable to adequately monitor the situation.

Evaluation of impact

23. The evaluation of spending decisions provides schools with important information for future decisions. Did an injection of funding bring about the desired improvement? Should it be repeated? Did it provide value for money? What lessons can be learnt for the future? Many schools appear to have limited strategies for evaluating the impact of their spending decisions [EXHIBIT 6]. Most involve governors in evaluating the achievement of objectives in the SDP, but fewer review these decisions in terms of their cost or clear, quantitative targets for what spending was intended to achieve.

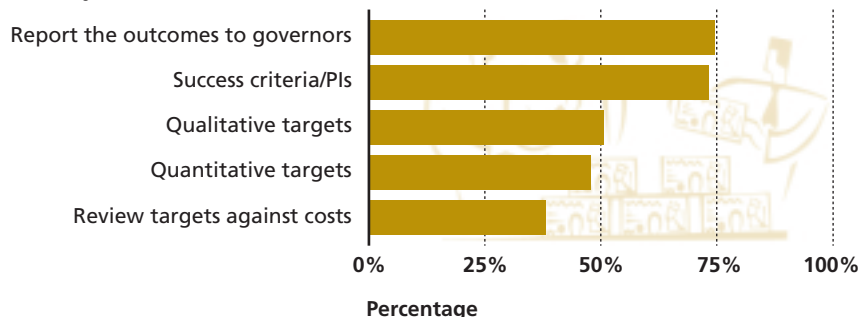
¹ The role of Internal Audit in checking school financial management and control is discussed further in Chapter 3.

EXHIBIT 6

Strategies for monitoring the impact of spending

Many schools have limited strategies for evaluating the impact of their spending.

How do you monitor and evaluate?



Source: Audit Commission survey of resource management in schools

Schools need to do more than just balance the books...

Barriers to effective resource management

24. Evaluating the impact of spending decisions is particularly difficult where the link between the SDP and the budget is not explicit. Few schools have set up systems that would enable them to track expenditure on particular initiatives. In addition, many SDPs contain success criteria that do not easily lend themselves to measurement. Consequently, governors are unable to challenge the way in which resources have been used by comparing outcomes to costs. Without strategies for evaluation, schools may repeat ineffective or inefficient patterns of expenditure, therefore misapplying resources which could be redirected to better effect. However, some schools use more effective evaluation strategies. One school visited had approved funds to buy books to encourage boys' reading. By monitoring library use, the school was able to adjust the mix of books to get maximum impact, and by evaluating spending at the end they were able to demonstrate to governors the success of the scheme.

25. Most schools and LEAs have coped well with delegation. However, the demands being placed on schools mean that they need to do more than just balance the books. Some schools are getting to grips with more strategic resource management issues, but a number of barriers exist which prevent others taking this more sophisticated approach.

Funding levels and uncertainty

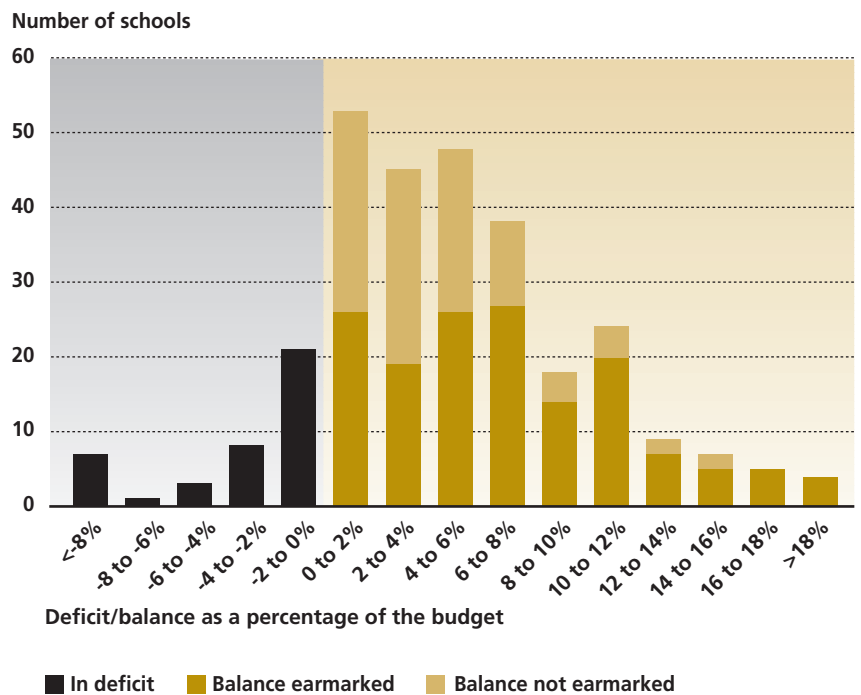
26. Some of the most common reasons given by headteachers for limited medium-term planning relate to funding. A number of headteachers commented that funding uncertainty makes planning difficult. This uncertainty will be discussed further in Chapter 3 (in relation to when LEAs notify schools of their budgets) and in Chapter 4 (in relation to earmarked funding). Some also commented that they had insufficient 'spare money' to make planning worthwhile. Yet, other headteachers recognised the importance of effective resource management in dealing with these situations: when resources are short it is particularly important to ensure that best use is made of what is available; and when funding is uncertain it is particularly important to plan ahead.

27. The study did find evidence that some schools could free up extra money by looking more closely at their current use of resources. Some schools do not challenge existing expenditure patterns effectively (see paragraph 17), and hence may be missing the opportunity to redirect resources. In addition some schools could be making better use of money held in balances. Schools hold an estimated £600 million in balances nationally. The resource management survey found that in nearly one-half of schools surveyed the balances were not earmarked for anything more than ‘contingencies’ or ‘staffing issues’ including some schools with significant balances [EXHIBIT 7]. The survey also found that a number of schools with balances in excess of 6 per cent still described their financial position as ‘difficult’.

EXHIBIT 7

Levels of school balances

Some schools with significant balances do not earmark them for a particular purpose.



Source: Audit Commission resource management survey

Administrative support and headteacher time

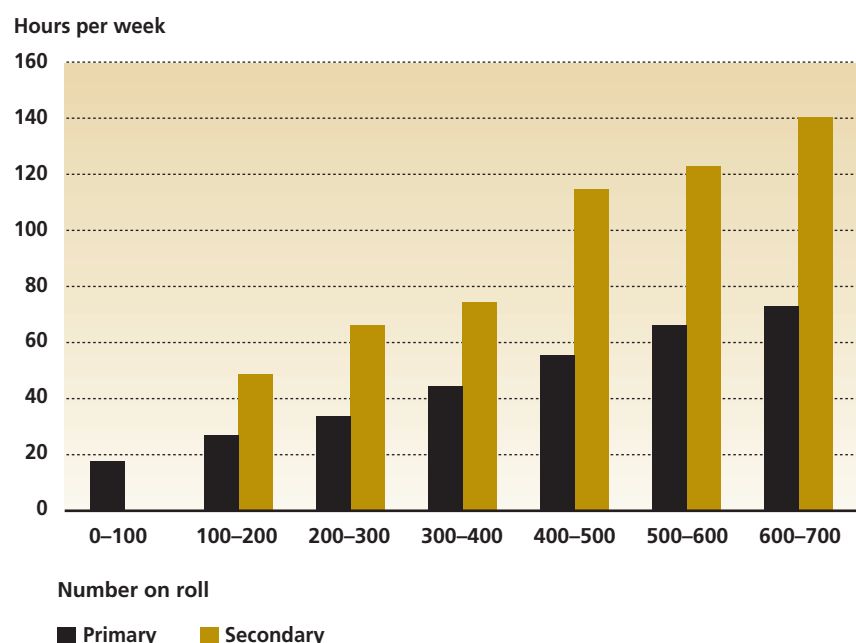
28. For many schools a key barrier to more proactive management of resources is time. Headteachers face many competing demands on their time, not the least of these is to monitor and support the work of teaching staff. Some headteachers visited during the study reported that they had insufficient time, for example, to pursue value-for-money issues or research beyond their own LEA for alternative providers for services. In many primary schools, in particular, this pressure is compounded by low levels of administrative support, leaving headteachers to carry out routine tasks. On average, primary schools have little more than half the level of administrative support available to similar-sized secondary schools [EXHIBIT 8]. The study also visited schools where headteachers had a significant teaching commitment and yet had little administrative support – and in some cases none.

29. As a result, such schools had particular difficulty in dealing with their delegated responsibilities. Many reported that they have had limited benefit from the latest round of delegation: some have not had the time or support to properly exercise the extra choices they had been given; others expressed concerns that rather than cut red tape, such measures had simply moved it into schools.

EXHIBIT 8

Administrative support in primary and secondary schools

Primary schools have little more than half as much administrative support as secondary schools of similar size.



Source: Database used for Audit Commission schools financial comparisons website

One of the results of the historic divide between budget building and school development planning is that support for resource management is relatively underdeveloped.

Lack of information

30. Effective resource management requires effectively presented information, the lack of which was seen to cause considerable problems at some schools. Effective financial information (such as benchmarking data, costings of action plans and monitoring reports) can help schools and governors challenge expenditure.

31. The quality of planning at some schools was hampered by poor use of information communications technology (ICT). At a number of schools the bulk of budgetary planning was done by hand on paper – a situation actually encouraged in one LEA where financial support staff had only limited access to ICT themselves. But some schools were able to make effective use of ICT, by building models for managing expenditure on staffing, premises and assets in the light of their future financial position. This enables them to address problems before they get serious or to spot opportunities for positive action.

A neglected subject?

32. One of the results of the historic divide between budget building and school development planning is that support for resource management is relatively underdeveloped. Many headteachers have had little training on how to manage resources prior to taking up their posts, although this situation is now being remedied through the National Professional Qualification for Headship (NPQH). Indeed, the NPQH training module on financial management is more in demand than the other optional elements of the training. Although LEAs run some in-service training courses on financial control and administration, the strategic management of resources receives little attention. In particular, there is limited training or support available to governing bodies in this area.

33. There was little evidence of LEAs providing other support to help schools with these tasks. While some LEAs produced guidance which mentioned linking the SDP to the budget, few effectively explained how this could be achieved. Schools also receive little external challenge to their resource management decisions from their LEAs. All LEAs have an advisory service (sometimes called internal inspection) whose role includes giving advice and training to schools on educational matters, and from whom each school is usually assigned a ‘link adviser’. Link advisers, when visiting schools as part of their education monitoring role, rarely look in detail at how the school’s budget is being spent. However, the study did find that some LEAs were beginning to remedy this situation by building links between their finance departments and advisory services (discussed further in Chapter 3).

Building resource management capacity

34. While some of these barriers are outside the direct control of schools (and will be discussed further in subsequent chapters) there is much that can be done by schools to improve their resource management. The experiences of successful schools show that good planning systems can lead to the more effective use of resources [CASE STUDIES 1 and 2].

CASE STUDY 1

Linking the budget to the school development plan – The Chase School

Background The Chase School, Malvern, is a mixed secondary school which gained Technology College status in 1999. It has 1714 pupils on its roll, with 331 pupils in the sixth form, and an annual budget of £3.5 million.

The school was singled out in HMCI's Annual Report for 1995/96 as providing top quality education.

The school's development plan highlights 'strategies for providing finance for priority areas' as vital to the success of the school and recognises the need to reconcile departmental requirements with cost implications. The school produces a Financial Services handbook for staff which sets out roles and responsibilities for managing the budget. There is a clear emphasis on ensuring that there is a link between planned expenditure and the school's development plan.

The budget has four major subdivisions: staffing, supplies and services, premises and contingency.

The supplies and services budget is further broken down into bursary costs (a number of day-to-day administrative costs), curriculum support (library, ICT etc), available for departments and the bidding pool. The bidding pool is used to fund new departmental initiatives or for the upgrading of major items of equipment, for example a new Key Stage 4 programme of study and the purchase of ICT equipment. Heads of department bid for funds via their financial planning sheet and the Senior Management Team rank the bids and funds are allocated appropriately. The system is open and transparent.

A proforma for departmental spending plans prompts them to identify:

- how resources will be used;
- whether they are replacement or new items;
- whether they are essential, important or desirable;
- accurate costs of resources requested; and
- other running costs.

Allocations are made to departments based on the needs identified through spending plans as well as factors for pupil numbers, Key Stages and subjects. These factors are reviewed annually to ensure that changing needs are taken into account.

Heather Williamson, Chair of Governors of The Chase says that: 'The Chase governors have been amazed and delighted at the way the school has been able to finance growth and development in staffing, pupil services, curriculum and premises areas during recent lean years. The accounting is transparent and the allocation of funds is appropriately weighted to enable new initiatives. The appointment of the best staff has never been inhibited by financial considerations.'

CASE STUDY 2

Preston Manor High School, Brent

Over a period of six years a secondary school has radically adjusted its resource allocation to focus on the school's priorities. A number of key changes have resulted.

Expenditure on energy and cleaning has been progressively reduced over several years by improvements to school buildings and reviewing value for money. The money released has resulted in a threefold increase in departmental allowances and substantial additional expenditure on books. The OFSTED school inspection report acknowledged that this made 'a significant impact on learning' (Ref. 10). The school has also undertaken a detailed review of administrative support. This identified efficiency improvements and the need to increase the amount of support available so as to reduce burdens on teaching staff. The roles and responsibilities of senior teaching staff have also been adapted to better meet the needs of the school.

Underpinning these improvements in resource management have been improvements in the management capacity and processes of the school. A programme to develop the skills of middle managers has been developed using the Industrial Society. Short-term secondments to senior management positions are also available to help develop skills. A clear process for allocating resources to priority areas has also been established. This starts each year with each head of department analysing performance and how well resources were used in the previous year. This is presented to the Senior Management Team and considered alongside bids for resources for the coming year. Allocations to departments are not fixed and vary over time according to the changing needs of departments. Decisions about how resources are to be allocated are taken by the whole management team with the head and governing body giving final approval.

Getting the right support for resource management is a key factor for success.

35. All schools use self-evaluation to drive improvements in standards. However, schools are less used to including financial considerations in their self-evaluation/self-improvement cycles. In a sense, strategic resource management is about making this link. The Audit Commission's website for schools (www.schools.audit-commission.gov.uk) has three tools designed to help headteachers and governing bodies to improve their financial and resource management:

- **Controlling school finances** – based on an updated version of *Keeping Your Balance*, a set of financial standards for schools developed in conjunction with OFSTED (Ref. 1). This tool enables schools to explore how well they meet the standards and what they need to do to improve their financial control and administration. It contains a range of good practice examples, for example a model budget report. It will also give governors an insight into the practicalities of school financial management and an indication of the kind of financial information that they need to discharge their strategic financial responsibilities.
- **Managing school resources** – based on a newly devised set of principles for effective management of resources – *Getting the Best from Your Budget* – formulated in partnership with OFSTED (Ref. 2). In addition to self-evaluation questions and action plans, the tool contains a year planner to promote the linkage between school development planning and budget setting and improve forward planning. It should also help schools to respond to the latest demands being placed on them: to deal with additional delegated responsibilities and to demonstrate how they have taken into account the principles of best value in their school development planning.¹
- **Schools financial comparisons database** – over 4000 schools' financial data is contained in this database. Schools can challenge their expenditure patterns by selecting their own 'family' of schools for comparison and printing off reports for review by governors.

36. Getting the right support for resource management is a key factor for success. But the solution will be different for different schools. The way responsibilities are split between governors, the headteacher, senior management team, support staff and external support will be different depending on school size, resources available and the experience of staff and governors.

37. Some schools have seen significant gains from sharing the resource management workload. For example, choosing to broaden the senior management team rather than replace a departing deputy headteacher helped one headteacher to share this workload and to provide opportunities to develop staff leadership and management capabilities. Schools with bursars identified the positive contribution made by having someone with time to dedicate to managing resources, in a sound position

¹ All schools in England and Wales were sent published versions of the principles and standards (published jointly by the Audit Commission and OFSTED and Estyn/National Assembly for Wales respectively) (Refs. 1 and 2) in October 2000.

to monitor the overall financial strategy of the school and who can help them to cope with the additional delegated responsibilities (such as dealing with contracts). However, some schools reported that other pressures had led to drops in the level of administrative support in favour of appointing classroom support staff. The current DfEE review of school administration arrangements (looking at models such as schools sharing bursars) provides a valuable opportunity for government to clarify how it expects schools to deal with additional delegated responsibilities.

38. Governing bodies have a central role in and responsibility for the effective use of resources – identifying and agreeing priorities, deciding what action should be taken, monitoring and evaluating the outcomes and holding the school management to account. Lack of full governor involvement can deprive schools of a potentially invaluable source of guidance. Levels of involvement can be influenced by the quality of financial information available but there are also problems in recruiting governors with the relevant experience to challenge how resources have been allocated. Recent research has shown that governors with business backgrounds can be important in bringing a fresh approach to resource allocation, unbiased by historical considerations (Ref. 11). Many schools and LEAs need to review the information, continuing support and training they provide to governing bodies to ensure that they can fulfil their role effectively.

Conclusion

39. Schools are coping well with many of the demands placed upon them, and overall they have responded well to the demands of LMS and Fair Funding. Most schools have in place sound systems of financial management and are beginning to get to grips with self-evaluation, using their SDPs to focus on areas for school improvement. Delegating resource allocation decisions to those managing the learning process day-to-day has, in many schools, led to improvements in the use of resources for school improvement. However, there is still some way to go. A minority of schools have weaknesses in their financial control systems – a significant concern given the amount of money managed at school level. Lack of administrative support and competing demands on headteachers' time have prevented some schools from planning their resources strategically and has left them unable to discharge delegated responsibilities effectively.

40. Schools need to adopt a more sophisticated approach to managing their resources. By better linking financial planning to improvement priorities, schools will be better able to focus resources in line with their priorities. With increased expertise and with greater access to better information and support, schools will build both their capacity for long-term planning and their belief in its value.

41. This chapter has concentrated on schools. But it has also shown the need for external support and challenge for resource management. The next chapter looks at how effective support and challenge can help schools manage their resources and ensure the effective use of public money.

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2

Getting the Best from School Budgets

Schools should:

- 1 Challenge the school's financial and resource management performance, making best use of tools such as the Audit Commission's websites.
- 2 Use the school development plan (SDP) to focus resources onto priorities by building links between the SDP and financial plans.
- 3 Plan ahead better, despite future uncertainty, by taking a 3-year view of the resources available to the school (income) and the likely demands on those resources (staff, premises, costs).
- 4 Set clear targets for what major spending decisions are expected to achieve, using them to evaluate performance.
- 5 Enable governors to scrutinise and support by providing sufficient information and choice.
- 6 Review the support for financial management in order to ensure that headteachers have time to plan ahead.



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Helping Schools to Get the Best from their Budgets

The main responsibility for managing resources rests with schools, but schools need external challenge and support to safeguard public money and to get the best from their budgets. Many LEAs carry out these functions satisfactorily in relation to financial management. They do not, however, generally question wider school resource management issues.





42. The previous chapter concentrated on the school’s role in managing its resources. But the quality of financial and resource management in schools is also influenced by the information, monitoring, challenge and support they receive from elsewhere.

43. LEAs provide much of the external support to schools. They also have key responsibilities to provide information and carry out a range of monitoring and challenge activities [EXHIBIT 9]. As a result this chapter focuses on the contribution of LEAs to helping schools get the best from their budget.

EXHIBIT 9

Helping schools get the best from their budgets

LEAs provide a range of support, monitoring, information and challenge to help schools get the best from their budgets.

EXAMPLES	
 <p>INFORMATION</p>	<ul style="list-style-type: none"> • Notifying schools of their budget • Providing expenditure information and benchmarking data
 <p>MONITORING</p>	<ul style="list-style-type: none"> • Monitoring expenditure and balances • Agreeing deficit recovery plans with schools • Internal audit work on probity and financial systems
 <p>CHALLENGE</p>	<ul style="list-style-type: none"> • Challenging spending patterns • Challenging resource mix and financial decision-making processes
 <p>SUPPORT</p>	<ul style="list-style-type: none"> • Providing help with financial administration • Training courses on financial and resource management • Providing advice on resource management

Source: Audit Commission

44. The inspections carried out jointly by the Audit Commission and OFSTED have found most LEAs have a sound approach to supporting and regulating financial management in schools. Inspections have, however, revealed a mixture of strengths and weaknesses in this area [EXHIBIT 10]. This chapter explores these issues further, drawing in particular on surveys of headteachers' views carried out in 1400 schools across 25 LEAs in England and Wales.¹

Informing, monitoring and challenging

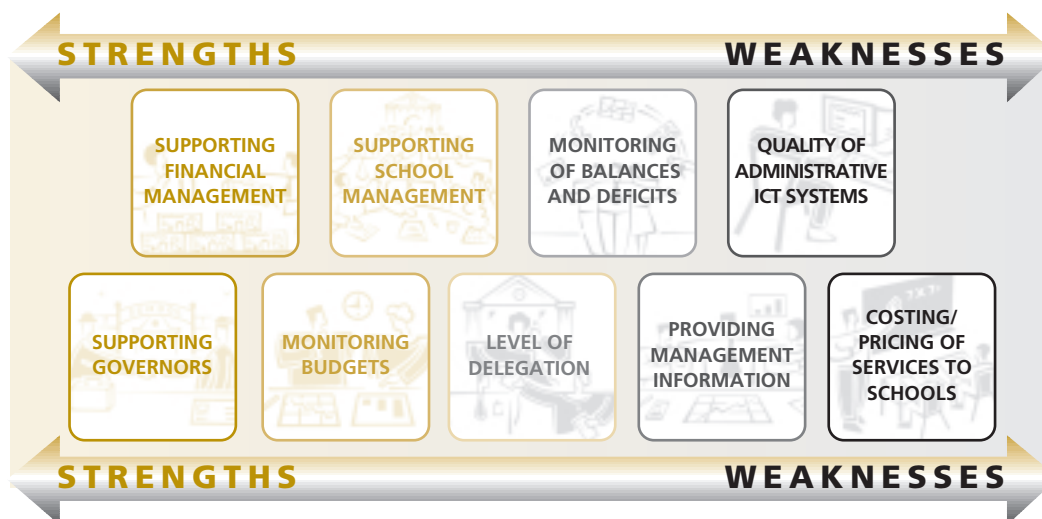
45. LEAs carry out a range of activities that inform, monitor and challenge school resource management. It carries these out in relation to a range of statutory duties, such as ensuring public money is secure and dealing with schools facing financial difficulties. These activities are paid for and controlled by the LEA itself.

¹ This is a different survey from that used in LEA inspections and was designed to probe the issues relating to school budgets in more detail.

EXHIBIT 10

Inspection findings on LEA support for school resource management

Inspections have revealed a mixture of strengths and weaknesses.



Source: Analysis of 50 LEA inspection reports published between 1/1999 and 8/2000

Proactive budget monitoring can help to ensure that schools struggling to balance their budgets...are identified before problems escalate...

Information for schools

46. LEAs carry out most of their information management roles satisfactorily. For example, over three-quarters of schools surveyed were satisfied with the quality and timeliness of expenditure information from their LEA. However, the study did find some problems.

47. Schools need sufficient notice of their annual budget allocations in order to set their budgets. Almost a half of schools were dissatisfied with how much notice they were given. The date schools received notification of their budget varied between LEAs from late February to late April (although most met the 31 March deadline, by which time LEAs have a statutory responsibility to inform schools). Some LEAs have responded to these concerns by issuing shadow or indicative budgets three to four months before March. The strong financial position of one LEA has enabled it to help schools plan ahead by providing shadow budgets covering the next three years. However, the timing of the Revenue Support Grant (RSG) announcements prevents LEAs from notifying schools of their final budget allocation much earlier than the end of February.

48. The ineffective use of ICT can also lead to problems. In some cases poor ICT systems led to problems producing accurate and timely expenditure information as well as problems reconciling school and LEA records. Effective ICT links enable school and LEA records to be automatically reconciled.

49. A further issue was the provision of benchmarking information. Comparative expenditure data can help schools to identify and question unusual expenditure patterns. In practice, however, only half of schools surveyed received such information from their LEA. The Audit Commission financial comparisons database (described in paragraph 35) as well as work to standardise financial definitions across LEAs, should help improve this situation.

Financial monitoring and internal audit

50. LEAs have a responsibility to spot schools with financial difficulties and to advise on prompt remedial action. Proactive budget monitoring can help to ensure that schools struggling to balance their budgets or carrying deficits or excessive balances are identified before problems escalate, necessitating more drastic action. Nonetheless, this was one of the areas where there was very wide variation in practice. Whereas some education finance sections simply monitored bottom-line budget figures annually, others looked at individual budget lines quarterly. Some LEAs had formal investigation criteria if balances fell below or exceeded set thresholds, but others did not. LEAs also had varying attitudes to monitoring schools' voluntary funds. Some LEAs actively sought audit certificates for school voluntary funds, while others felt that this was outside their remit [BOX A].

51. Internal audit forms an important part of the LEA's monitoring and challenge role, particularly given the weaknesses in financial control in a minority of schools discussed in Chapter 2. Local authorities are required to maintain 'an adequate and effective system of internal audit of their accounting records and systems' (Ref. 14). Internal audit reports its findings to the local authority as well as to schools and governors to help them in the discharge of their responsibility for the management of school finances. Most internal audit sections fulfil these responsibilities by a cyclical programme of audit visits to schools. On average primary schools are audited every four years and secondary schools every two years – often timed to take place shortly before a school inspection by OFSTED or Estyn. However, the study found much variation in practice. Secondary schools in some LEAs are audited only every four years, even though their budgets can be very large – typically over £2 million [EXHIBIT 11, overleaf]. This reflects, in part, the limited use of risk-based approaches to targeting audit effort in schools.

BOX A

Voluntary funds

Voluntary funds are a difficult area. Technically such funds are beyond the remit of the LEA as they are private funds. Since, however, a large proportion of frauds uncovered in schools relate to voluntary funds, their proper regulation is imperative. Charity Commission regulations stipulate that voluntary funds have to be independently audited. The Standards and Framework Act 1998 gives LEAs the right to insist on seeing the audit certificate to ensure that public funds are not being misappropriated. They can also look at trends on fund balances from one year to the next and question any significant variances. Such monitoring will only trigger further LEA investigation if the audit certificate is not forthcoming or if the fund balances fluctuate significantly between years.

Some LEAs visited during the study did not question the use of governors as independent auditors of voluntary funds. This practice detracts from the independence of the audit since governors will probably have had an input into the original spending decisions.

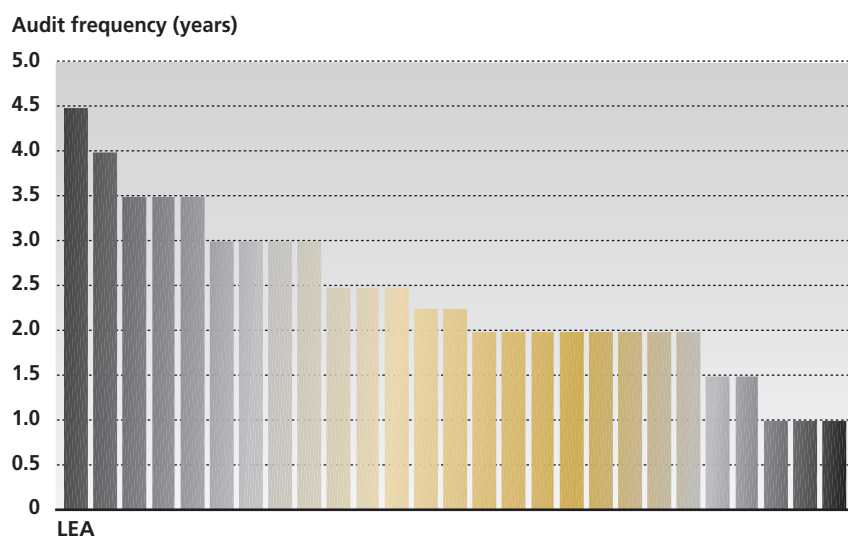
Source: Audit Commission

EXHIBIT 11

Frequency of internal audit visits to schools

Some secondary schools are audited only every four years.

Source: Audit Commission survey of internal audit sections and fieldwork data collection



52. The reporting of internal audit findings can also be a problem area. In some authorities, school audit reports are not sent directly to governors despite the fact that they are responsible for the school’s finances. Executive summaries often do not provide a clear and unambiguous assessment of the standard of financial management and control in the school. Findings and recommendations were seldom prioritised, resulting in minor audit findings and significant problems being mixed up. Few internal audit sections visited presented a detailed summary of audit findings in schools either to the LEA or members, thus reducing the impact of their work.

Monitoring resource management

53. As well as monitoring and challenging financial management and control, LEAs also monitor and challenge school performance. LEA advisory services work with schools to set targets for school standards and provide advice on school improvement. However, most LEAs do not link this work to school finances, in spite of the fact that the way schools manage their resources (teachers, books, classroom materials) has an important impact on the learning environment provided and hence, ultimately, on standards. Many advisers did not see resource management as part of their role and only examined expenditure patterns once a school was clearly in difficulties. Resource management does not often feature on agendas for link advisers’ meetings with headteachers. Staff, particularly secondary advisers, lacked experience of school management (and hence credibility with headteachers), and a number of LEAs had problems recruiting suitable staff. Many of these problems come down to a lack of understanding of resource management in schools and LEAs and weak links between the advisory service and education finance (who many advisers assumed would be dealing with resource management).

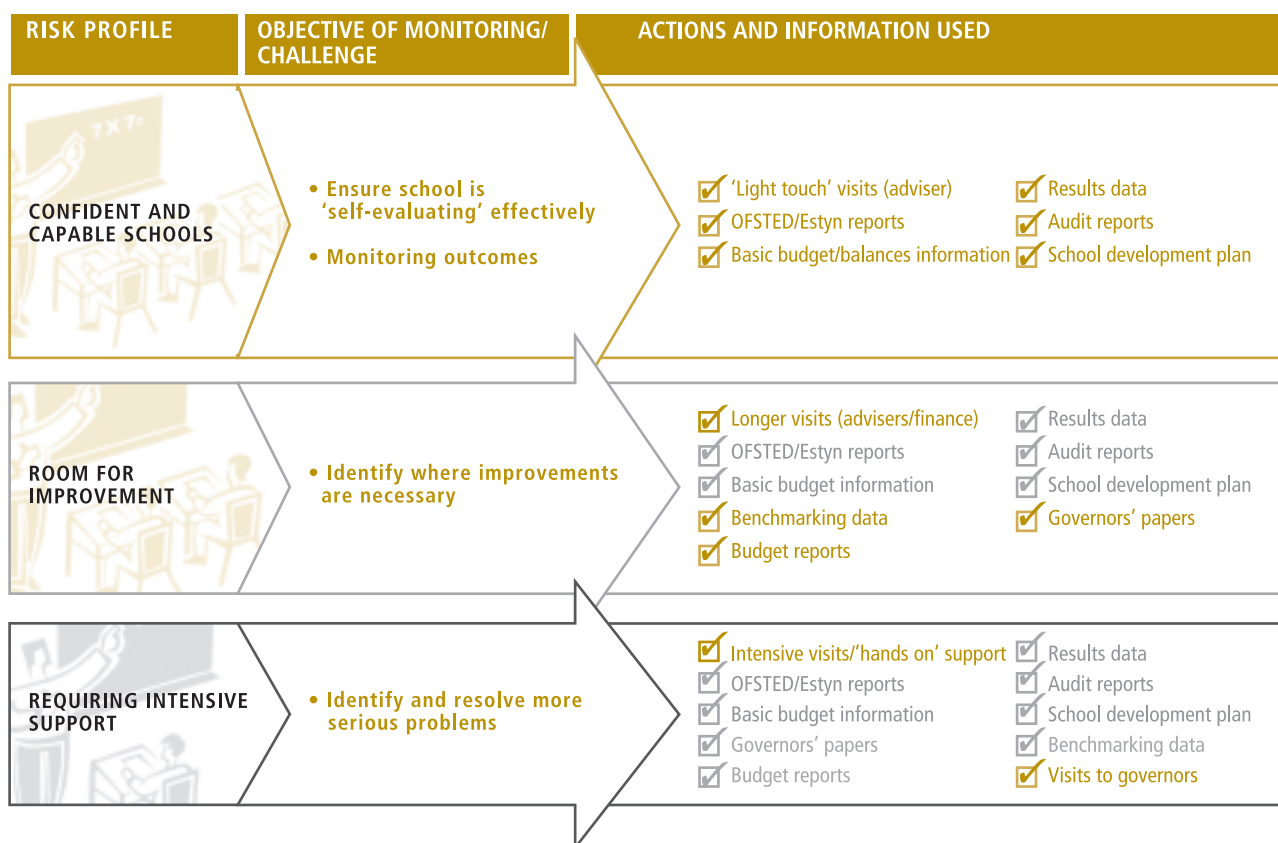
Better meeting the needs of schools

54. Schools are responsible for their own improvement. As with other areas of performance, school financial and resource management need to be challenged in inverse proportion to success. Those schools that are doing well and that can demonstrate effective resource and financial management will need only a ‘light touch’, while those experiencing greater difficulties may need the LEA to get more involved. In order to plan their strategies for monitoring and challenge LEAs need to develop a ‘risk profile’ for financial and resource management in their schools [EXHIBIT 12]. The experience of one site visited for the study shows the advantages of a risk-based approach [CASE STUDY 3, overleaf].

EXHIBIT 12

Developing a risk profile for financial and resource management in schools

LEAs need to understand the level of risk in a school in order to plan their monitoring and challenge.



Source: Audit Commission

CASE STUDY 3

Building a risk-based approach to financial and resource management in schools in Southampton

Southampton LEA has developed an integrated approach to risk management in its schools based on 'supported self-evaluation' (SSE) across three areas:

- Teaching and learning: this looks at inputs (reviewed in the spring term).
- Leadership and management: (reviewed in the summer term).
- Standards and quality: this looks at outputs (reviewed in the autumn term).

Schools assess themselves in these areas against predefined criteria set out by their LEA. The authority's inspectors 'play a moderation and validation role' once the school has gathered the relevant information.

The three support categories are:

- Intensive support.
- Medium support.
- Light touch.

Officers from different parts of the LEA, including the advisory service and education finance, meet half-termly to discuss any issues relating to particular schools. A special task group also meets half-termly to discuss schools in the intensive support category.

SSE identified a school with potential serious weaknesses. In addition to poor educational standards, the school had a major budget problem: costs were rising while rolls were falling and a mismatch between financial

decisions and actual expenditure indicated a serious lack of financial control. An intensive support framework was agreed between the school and the LEA. Work by Inspectors and LEA officers on an action plan for recovery in educational standards was complemented by financial support staff involvement to align the available budget with the targets to be achieved. Additional finance support officer time was made available to ensure that the budget could be stabilised without compromising the improvement targets in the action plan. As a result of this intervention the school now focuses more sharply on financial control.

55. By developing more sophisticated approaches to monitoring financial and resource management LEAs should be able to target their effort on those who need it. For example, rather than provide the same level and focus of internal audit coverage to all schools, existing internal audit reports and finance department assessments should be used to target monitoring on high risk issues or schools. School link advisers need to take a greater interest in resource management issues – to see how effectively their schools are planning and to target their monitoring accordingly. Where LEAs have problems recruiting advisers with sufficient credibility among headteachers they should explore other options, such as mentoring or peer review using the most capable headteachers in their area.

56. In order to monitor and challenge schools effectively it is vital that internal audit, education finance and the advisory service work together. Each of these services deals with a piece of the jigsaw and each can help the others do their jobs more effectively: expenditure benchmarking data should help the advisory service to understand and challenge spending patterns; internal audit findings may help finance staff understand the history of balances or deficits. LEAs need to co-ordinate the efforts of each individual service to provide a seamless 'whole-school' service and to form a composite view of individual schools to feed into an overarching risk profile.

Support services

The quality of LEA support services is often high, but some LEAs are still not responsive enough to schools as customers and do not give schools control and choice over this support.

57. Schools use a range of services to support financial and resource management. Under Fair Funding these are paid for by schools from their delegated budgets, with the aim that this will ensure that these services meet school needs and provide value for money. Services on offer for financial administration ranged from helpline support to a full bursar service. These services are generally well regarded. In the survey of schools' views they were rated satisfactory or better by nearly three-quarters of schools. Indeed, most of the schools visited for the study bought back these services from their LEAs and considered that they offered good value for money (although some had limited alternative choices).

58. The key weakness in this area, reflecting concerns raised in LEA inspection reports (see Exhibit 10), was inflexibility in the service available and lack of clarity in pricing structures. Some authorities only offer a very limited choice of support packages. In one case there was no choice at all and, as a result, some large secondary schools found themselves paying for a service they did not need, while some small schools lacked sufficient support. It was often not clear what support packages contained and how their price related to the costs of provision. In particular, it was not always clear what services formed part of the LEA's core 'information/monitoring/challenge' role, and hence which the LEA should pay for, and which constituted support which schools should purchase from delegated budgets.

59. The support for resource management approach was more of a problem area. As with the monitoring and challenge of resource management it is frequently a neglected area in LEAs. Support was often unavailable or it was unclear to what extent support packages covered resource management.

Better meeting the needs of schools

60. Schools should be in control of the support services they need. The quality of LEA support services is often high, but some LEAs are still not responsive enough to schools as customers and do not give schools control and choice over this support. To better meet the needs of schools and to ensure that these services offer best value, LEAs must offer flexible support services, based on clearly priced, explicit service-level agreements [CASE STUDY 4, overleaf]. LEAs also need to be clearer and more coherent about what services are provided as part of the LEA's 'core' responsibilities and what schools should pay for.

CASE STUDY 4**Providing effective financial support packages for schools in Somerset**

Somerset County Council offers schools a choice of five financial support packages, providing different levels of support. Schools can supplement their choice of package by purchasing individual items from a comprehensive menu of services. The relevant information is helpfully presented in a booklet referred to as the 'Blue Book' (Ref. 13). This begins by setting out the core services provided free of direct charge to every school. It then sets out the services offered under each package, prefacing the description with suggestions as to which kind of schools the package has been designed for. The booklet also lists the training courses available for financial administration.

61. Advisory services need to get to grips with resource management issues. By providing support and training that helps schools to forge better links between their budgeting processes and their school development planning, LEAs can help schools to formulate more effective strategies for targeting their resources. In doing so advisory services will need to improve their own skills and knowledge or, alternatively, to draw on other sources of expertise, for example, existing headteachers and senior school staff, to give schools access to the support and advice they need.

Conclusion

62. LEAs have an important strategic role to play in monitoring and supporting financial and resource management in schools – ranging from ensuring the safe and secure management of public money to providing financial management support services and training. Overall, most LEAs perform these duties well; most schools value what they do and are satisfied with the quality of services they get.

63. But many LEAs still have further to go if they are to do all they can to drive school improvement. To measure up to the challenge of best value, LEAs must provide effective challenge based on risk levels, sharpen the focus of internal audit to target schools with inadequate financial control, and offer flexible, clearly priced, customer-focused support. More fundamentally most, if not all, LEAs need to ensure that they are properly engaging with resource management issues and ensuring their internal functions are properly joined up.

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3

Helping Schools to Get the Best from their Budgets

Councils should:

- 1 Provide schools with the funding stability that will enable them to plan ahead:
 - notifying schools of their budget share at least a month before the financial year starts; and
 - providing schools with 'shadow' budgets up to three years ahead.
- 2 Improve training and support for resource management in order to help schools to plan ahead better.
- 3 Develop an integrated approach to financial and educational monitoring, building up a profile of the financial risk for all LEA schools:
 - so that school resource management can be challenged in proportion to risk; and
 - to identify all schools with inadequate financial control or management and ensure remedial action is taken.
- 4 Give schools choice and control over support services by ensuring support packages are flexible and clearly priced.

A more detailed checklist for LEA action can be found in Appendix 2.

A Fair Deal for Schools?

Schools funding is the result of choices made nationally and locally. These choices enable government and councils to assess and balance needs. Analysis shows that roughly two-thirds of comparable schools receive similar funding, but action is needed to make the system work better.

64. Schools receive funding from a number of sources [EXHIBIT 13]. Most of their money – nearly £18 billion – comes from their council’s education budget through the Fair Funding formula. Next most important are specific government grants, in particular the Standards Fund in England and GEST in Wales, and more recently, the School Standards Grant.¹ Specific grants are usually set up to target money at national priorities and initiatives such as literacy and numeracy, Excellence in Cities, National Grid for Learning and Early Years. Many of these grants also draw on councils’ funds through the requirement to provide local matched funding. Schools also receive funding via Education Action Zones (EAZs), Sure Start, specialist schools funding, class-size reductions, the Single Regeneration Budget Challenge Fund (SRB), the European Social Fund, the National Lottery, LEA grants related to local initiatives (such as school improvement) and more. Schools also generate their own income through fundraising, business sponsorship and charges for the use of their facilities.

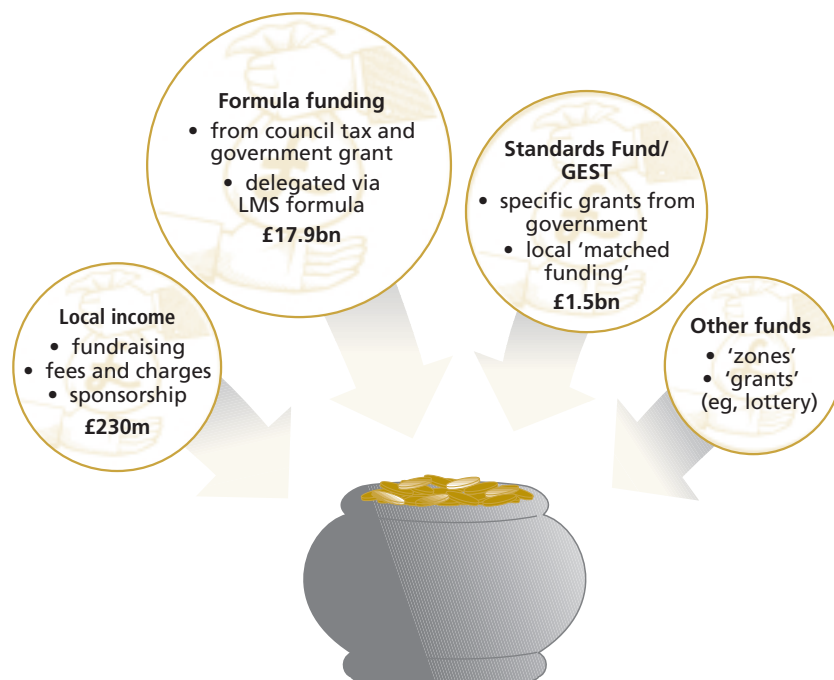
¹ Additional funding for schools of £290 million was announced in March 2000. The funds were paid to LEAs by a special grant and were passed on to schools according to nationally set pupil-number thresholds.

EXHIBIT 13

School funding

Schools receive funding from a number of sources.

Notes: Figures for specific grants include LEA matched funding and the School Standards Grant of £290 million announced in March 2000.



Source: CIPFA Education Estimates 2000/01 for England and Wales, DfEE, NAW and School fundraising in England by the Directory of Social Change

65. It has long been recognised that there are wide variations in the amounts of funding that different schools receive. Unfortunately, there is no comprehensive national database of the income received by all schools and from all sources each year. However, data from the Audit Commission’s schools financial comparisons website reveals that school funding does vary significantly between schools: The amount received by different schools varies by up to £1,600 per pupil in primary schools and £1,500 per pupil in secondary schools [EXHIBIT 14].

Behind the headlines

66. While there is much debate over variations in funding, few would say that all schools should get the same. Schools do face a number of common requirements, such as the National Curriculum, national pay rates and school inspections by OFSTED and Estyn. But to provide the same learning opportunities different schools will require different levels of resources. Any funding mechanism has to recognise that different schools have different needs, for example:

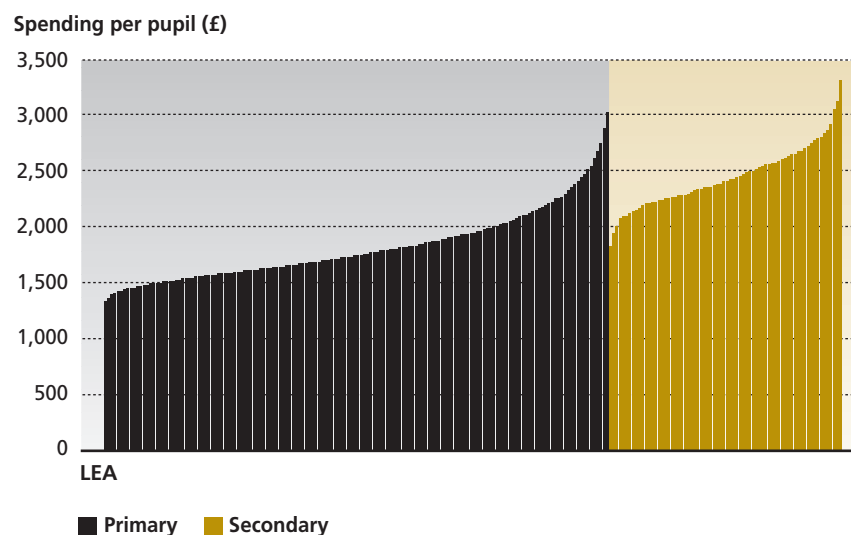
- large schools can take advantage of economies of scale, while smaller schools can struggle to remain viable;

I The website is based on a sample of 4,000 schools and allows any school to compare its expenditure with a selection of schools from the sample:
www.schools.audit-commission.gov.uk

EXHIBIT 14

Variation in school funding

School funding varies by up to £1,600 per pupil in primary schools and £1,500 per pupil in secondary schools.



Source: Database used for Audit Commission schools financial comparisons website

- schools in some areas are likely to need additional resources to provide extra support to children from disadvantaged backgrounds, or to make up for lack of parental support at home;
- the number of children with special needs will affect the need for additional learning resources such as learning assistants;
- schools in different areas can face higher (or lower) costs than others, for example the extra costs of operating in London, the costs of supporting children whose first language is not English or the costs associated with high levels of pupil turnover; and
- the quality of school buildings varies considerably, with major implications for the funds they require for maintenance or utility bills.

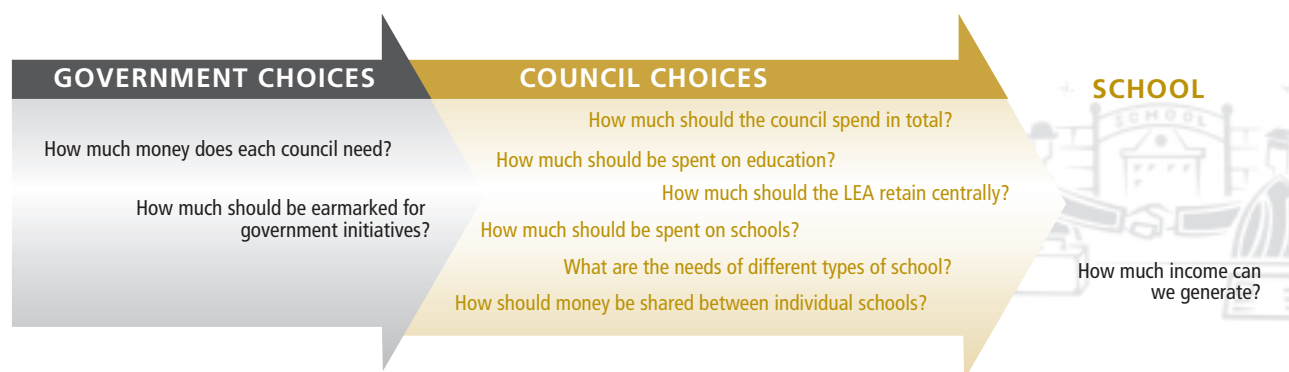
How funding choices are made

67. Because different schools have different needs, choices must be made about how available resources should be distributed. In the current framework choices are made by both central government and councils in order to try to reflect these needs [EXHIBIT 15]. Some of these choices aim to assess the impact on funding requirements of the characteristics of different schools (such as pupil mix) or different areas (such as levels of disadvantage). Other choices look at the needs of education in relation to other services, the needs of different parts of the education service and the funding requirements of specific national and local priorities. Schools themselves have some influence over the money available to them, both through fundraising and through representing the school's case when consulted about the LEA's formula. The following sections look at how these choices are made: Are they the result of a clear, well thought out process which takes account of different needs? Are they transparent, so that decision-makers can be held accountable?

EXHIBIT 15

The choices that affect how much funding a school receives

Funding choices are made by both central government and councils.



Source: Audit Commission

Choices made by the Government

The Government's SSA methodology has been the focus of much debate and concern.

68. A key factor in determining how much money councils put in their education budgets is the Government 'Standard Spending Assessment' (SSA). This is a formula used by the Department of the Environment, Transport and the Regions (DETR) and the National Assembly for Wales (NAW) to assess how much each council needs to spend to offer the same level of service, and hence how much 'Revenue Support Grant' it will receive.^I It is based on a statistical analysis of council spending using a range of 'background' statistics. For example, in England the Education block^{II} uses indicators such as the numbers of children of different ages, socioeconomic context, spatial dispersion (to reflect the needs of rural areas) and area costs^{III} to estimate what councils will need to spend.

69. In England the Government's assessment of the need to spend on education results in variations in education SSAs of up to £1,900 per pupil,^{IV} or by £900 for councils outside London. The Government's SSA methodology has been the focus of much debate and concern:

- It uses a complex statistical analysis based on historical spending patterns, rather than more objective measures of needs.
- There have been concerns over how the needs of disadvantaged and rural areas are calculated.
- The SSA formulae do not assess the needs of LEAs separately from schools, so it is not easy to identify how much an LEA has chosen to spend above or below its SSA on schools.
- There is no separate block for education spending in Wales.

70. Comparing actual council spending with SSA shows a reasonably close relationship, but with some signs that councils towards the bottom end are disadvantaged [EXHIBIT 16]. The 25 per cent of councils with the lowest SSA are more likely to spend above SSA, spending on average £101 per pupil above their spending assessment, compared with an average for all authorities of £43. In recognition of these problems, consultation is currently underway in England and Wales on how the system of council funding can be improved.

I The methodologies used are quite different in England and Wales.

II In Wales authorities receive an assessment of their need to spend across all services. Although needs indicators are used for all services, SSAs for individual services such as education are not calculated.

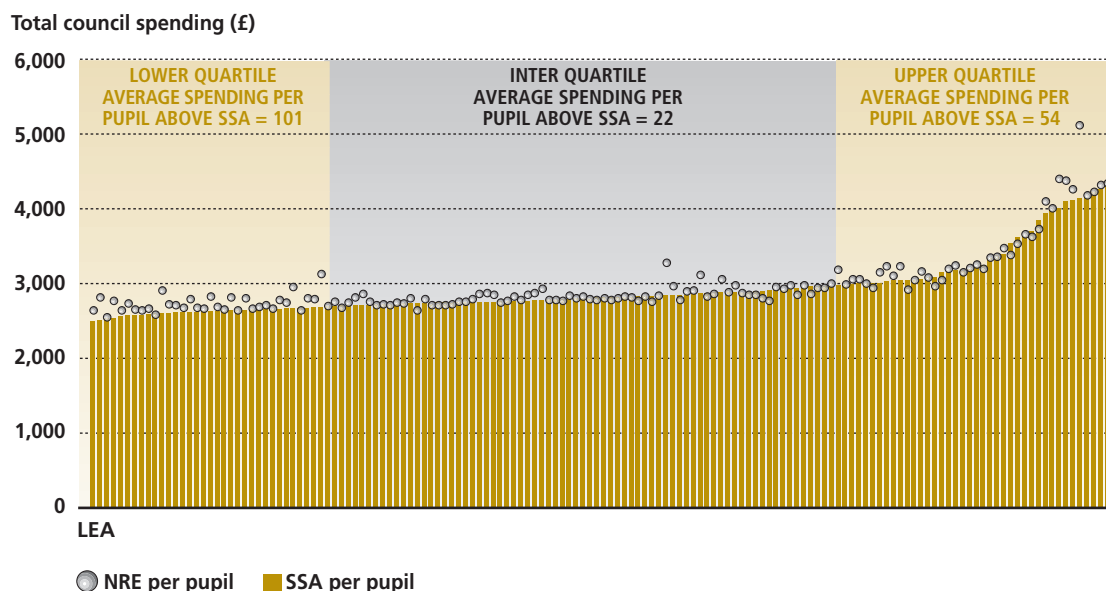
III The area cost adjustment factor is not used in Wales. The SSA in Wales also includes an indicator to take account of the number of maintained schools in an authority.

IV Excluding the Isles of Scilly.

EXHIBIT 16

Government assessment of the need to spend on education

The councils with the lowest SSA are more likely to spend above SSA.



Notes: Data is for England only, separate education SSAs are not available for Wales. Spending is measured by Net Revenue Expenditure.

Source: DETR Education SSAs for 2000/01 and RA2000/01 returns

71. The Government also affects the money reaching schools through a range of specific funds and initiatives designed to promote national priorities and new activities; Standards Fund and GEST alone will account for £1.2 billion of expenditure by schools in 2000/01. Schools visited during fieldwork questioned the fairness with which such grants were distributed, particularly those in LEAs unable to provide funding to match their full Standards Fund allocation, or less adept at bidding for such funds. Indeed, the income that LEAs in England receive from Standards Fund varied from £15 to over £200 per pupil in 2000/01.¹ Schools also expressed concerns over the impact of such funding on school resource management in terms of the administration it requires and the effect of short-term funding on schools' ability to plan ahead. Government has recently announced major changes to the Standards Fund, including a reduction in the number of funding streams and greater flexibility in their use. However, the amount of short-term funding for schools continues to grow. The study surveyed schools to assess what difficulties schools faced when trying to manage such funds [BOX B, overleaf].

¹ Variation in Wales was from £32 per pupil to £67 per pupil.

BOX B**Lessons for the Standards Funds from the Year 6 booster grant survey**

The Commission's survey into the first Standards Fund grant for Year 6 booster classes asked headteachers what problems were caused by the way in which the grant was administered. Common issues raised included:

- **Confusion over how and when the grant could be spent:** Some schools thought they had to spend the money by the end of the financial year, while others carried spending over into the next financial year. Initially, the grant had to be spent on additional lessons outside the school day, but this was later relaxed to allow provision to be made during the school day (the option which most schools chose).
- **Lack of flexibility:** A number of schools felt that part of the money would best be spent on learning resources, which the rules did not allow (although some schools reported spending the money in this way). Schools also criticised the ban on paying deputy headteachers for additional work such as teaching extra classes or managing the work of others.
- **Late notification and impact on ability to plan ahead:** Many experienced a shortage of suitably qualified supply teachers willing to work a few hours per week; some made rapid decisions that could not be altered when guidance changed, others delayed until firm guidance was available and hence provided booster classes over a shorter time.

Nonetheless, schools did welcome the extra resources the fund provided. In particular, many headteachers commented on the effectiveness of teaching smaller groups and welcomed the opportunity the funds provided to focus on the needs of individual pupils.

Source: Audit Commission survey of management of the Year 6 booster grant

Choices made by councils

72. Councils set a series of budgets that affect the money schools receive [EXHIBIT 17]: the total education budget, the total amount spent on schools (Local Schools Budget – LSB) and the amount delegated to schools (Individual Schools Budget – ISB). They also have to maintain their Fair Funding formula, the mechanism through which the allocations to individual schools are decided.

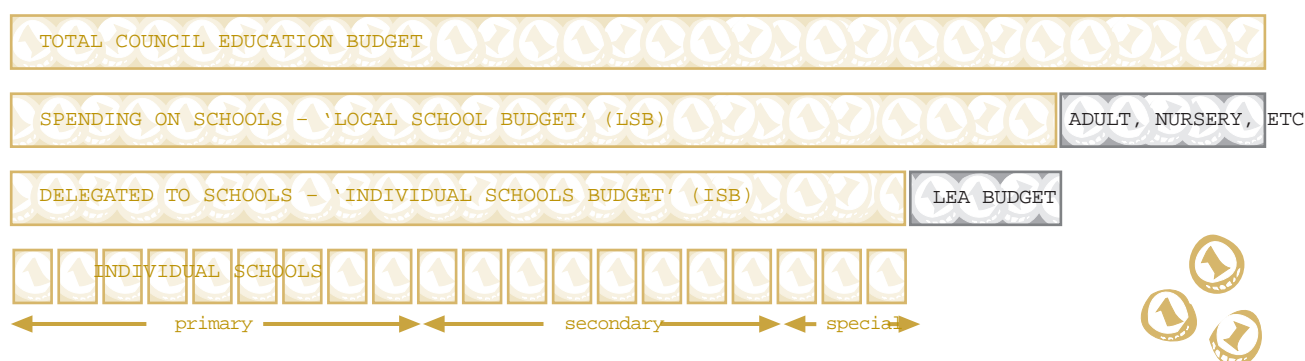
Setting the education budget

73. In setting the total education budget the council is, in effect, deciding how much to spend above or below its education SSA. This choice will be influenced by a range of factors: the level at which they set their council tax, their ability to raise other income (for example through charges) and the priority given to education in relation to other services. Most councils give education a high priority, and over the last decade the majority of councils in England have consistently spent more on education than the government estimates they need. In 2000/01 the net revenue expenditure of English local authorities will be £330 million over the total government assessment. One consequence of this is that recent attempts by central government to target additional money on education via SSA have not been entirely successful. The real-terms increases in SSA have, in part, simply caught up with actual levels of expenditure in local government, resulting in a narrowing of the gap between SSA and expenditure by £90 million over the last three years.

EXHIBIT 17

Funding decisions made by local authorities

Councils set a series of budgets relevant to schools.



Source: Audit Commission

74. On average, schools across England benefit to the tune of an additional £43 per pupil from the decision on whether to spend above or below SSA (or £10,000 in an average primary school and £41,000 in an average secondary). But there are variations between LEAs: for instance, some choose to spend £200 per pupil over their education SSA, while others spend £100 per pupil under SSA. This choice is made as part of each council's budget-setting process and allows councils to adjust for local factors and priorities that the SSA cannot take into account. However, such local fine-tuning is more difficult in Wales where there is not an education SSA to measure the authority's decisions against. Nonetheless, in both England and Wales the decision about how much to spend on education is often a high-profile one and councils are accountable for their choice through the local democratic process.

Setting the schools budget

75. Councils fund a range of services from their education budgets that are not directly related to schools, such as adult education, the youth service and student support. Councils spend on average 6 per cent of their education budgets on such services, ranging from 2 per cent to 12 per cent, depending on local needs and priorities and the configuration of their education department (if it includes local museums or libraries, for example).

76. Once the LSB has been set, the majority (84 per cent on average) is delegated to schools via the local Fair Funding formula. The LEA retains some funding for core activities such as home to school transport, special educational needs and school improvement. In recent years the proportion that LEAs delegate has been a high-profile decision and LEAs have had to justify more closely than ever their need to retain funding. The Government has set challenging targets for the amount LEAs must delegate (85 per cent of LSB in 2001/02, 90 per cent for 2002/03) and has set strict rules for what retained money can be used for. As a result, variations in the level of delegation between LEAs have decreased [EXHIBIT 18]. Delegation is also receding as an issue for schools: over three-quarters of headteachers surveyed for the study were satisfied with the level of delegation in their LEA. Moreover, there are also concerns about increasing delegation any further:

- Many schools have had limited benefit from the latest round of delegation as they have not had the time or support to properly exercise the extra choices they have been given.
- LEA inspections have raised concerns over the impact of delegation on the provision of core LEA services.
- Applying the same target to all LEAs does not recognise the fact that rural LEAs face higher home to school transport costs and that large LEAs should be able to take account of economies of scale.

Delegation is also receding as an issue for schools.

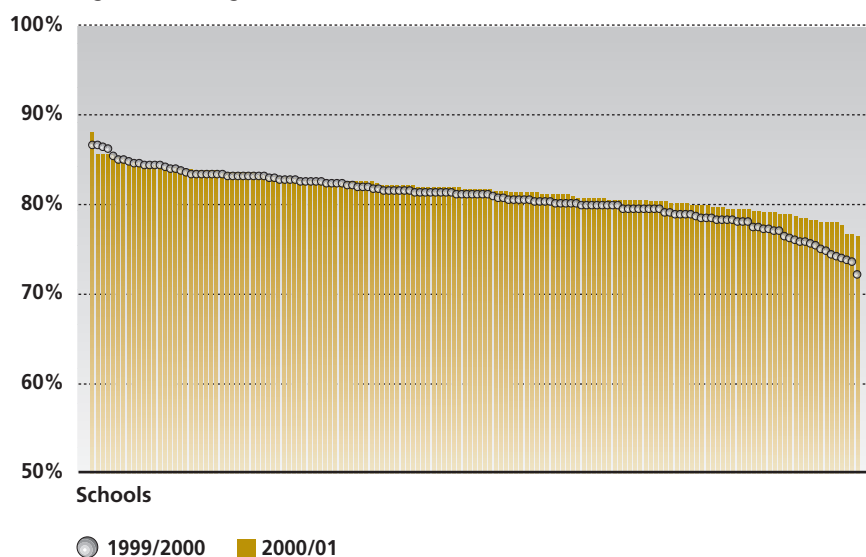
EXHIBIT 18

Levels of delegation to schools

Variations in the level of delegation between LEAs have decreased.

Notes: The comparison is limited to expenditure delegated by formula as figures are not available for specific grants devolved to schools in 1999/2000.

Source: CIPFA Education estimates 1999/2000 and 2000/01 for England and Wales

Percentage of LSB delegated

Distributing the money across different types of schools

77. In distributing money between schools LEAs face choices over how to treat different types of school. These choices clearly have important implications for LEAs' overall strategy for delivering education in their area:

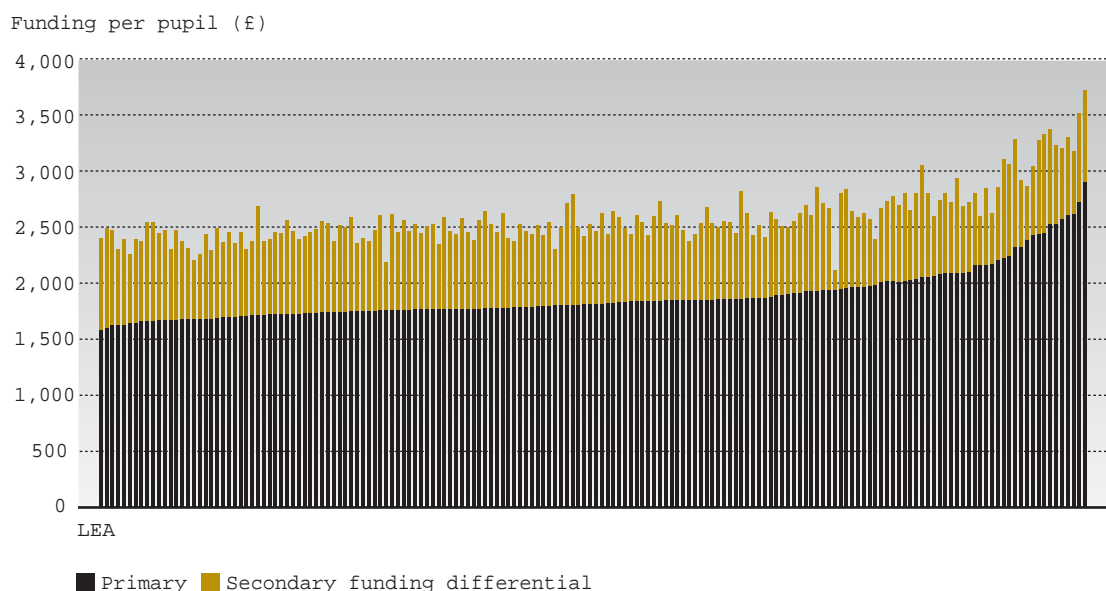
- How should resources be split between primary and secondary schools?
- How should special educational needs be met? What is the most appropriate split between provision in mainstream and special schools?
- How should children under five be catered for? In reception classes in infant and primary schools or through the provision of nursery places?

78. While aspects of these choices are sometimes debated, their implications for the money reaching schools are not always realised. In a world of limited resources there are clearly trade-offs to be made and these can have a significant impact on the funding reaching schools. The split of resources between primary and secondary schools is an important example. Currently the difference between primary funding and secondary funding varies from £400 to over £900 per pupil [EXHIBIT 19]. In recent years, the differential has narrowed as a number of LEAs have invested additional money in primary education [CASE STUDY 5], but wide variation in practice remains. The organisation of special education and the proportion of statemented children in the LEA can also affect funding levels. LEAs choosing to educate more children in mainstream schools will provide additional funding to reflect higher needs. Although there may not be any right answers to these questions, they have significant implications for how resources are distributed between schools.

EXHIBIT 19

The funding differential between primary and secondary sectors

The difference between primary funding and secondary funding varies from £400 to over £900 per pupil.



Source: CIPFA Education estimates 1999/2000 and 2000/01 for England and Wales

CASE STUDY 5**Addressing the primary/secondary funding split in Essex**

In 1992, the Essex LMS headteachers review group identified that the primary/secondary funding differential was particularly high in Essex. At that point secondary funding per pupil was 60 per cent more than primary. After an analysis of the respective needs of primary and secondary schools, the Council embarked on a policy designed to reduce, over a number of years, the primary/secondary differential by enhancing primary school funding wherever possible, but not at the expense of secondary schools. Through a series of real-terms increases in primary funding since 1992/93, the differential has considerably reduced to just over 40 per cent. More recent work undertaken by Essex suggests that, based on the current pupil population in each of the sectors and current levels of delegation, the differential needs to be further reduced to 36 per cent.

Distributing the money between individual schools

79. In order to determine the delegated budget of each of its schools every LEA maintains a Fair Funding formula. This formula should ensure that resources are distributed transparently and in line with needs. To help ensure transparency LEAs must consult schools annually over the formula's construction. Two-thirds of headteachers surveyed for the study were satisfied with the quality of this consultation, although problems with consultation remain in some LEAs. However, some LEA funding formulae can be hard to understand and the study found very little use of valid comparative data about the levels of funding reaching similar schools in different LEAs.

80. Most of the LEAs visited agreed that in the early days of LMS formulae were designed, at least in part, to maintain the status quo. This was understandable (and made sense) in order to ease transition into the new environment. Since then most LEAs have used consultation and periodic reviews to update and adjust their formula to a limited extent. But the study did find that sometimes these reviews did little more than roll forward historical spending patterns, and at one study site the formula had not been meaningfully reviewed since its introduction.

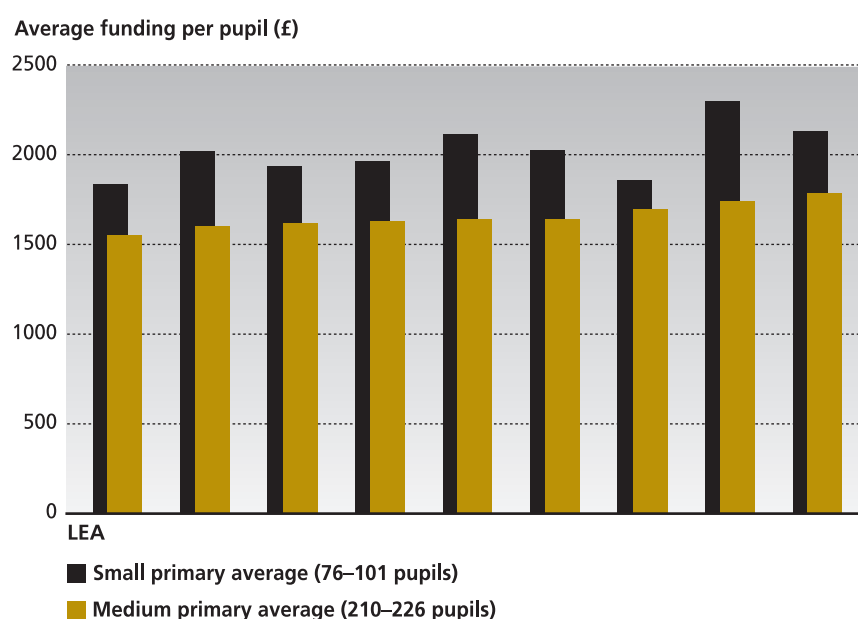
81. Other LEAs have carried out more fundamental reviews, looking to build up needs-based models of the resources different schools require. These exercises consist of putting together a model of what schools need based on the activities schools are expected to carry out (such as delivering the National Curriculum) and its needs (the conditions of its buildings, its pupil profile, and so on). But implementing such approaches has proved problematic: agreeing the central model can be difficult; some give up when the model predicts that schools need more resources than are available; others have experienced transitional problems implementing the outcome of their model – particularly from schools which ‘lose out’. Some, however, have overcome these problems.

82. To assess how authorities take into account the varying needs of schools the Commission has compared, for a sample of LEAs, the additional funding received by small schools and schools in disadvantaged areas compared to funding received by more typical schools in the same LEA (see Appendix 3 for details). All the authorities in the sample took account of school size, on average giving an additional £300 per pupil to small primary schools and £200 per pupil to small secondary schools. However, the funding of small primary schools is very variable and can differ by up to £700 per pupil [EXHIBIT 20]. There are also variations in how LEA formulae treat disadvantage. Some LEAs do not have a factor for recognising deprivation in their formula while other authorities may provide an additional £100 – £200 per pupil.

EXHIBIT 20

Additional funding allocated to small schools

Funding of small primary schools can differ by up to £700 per pupil.



Note: Uses the average funding of the three types of small and medium-sized primary schools sampled by the Commission.

Source: Form 7, 2000 and sample of section 52 budget statements 2000/01

The impact of funding choices on schools

83. Each of the funding choices considered above affect the funding reaching a particular school. But how do these choices add up? As funding gets nearer the school the factors being looked at take greater and more detailed account of local circumstances – from broad national considerations to the unique circumstances of individual schools. In a sense, the funding process can be seen as one of continual refinement, taking more detailed account of various aspects of need. The range of funding variation in each of these choices reflects this ‘funnelling down’ [TABLE 2].

84. To get a meaningful picture of variations in school funding it is important to look at the funding reaching schools with similar needs. The Commission identified a number of sets of such schools based on school size, eligibility for free school meals, levels of special educational needs and a number of other factors (see Appendix 4 for details). An analysis of the funding reaching these schools showed that levels of variation between similar schools are significantly less than headline variations across all schools (as discussed in paragraph 65). Across sets of similar typical primary schools around two-thirds are funded within £200 per pupil of each other [EXHIBIT 21, overleaf]. Two-thirds of similar typical secondaries are also funded within a range of £200 per pupil. However, variations for less typical schools, for example small primaries or schools in deprived areas, were considerably wider with variations of around £400 per pupil per year between two-thirds of such schools.

TABLE 2

The importance of mainstream funding choices

Choice	Looks at...	Range (per pupil)*
Standard Spending Assessments (SSAs)	Needs of different councils	£877 (£2,491–£3,368)
Net revenue expenditure (the decision to spend above/below SSA)	Needs of the whole council	£816 (£2,529–£3,345)
Local Schools Budget (LSB)	Needs of school-age education and other education services	£586 (£2,451–£3,037)
Individual Schools Budget (ISB) – the decision over how much to delegate to schools	Needs of LEA and schools	£506 (£1,993–£2,499)

* For the purpose of the school level analysis set out below, the figures exclude London authorities and the Isles of Scilly. However, when they are included the pattern remains the same. Welsh authorities have not been included as there is not a separate education SSA in Wales.

EXHIBIT 21

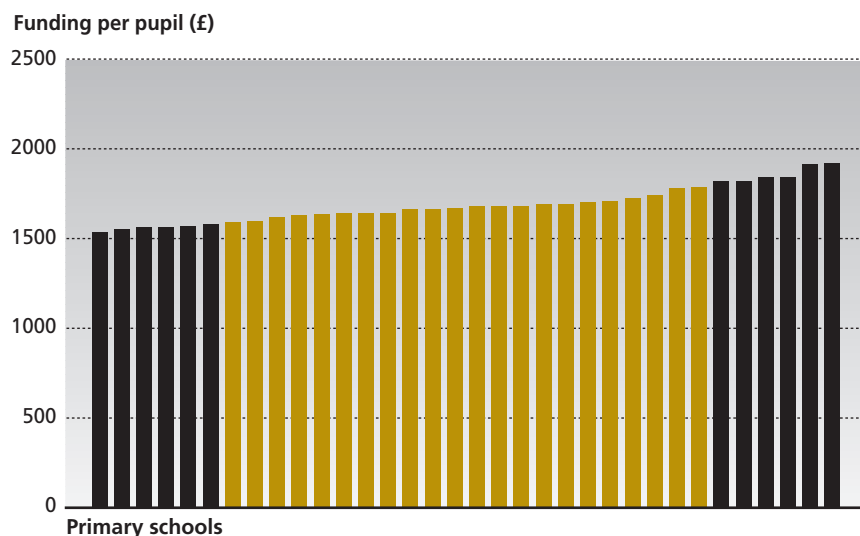
Variation in funding of similar schools

Two-thirds of typical primary schools are funded within £200 per pupil but some were up to £400 per pupil different.

Notes: Figures are for formula funding only. When devolved Standards Fund is included little difference is made to the variation between schools. Separate sets of figures for Wales are given in Appendix 1.

Note: Primary schools: 201–226 pupils, 7–16% pupils eligible for free school meals, 10–25% SEN.

Source: Form 7 2000 and section 52 returns for 2000/01



85. It is hard to be categorical about the exact point at which funding variations become unacceptable. The complex interplay between the choices made at different points in the funding system, each designed to reflect need, makes variations of up to £200 per pupil unsurprising. Moreover, some variations will be the product of need factors not included in the analysis (such as building condition) or different local policy choices (such as primary/secondary split). But variations of £400 per pupil between similar schools are significant and need to be challenged. Unfortunately, the lack of transparency in the funding system means that such challenge is not always possible.

Conclusion

86. The funding reaching schools is the result of choices made locally and nationally. These choices enable government and councils to assess and balance different aspects of need – the needs of different councils, of different education services, of different schools – and target resources as best they can. The current arrangements give these choices to those best placed to make them, with government setting broad funding levels for local authorities and local authorities in turn allocating resources informed by their knowledge of local needs and priorities. Overall the system seems to be working, with resource allocation being progressively refined as money moves from central government through local authorities to schools.

There are concerns over the way schools are funded, but the present funding system needs to be made to work better, not replaced.

87. There are concerns over the way schools are funded, but the present funding system needs to be made to work better, not replaced. Some funding choices – in particular LEAs’ spending in relation to SSA and delegation strategies – have been subject to much scrutiny and debate. However some choices are less transparent. The SSA formulae used in England and Wales rely on complex analyses of historical data rather than need, and, while some LEAs have worked hard to review their funding strategies, others’ formulae can be opaque and historical. Although there are wide headline variations between all schools, most similar schools receive comparable levels of funding. However funding variations of up to £400 per pupil between up to one-third of similar schools need to be challenged, and action is required locally and nationally in order for this to take place. The next chapter looks at how progress can begin to be made.

The Future of Education Funding

Action is required, but the answer is not the greater centralisation of funding. This would be impractical and would centralise decisions that are best made locally.

Greater funding transparency and a needs-based focus are crucial.

88. Both the English Green Paper *Modernising Local Government Finance* and the Welsh consultation paper *Simplifying the System* outline a number of options for reforming the funding system (Refs. 7 and 8). A range of organisations have also published their views on the best way forward. The recent Year 2000 Spending Review announced a significant increase in education funding over the next three years. This provides an historic and rare opportunity to smooth the transition to a revised funding framework.

89. But what is the best way forward? The Commission's analysis of the problems in the funding system suggests five criteria that any proposed solution will need to fulfil if it is to address the underlying problems:

- **Transparent** – There will always be variations in funding between schools. In order that these variations are openly debated, and in order that decision-makers can be held to account, it is vital that the rationale behind funding choices is transparent.
- **Needs-based** – Funding decisions should link both to the needs of different elements of the education service and to the needs of individual schools and pupils.
- **Efficient and effective** – Funding streams should provide schools with the stability and certainty that they need to plan effectively and the most efficient funding mechanisms should be used to achieve a desired outcome.
- **Balance local choice with national equity** – The balance between local choice and national equity is a difficult and ultimately political one. Any proposed funding solution needs to make clear how responsibilities are split between central and local government.
- **Practical** – It must be clear how any problems related to implementation would be overcome - how any necessary analysis would be performed; how consensus could be achieved; how any transitional problems would be dealt with (such as organisational upheaval and 'winners and losers').

The sections below examine how well the key options under consideration measure up to these criteria. Where relevant they outline how the proposals for reforming the funding framework could be revised in order to address any concerns raised.

Reforming Standard Spending Assessments and the impact on delegation

90. Both the English and Welsh consultation papers discuss the option of separately assessing the needs of schools and LEAs in the SSA. *Modernising Local Government Finance* outlines three ways in which such a change could be implemented (Ref. 7). One option would be to ringfence the school assessment – in effect using it to set the local Individual Schools Budget in each LEA. This would take away LEAs' discretion to balance the needs of different services and would place a great deal of reliance on the SSA calculation. A similar option is to set a minimum level of school funding in each LEA. This would allow some

tailoring to take place locally and there would be less reliance on the underlying formula. Given the high priority that the majority of councils already place on education and the high level of scrutiny that education spending is already put under, it is difficult to see the hypothecation of education SSA as either desirable or necessary.

91. The third option would use the separate assessment as a way to increase the transparency of decision making, with authorities ‘required to give council tax payers and schools a full account of money delivered through spending assessments’ (Ref. 7). This option would help to increase the transparency of council and government decisions by making it clearer how much government thinks schools and LEAs need, and how much they are spending in relation to these assessments. It would also leave councils room to tailor their funding strategies to local needs.

92. The Commission does have concerns over plans to increase delegation targets further in light of concerns that many schools have had limited benefit from the latest round of delegation and over the impact of delegation on the provision of core LEA services.¹ Separating the assessment of the needs of schools and LEAs should enable a more constructive debate over delegation. It would eliminate the need for across-the-board delegation targets and replace them by a proper assessment of each LEA’s needs. In the meantime, rather than increase delegation targets further, government should clarify its expectations of LEAs and evaluate whether further delegation is in the public interest.

93. Both consultation papers also outline options to change the basis of the SSA calculation:

- to simplify formulae (using basic pupil entitlements, plus enhancements for deprivation and educational costs);
- to base them on ‘evidence about variations in pupil characteristics, cost and achievement, rather than ‘regression analysis against past expenditure’ (Ref. 7); or
- to ‘place the emphasis on outcomes and results through the proposed Policy Agreements, and best value performance indicators’ (Ref. 8).

The Commission notes the move to simplify government’s assessment formula, but recognises the practical problems of achieving consensus over the balance between fairness and simplicity. Relating funding to outcomes may be more difficult, as there is currently only weak evidence of links between funding levels and performance (see, for example, Ref. 14). Such analyses may become more realistic as more detailed pupil-based ‘value-added’ information becomes available.

¹ The study did not find the same level of concerns over the operation of GEST in Wales.

Reforming the Standards Fund

94. The Commission welcomes the DfEE's rationalisation of the Standards Funds in England (Ref. 15). From 2000/01 the number of funds will be reduced, there will be less need for matched funding, all funds will be allocated (rather than bid for) and schools will have greater flexibility over how and when they spend the money. These changes should go a long way to addressing concerns over the administrative burden on schools as discussed in Chapter 4.¹

95. However, there has been as yet little analysis of the efficiency and effectiveness of such funding streams. With plans to increase the use of such funds still further (expected to reach £2.3 billion of revenue spending in 2001/02, or around 10 per cent of education spending), such a review is necessary. The study found significant concerns in schools over the impact of short-term funding on school planning. *Modernising Local Government Finance* itself recognises that allocating 'greater proportions of the budget...through Standards Funds...would not only reduce accountability at the local level but would also prescribe the budget at school level in a way which would be undesirable' (Ref. 7).

96. Before extending the use of such funding further, Government should evaluate whether it is the best way to deliver national priorities. In particular, they must ask whether schools will be able to plan ahead effectively if a large proportion of their funding is short-term and for specific activities. They should also clarify the role of Standards Funds with respect to formula funding. As both the flexibility and the total value of Standards Funds increases it becomes less clear how the two fit together. Many LEAs, for example, have sought to take account of issues such as small-school administration and deprivation in their formulae. It is unclear how these should fit with Standards Funds covering similar areas.

Improving formula construction

97. The Commission welcomes moves 'to work with local authorities and other stakeholders to secure greater simplicity in the Fair Funding formulae and to ensure that the needs of deprived pupils are properly addressed' (Ref. 7). This is an area where there is wide variation in practice and where many LEAs themselves are not at ease with their current approaches. This should help them to develop more consistent and needs-based approaches, as well as improve fit with initiatives such as Excellence in Cities.

98. But there is much more that needs to be done. Many LEAs need to review their formulae far more rigorously than they have done to date. They must ensure that their formulae are transparent and review the underlying assumptions. To help challenge funding decisions, the Commission recommends that councils use the opportunity of best value to both benchmark the funding their schools receive with the funding

¹ The DfEE plans to increase delegation targets from 85 to 90 per cent for 2002/03.

received by similar schools in other authorities and better share the lessons they have learned through formula reviews. This should improve accountability and transparency, as well as move the debate over variation in funding onto a more informed footing. LEAs could also help each other by pooling the knowledge and experiences gained from reviewing their formulae, for example, from developing needs-based approaches [BOX C].

BOX C

Sharing needs-based approaches

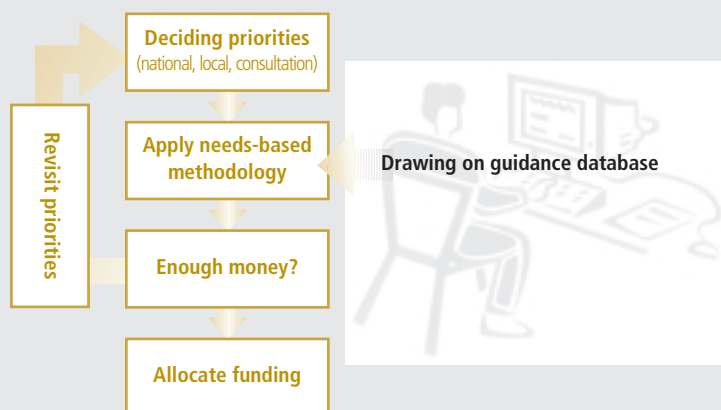
Adopting needs-based funding models can help improve the transparency of local funding decisions – but such approaches are difficult to formulate. Building a model of the needs of different schools is a complex task. Needs have to be considered at a number of levels, such as:

- **Basic educational opportunities:** delivering the National Curriculum, access/premises costs, delivering national priorities;
- **Local education strategy:** dealing with disadvantage, rural issues, small school issues, SEN strategy, adults and under 5s, primary/secondary split; and
- **Local priorities:** unique local issues, cross-agency working, delivering local priorities.

A number of LEAs have given up on needs-based approaches when they find that the initial estimate of the total needs of all their schools exceeds their available funds. To overcome this barrier others have realised that they have to revisit their model, and the priorities that it is built on, in order to reformulate the model to fit available resources.

Adopting needs-based approaches

Adopting needs-based approaches will require LEAs to think hard about their priorities.



A national funding formula?

99. A number of organisations have called for a national schools funding formula that would determine all (or nearly all) of the funding reaching schools. They have argued that such an approach would sweep away all inequalities and usher in a future of truly ‘fair funding’. One of the problems with this view is that the Commission’s analysis does not point to a funding system that is fundamentally flawed – funding choices are being made at the most appropriate level and most similar schools are getting comparable funding.

100. There are also practical issues in the design and operation of a national formula. This report has outlined just some of the factors that affect the needs of different schools. Any national formula would have to balance the need to include a wide range of factors with the transparency of the resulting formula. For example, different LEAs have to cope with different premises issues – some have many small schools, some have many schools on split sites – and the ways their formulae deal with premises reflect these differences. A national formula would either have to include factors for all such needs or rely on an element of ‘rough justice’ – indeed *Modernising Local Government Finance* recognises that ‘Local stakeholders best understand what variations in funding are needed. It is not possible to devise a national formula that reflects every variation in local need’ (Ref. 7). Moreover, moving to a national funding formula would need extended transitional arrangements to allow winners and losers to adjust to changes in funding levels.

101. Implementing a national funding formula would mean that a range of important educational policy choices would have to be made centrally. There would be no local control over how much extra to give small schools, the primary/secondary split would be set nationally and local choice over how to best provide for special educational needs and under 5s would be restricted. Getting national agreement over these issues would be extremely difficult, particularly as these are questions with no single right answer. This would also represent a fundamental shift in the governance of education as central government would take responsibility and accountability for a range of choices currently made locally.

Conclusion

Action is required, but the answer is not greater centralisation and control over education funding.

102. This chapter has explored how well the key options under consideration measure up to the five criteria introduced at the start of this chapter [TABLE 3]. Few people would argue with four of the five criteria, that any sensible funding strategy should be transparent, needs-based, efficient/effective and practical. However, the balance between local and national control is a far more controversial and sensitive question, and lies at the heart of much of the debate over the future of funding.

103. The Audit Commission (in line with the Government and National Assembly for Wales) believes that some local control of funding is necessary. Each funding choice should weigh up different types of need. While some of these decisions have to be made nationally, others are best made at the local level:

- **Taking detailed account of needs:** Local control (exercised in consultation with schools) is necessary to take account of the detailed needs of schools, as well as other local circumstances and priorities.
- **Policy choices:** Funding decisions often relate to questions of policy and to real educational choices (the primary/secondary split, how special needs are catered for, small school weightings, and so on) to which there is no single, national right answer.
- **Local accountability:** Taking away councils' responsibility to set the education budgets would damage local accountability.

104. But Government in England and Wales do have understandable concerns that the 'current funding system provides no direct means by which [they] can meet their manifesto commitments to increase education spending as a proportion of national income'^(Refs. 7 and 8). In attempting to achieve these aims increased use has been made of delegation targets and mechanisms such as Standards Funds. However, it is unlikely, as described above, that there are much greater gains to be made by pushing delegation further. While Standards Funds can be an effective way to target money on national priorities and neglected issues they are not a sensible or sustainable way to achieve long-term increases in school funding. Greater use of earmarked funding could make school resource management more difficult and unbalance the whole funding system. If progress is to be made in this area, Government must recognise the simple contradiction between showing impatience with LEAs for not passing extra money on to schools, while spending assessments significantly underestimate what is already spent locally on education.

105. Action is required, but the answer is not greater centralisation and control over education funding. Such moves would be impractical, inefficient and centralise a raft of funding choices that are better made locally. As well as the individual actions outlined in this chapter, central and local government need to work better together, with a greater understanding of their own and each other's roles. The final chapter looks at how these changes would fit with the other recommendations of the report, and how best value and inspection can help to drive improvement and provide government with the assurance it needs.

TABLE 3

Summary of options

Option	Performance against the five criteria	Overall view
Separate assessment of school and LEA needs – ringfenced	<ul style="list-style-type: none"> Increases transparency and enables SSAs to better reflect school and LEA needs Takes away local responsibility and accountability 	X
Separate assessment of school and LEA needs – with increased transparency	<ul style="list-style-type: none"> Increases transparency and enables SSAs to better reflect school and LEA needs Leaves room for local choice, backed up by transparency and accountability 	✓
Revised SSA methodology	<ul style="list-style-type: none"> Simplicity of formula needs to be balanced with fairness Data not available to support output-driven funding 	?
Standards Fund reforms	<ul style="list-style-type: none"> Will help relieve administrative burden Work required to ensure Standards Funds are most efficient and effective way to deliver national priorities 	?
Increased delegation targets	<ul style="list-style-type: none"> Concerns over efficiency and effectiveness of latest round Need to clarify LEA role and to investigate whether further delegation would be efficient and effective 	X
Improving formula construction	<ul style="list-style-type: none"> Opportunity for more needs-based approaches to issues such as deprivation Benchmarking funding levels will help to increase transparency 	✓
National funding formula	<ul style="list-style-type: none"> 'Rough justice' if simplicity/transparency to be balanced with fairness/needs Takes control over key elements of education strategy out of the hands of councils 	X

R E C O M M E N D A T I O N S

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ISSUES

5 The Future of Education Funding

Government should:

- 1 Ensure that the proposed funding reforms:
 - recognise the necessary role of local choice in determining school funding;
 - ensure that all funding choices are transparent and needs-based; and
 - ensure funding is distributed efficiently and effectively.
- 2 Begin this process by implementing the separate assessment of the needs of schools and LEAs (but not ringfencing these assessments) and working with LEAs to produce guidance on how Fair Funding formulae should take account of deprivation (as outlined in *Modernising Local Government Finance* and *Simplifying the System*). The National Assembly for Wales should publish the separate blocks of its spending assessment.
- 3 Rather than increasing targets for delegation further Government should clarify its expectations of LEAs and evaluate whether further delegation is in the public interest.
- 4 Rather than extending the use of Standards Funds further, Government should evaluate whether such funds are the most efficient and effective way to deliver national priorities.

Councils should:

- 5 Fundamentally review how schools are funded:
 - be explicit and transparent about how and why all funding choices are made;
 - question whether choices reflect the needs of schools as well as local priorities; and
 - challenge funding choices, by benchmarking the funding of similar sets of schools across the country.

Moving Forward

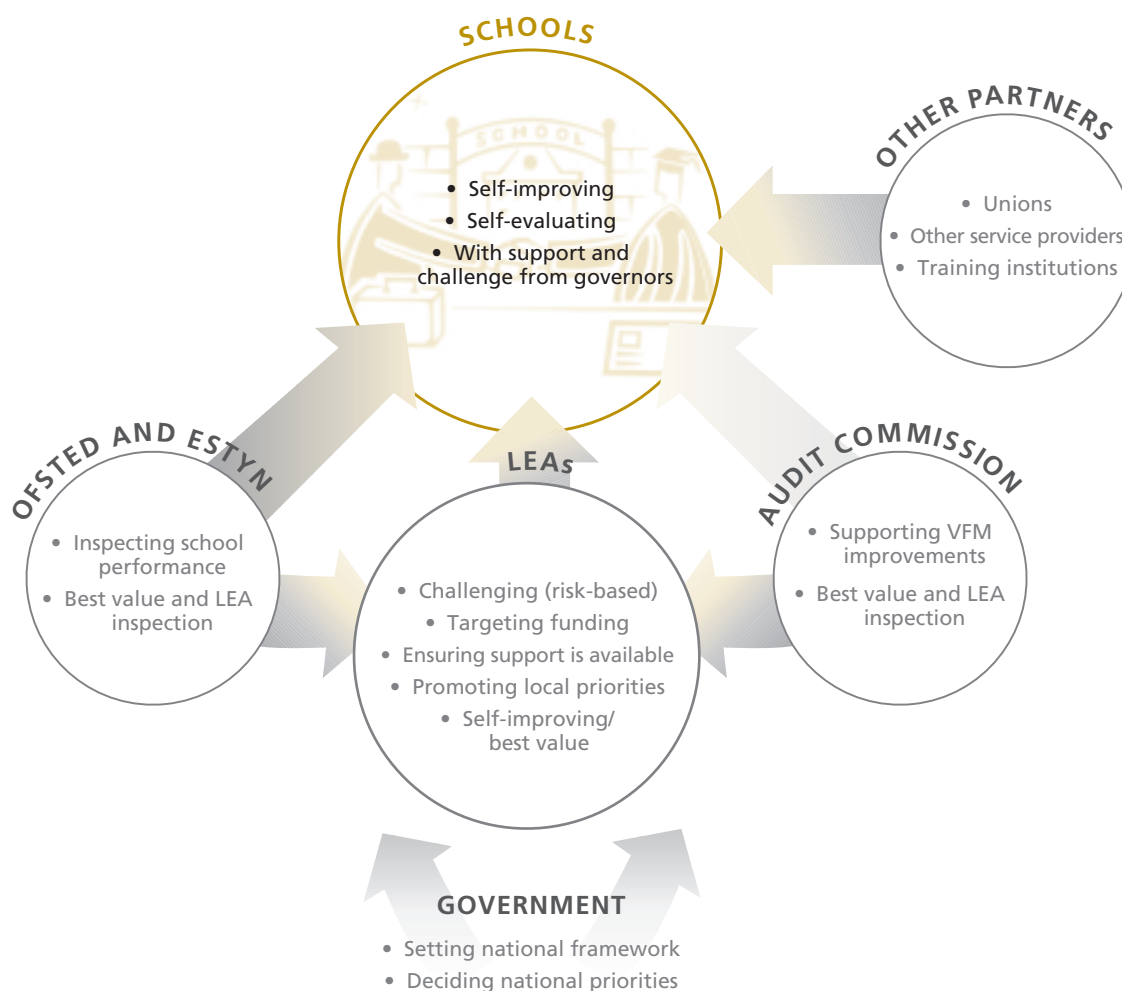
Those best placed to improve schools are schools themselves. But schools need effective challenge and support from LEAs, and the Government needs to clarify its expectations of both LEAs and schools.

106. This report has presented a series of practical recommendations for the actions required by schools, councils and government if the best is to be made of the resources going into schools. But resource management and funding are only a small part of what schools and LEAs do. However, the issues they raise – over how support, challenge and strategic leadership are provided – are highly relevant to the wider debate over the roles of schools, LEAs and government. This chapter explores the wider lessons that can be drawn about the future role of the various partners in delivering improvements in education [EXHIBIT 22].

EXHIBIT 22

The roles of partners in supporting and challenging school improvement

Wider lessons can be drawn about support and challenge for school improvement.



Source: Audit Commission

The challenge for schools

107. Those best placed to improve schools are schools themselves. Schools are used to evaluating their educational performance in order to drive improvements in standards. The recommendations presented in Chapter 2 are designed to help schools to better include financial considerations in this self-evaluation/self-improvement cycle. The Audit Commission has produced self-evaluation tools (outlined in Chapter 2) to help schools do this.

108. But schools cannot function effectively in isolation. They have to manage a complex mix of resources in an environment where there will always be some uncertainty. To do this effectively some will need access to a range of expert support and training. In order for schools to ensure that this support meets their needs and offers value for money, this support needs to be flexible and clearly priced.

109. Monitoring and challenge are required to ensure that the £19 billion managed by schools is safe and that schools are getting value for money. Again, schools should have the main responsibility for this challenge, with a key role for governors, backed up by the headteacher and senior managers. But challenge should also be provided, in proportion to risk, from outside of the school. Challenge is required on financial matters, while school improvement challenge is provided by LEAs, OFSTED and Estyn. Integrating these challenges enables LEAs to monitor and challenge school resource management based on a whole-school picture of strengths and weaknesses – a function that requires the in-depth local knowledge and which can best be provided by LEAs.

The challenge for LEAs

110. The debate over the future of LEAs has become polarised. One side argues that LEAs are an unnecessary bureaucracy, wasting money that could otherwise be spent in schools and contributing little to school improvement. The other side argues that LEAs provide essential support and challenge to schools, that they provide local political accountability and a route through which local differences and priorities can be addressed. Meanwhile, Fair Funding, delegation targets and Standards Funds have all put pressures on LEAs to pass funds to schools and stick to a specific set of core tasks.

111. At the same time, LEAs have been under pressure to be more strategic: *Excellence in Schools* addressed their ‘strategic role’ to some extent by making clear the Government’s view that LEAs had a role in raising standards (Ref. 18); The new community planning duty gives councils a clear role in improving and developing their areas; *Excellence in Cities* and the various action zones require them to join up both across council functions and with local businesses. More recently *Schools Plus: Building Learning Communities* laid out the importance of council services working together to address the problems of disadvantaged areas (Ref. 16). At the same time they are having to respond to important technological changes and to offer opportunities for lifelong learning.

To cope with these challenges LEAs need a clear vision of their roles in supporting and challenging schools.

112. To cope with these challenges LEAs need a clear vision of their roles in supporting and challenging schools:

- **Getting the basics right:** fulfilling statutory responsibilities, collating and disseminating information effectively.
- **Challenging performance in proportion to risk:¹** challenging educational standards, financial management, financial control and school resource management.
- **Ensuring schools have access to support that meets their needs:** ensuring schools can access support and training that meets their needs and which is flexible and clearly priced.
- **Clearly linking their educational vision to funding choices:** being explicit about how and why all funding choices are made; ensuring choices reflect the needs of schools and local priorities.

113. As with schools, LEAs should be driving these improvements for themselves. Best value encourages them both to set demanding targets for performance improvement, and to fundamentally review what services they provide. It provides an impetus – through its ‘compare’ criterion – for LEAs to compare performance, to share good practice and to learn from each other’s experiences. Externally, joint OFSTED/Audit Commission inspection of best value reviews will check that LEAs are delivering.

¹ The Audit Commission websites have a range of LEA facilities designed to help them challenge effectively.

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The challenge for Government and the National Assembly for Wales

114. The introduction of Fair Funding has done much to clarify Government's expectations of schools and LEAs. The extra resources being invested in education provide an historic opportunity to address the issues raised in this report. Government must recognise though, the limits of what can be achieved from the centre. The funding Green Paper recognises the dangers of both a national funding formula and of further extension to Standards Funds. It also recognises the role of LEAs in tailoring funding to local needs.

115. The DfEE document, *The role of the Local Education Authority in School Education* goes some way to articulating Government's overall view of the respective roles of schools, LEAs and themselves in distributing and managing school resources (Ref. 17). However, it is unclear if the monitoring framework it outlines (based largely on inspection reports and test data) will enable LEAs to have a clear enough view of the quality of resource management in schools to enable them to 'intervene in schools' management in inverse proportion to those schools' success'.

116. Government has given all LEAs a duty to provide best value. Both schools and LEAs are subject to inspection regimes designed to provide assurance and to help to drive improvement. These should assure Government that most LEAs are performing well and enable them to target action on where inspection has demonstrated real failure.

Conclusion

117. Schools and LEAs have, in general, responded well to the challenges of local management and Fair Funding. However, further action is required to address the issues raised in this report. But action in isolation is not enough. Schools, LEAs and the Government need to acknowledge the distinctive contribution each other can make, and work together, for children to get maximum benefit from the money going into education.

RECOMMENDATIONS

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6

Moving Forward

Government and NAW should:

- 1 Clarify the roles of schools, LEAs and government in determining how school resources are managed and distributed – outlining their expectations of each and how responsibilities will be assigned in line with these expectations. This should include a clear framework for monitoring and challenging schools' resource management in line with risk.

SUMMARY OF RECOMMENDATIONS

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Money Matters

Government and National Assembly for Wales should:

- 1 Clarify the roles of schools, LEAs and government in determining how school resources are managed and distributed – outlining their expectations of each and how responsibilities will be assigned in line with these expectations. This should include a clear framework for monitoring and challenging schools' resource management in line with risk.
- 2 Ensure that the proposed funding reforms:
 - recognise the necessary role of local choice in determining school funding;
 - ensure all funding choices are transparent and needs-based; and
 - ensure funding is distributed efficiently and effectively.
- 3 Begin this process by implementing the separate assessment of the needs of schools and LEAs (but not ringfencing these assessments) and working with LEAs to produce guidance on how Fair Funding formulae should take account of deprivation (as outlined in *Modernising Local Government Finance* and *Simplifying the System*). The Welsh Assembly should publish its separate SSA spending blocks.
- 4 Rather than increasing targets for delegation further government should clarify its expectations of LEAs and evaluate whether further delegation is in the public interest.
- 5 Rather than extending the use of Standards Funds further, government should evaluate whether such funds are the most efficient and effective way to deliver national priorities.

Councils should:

- 1 Fundamentally review how schools are funded:
 - be explicit and transparent about how and why all funding choices are made;
 - question whether choices reflect the needs of schools as well as local priorities; and
 - challenge funding choices, by benchmarking the funding of similar sets of schools across the country.
- 2 Provide schools with the funding stability that will enable them to plan ahead:
 - notifying schools of their budget share at least a month before the financial year starts; and
 - provide schools with 'shadow' budgets up to three years ahead.

SUMMARY OF RECOMMENDATIONS

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Money Matters

- 3 Improve training and support for resource management in order to help schools to plan ahead better.
- 4 Develop an integrated approach to financial and educational monitoring, building up a profile of the financial risk for all LEA schools:
 - so that school resource management can be challenged in proportion to risk; and
 - to identify all schools with inadequate financial control or management and ensure remedial action is taken.
- 5 Give schools choice and control over support services by ensuring support packages are flexible and clearly priced.

Schools should:

- 1 Challenge schools' financial and resource management performance, making best use of tools such as the Audit Commission's websites.
- 2 Use the school development plan (SDP) to focus resources onto priorities by building links between the SDP and financial plans.
- 3 Plan ahead better, despite future uncertainty, by taking a 3-year view of the resources available to the school (income) and the likely demands on those resources (staff, premises costs).
- 4 Set clear targets for what major spending decisions are expected to achieve, using them to evaluate performance.
- 5 Enable governors to scrutinise and support by providing sufficient information and choice.
- 6 Review the support for financial management in order to ensure headteachers have time to plan ahead.

Appendix 1

Background to LMS and Fair Funding

There have been a number of developments in how schools are funded and managed over the last ten years. Local management of schools (LMS) was introduced by the Education Reform Act 1988. It aimed to raise educational standards in two key ways:

1. To improve decision making, so that best use would be made of all the money going into education.
2. To make the distribution of resources between schools more needs-led and transparent.

These aims were to be achieved by delegating to schools as many as possible of the LEA's financial and managerial responsibilities and through the introduction of formula funding of schools. Circular 7/88 set out in detail what should feature in LEA schemes of delegation.

Some of the key features were as follows:

- All secondary schools and primary schools with 200 or more pupils were to be covered by LMS.
- A limit was set of 10 per cent of the general schools budget (GSB) on 'discretionary' expenditure retained by LEAs.
- A minimum of 75 per cent of the funding delegated to schools had to be distributed on the basis of the numbers and ages of pupils.

LMS came into operation on 1 April 1990 with delegation to schools being phased in over the following three years.

The Education Reform Act 1988 also gave schools the opportunity to opt for grant maintained (GM) status. GM status allowed schools to have even greater control over decision making and funding than LMS. Instead of having powers and funding delegated to them, GM schools became fully independent of their LEA. As a result GM schools received a pro-rata share of LEA expenditure in addition to the money that they received from the funding formula. However, in 1999 GM status was abolished and most ex-GM schools became either a foundation or voluntary aided school maintained by their LEA.

The scope of LMS was subsequently extended by Circular 7/91. LEAs were required to:

- extend delegation to all small primary schools;
- extend formula funding and the option of delegation to all special schools;
- increase the proportion of funding delegated on the basis of pupil numbers and ages to 80 per cent; and
- delegate at least 85 per cent of the potential schools budget (PSB) to schools (the PSB was a new measure of the funding that could potentially be delegated).

The changes came into effect over the course of 1993 and 1994.

In 1998 the DfEE issued proposals to replace LMS with a new system of devolved funding now more generally known as 'Fair Funding'. The new arrangements required LEAs to delegate all funding to schools except where it corresponded to LEA responsibilities. The consultation paper identified that LEA responsibilities fell into five main areas:

1. Non-school activities
2. Strategic management
3. Access
4. School improvement
5. Special educational needs

Starting in April 1999, the new arrangements were phased in over two years and encompassed all schools including the ex-GM schools. The Audit Commission estimates that the amount delegated to schools in England and Wales has increased by over £600 million as a result of the introduction of 'Fair Funding'.

Appendix 2

Checklists for action in LEAs

Whole LEA

-
- Is information shared effectively between different departments?
-
- Is information shared effectively with schools? Is an adequate ICT infrastructure in place (for example, to enable auto-reconciliation of financial records)?
-
- Are support packages flexible? Do they meet the needs of different schools? Are pricing structures transparent?
-
- Is adequate support, training and information provided to school governors to enable them to carry out their roles?
-
- Is there a clear split between core LEA services and traded support? Are schools aware of the split?
-

Advisory service

-
- Do link advisers engage proactively with resource management issues?
-
- Is clearly signposted advice on resource management included within advisory services packages?
-
- Is best use made of all sources of resource management expertise? Is best use made of existing headteachers?
-

Education finance

-
- Are schools given sufficient notice of their budget allocation and Standards Fund/GEST figures?
-
- Are expenditure reports to schools accurate and helpful? Is help provided with interpreting them?
-
- Is expenditure benchmarking information available and used (by schools and the LEA)?
-
- Is there a clear framework for monitoring school budgets and challenging financial management?
-
- Is there a clear framework for monitoring school balances and challenging what they are for?
-

Internal audit

-
- Is the internal audit work cycle (audit frequency and depth) based on risk assessment?
-
- Do governors see internal audit reports? (For example, are they sent to governors' home addresses?)
-
- Are audit reports clear? Do executive summaries match the main findings? Are conclusions and recommendations clear and prioritised?
-
- Does the authority receive an annual report on internal audit work in schools? Does the report analyse levels of risk by school and key system?
-

Appendix 3

Comparative analysis of school funding

In order to look at variations in school funding the Commission identified a number of sets of similar primary and secondary schools. Schools were chosen based on a number of factors related to school need:

- School size.
- Disadvantage – measured by the proportion of pupils eligible for free school meals (FSM).
- Level of Special Educational Needs (SEN).

Pupil numbers were based on the Form 7 school census return for January 2000, expressed as full-time equivalents. The level of deprivation in the pupil population was measured by using the number of children registered as entitled to a free school meal (from Form 7). A profile of schools (found at the end of this appendix) was used to identify a number of categories of similar schools. The analysis was then further refined to ensure that the schools chosen were as comparable as possible, within the limits of nationally available data:

- Primary schools selected were combined infant and junior schools without nursery or special units.
- Secondary schools with sixth forms were excluded.
- London schools were excluded, due to the additional costs of employing teaching staff in London.

Twelve categories of school were identified:

School type	Pupil numbers	Entitled to free meals (%)	Pupils with special needs (%)
Small primary	76–101		
low deprivation		0–6	10–25
medium deprivation		7–16	10–25
high deprivation		17–29	15–35
Medium primary	201–226		
low deprivation		0–6	10–25
medium deprivation		7–16	10–25
high deprivation		17–29	15–35
Small secondary	550–650		
low deprivation		0–11	10–23
medium deprivation		12–22	10–23
high deprivation		23–45	14–33
Medium secondary	750–850		
low deprivation		0–11	10–23
medium deprivation		12–22	10–23
high deprivation		23–45	14–33

The section 52 budget statements for 2000/01 of selected LEAs were analysed to identify the funding levels of schools falling into these categories. Individual school budgets were then cross-checked with LEA formulae to ensure they were broadly consistent. The comparisons of primary school funding in England were based on a random sample of 20 County and Metropolitan LEAs^I covering 28 per cent of primary schools. In order to get representative samples of secondary schools, data from 36 County and Metropolitan LEAs were used covering some 41 per cent of all secondary schools in England. The analysis for Wales covered all LEAs and schools.

The results of the analysis are given in the tables below. The data give the average, the range, maximum and minimum funding per pupil. To measure the level of variation in each category the tables include:

- the proportion within a £200 range (ie, funded within £100 of the average); and
- the proportion within a £400 range (ie, funded within £200 of the average).^{II}

Some variations in funding between similar schools may well be explained by factors which the analysis did not cover:

- National data is not available on some aspects of school need, such as the building condition. Hence, differences in funding related to these factors will not be picked up.
- There are concerns over the comparability of FSM data between authorities and its validity as a proxy for deprivation.
- Because of limitations in the comparability of SEN data the decision was taken to screen out schools with very high or very low SEN levels, rather than using SEN data as a variable in its own right.
- Some variations will reflect differences in levels of delegation or different policy choices (primary/secondary split, SEN policy, etc) which are not picked up by the analysis.

The analysis is of similar schools rather than identical schools. It is intended to present a more refined analysis than data on headline variations across all schools which does not take account of the needs of different schools. But while these four factors will account for some variation, variations of £400 per pupil within these categories should be challenged.

I However for small primary schools with high levels of deprivation a larger sample of 31 LEAs was used covering nearly half of primary schools in England.

II These ranges were chosen as they represent variations of around 10 and 20 per cent.

English primary schools (excluding London)

School size	FSM (%)	SEN (%)	Sample size	Average £ per pupil	Range (£)	Min	Max	Schools within £200 range	Schools within £400 range
Medium primary (201–226)	0–6	10–25	35	1,641	339	1,481	1,820	86%	100%
	7–16	10–25	34	1,705	392	1,549	1,941	65%	94%
	17–29	15–35	24	1,726	345	1,576	1,921	63%	100%
Small primary (76–101)	0–6	10–25	35	2,015	788	1,645	2,433	40%	63%
	7–16	10–25	34	1,992	687	1,651	2,338	41%	62%
	17–29	15–35	34	2,100	715	1,879	2,594	44%	79%

English secondary schools (excluding London)

School size	FSM (%)	SEN (%)	Sample size	Average £ per pupil	Range (£)	Min	Max	Schools within £200 range	Schools within £400 range
Medium secondary (750–850)	0–11	10–23	21	2,282	346	2,149	2,495	71%	95%
	12–22	10–23	23	2,371	390	2,171	2,561	57%	100%
	23–45	14–33	23	2,447	739	1,980	2,719	35%	65%
Small secondary (550–650)	0–11	10–23	24	2,375	422	2,220	2,642	67%	92%
	12–22	10–23	14	2,501	428	2,210	2,638	71%	93%
	23–45	14–33	15	2,636	586	2,356	2,942	73%	87%

Welsh primary schools

School size	FSM (%)	SEN (%)	Sample size	Average £ per pupil	Range (£)	Min	Max	Schools within £200 range	Schools within £400 range
Medium primary (201–226)	0–6	–	4	1,684	264	1,542	1,806	50%	100%
	7–16	–	8	1,647	72	1,618	1,690	100%	100%
	17–29	–	6	1,797	461	1,659	2,120	67%	83%
Small primary (76–101)	0–6	–	8	1,935	340	1,765	2,105	63%	100%
	7–16	–	19	1,955	508	1,726	2,234	42%	74%
	17–29	–	6	2,138	413	1,972	2,385	67%	83%

Notes: Schools with significant amounts of bilingual funding (ie, more than £100 per pupil) have not been included. Welsh secondary schools have not been included as sample sizes were too small to give any meaningful data.

Profile of schools in England and Wales

Listed below is the profile of the population of primary and secondary schools in England and Wales using the characteristics of pupil numbers, free school meal entitlement and special needs. The population has been split into deciles (or tenths) giving the range of each variable (ie, numbers on roll, free school meals and special needs) for that decile.

Sample size

	Primary	Primary (ex. London)	Secondary 11–18	Secondary 11–16 (ex. London)
England	16,211	14,451	2,865	1,118
Wales	1,644	–	228	–

The sample represents over 90 per cent of primary schools and 83 per cent of secondary schools.

Numbers on roll

Decile	England				Wales	
	Primary	Primary (ex. London)	Secondary 11–18	Secondary 11–16 (ex. London)	Primary	Secondary 11–18
1	6–86	6–81	50–556	50–462	8–43	197–476
2	87–132	82–121	557–670	463–573	44–68	477–600
3	133–175	122–164	671–769	574–642	69–96	601–685
4	176–203	165–196	770–857	643–730	97–127	686–787
5	204–224	197–217	858–937	731–801	128–158	788–859
6	225–248	218–240	938–1024	802–876	159–189	860–969
7	249–287	241–273	1025–1116	877–943	190–214	970–1089
8	288–337	274–322	1117–1233	944–1039	215–247	1090–1213
9	338–408	323–392	1234–1405	1040–1176	248–310	1214–1404
10	409–902	393–850	1406–2382	1177–1727	311–671	1405–2397
Average	239	229	962	810	169	912

Percentage of pupils entitled to a free school meal

Decile	England				Wales	
	Primary	Primary (ex. London)	Secondary 11–18	Secondary 11–16 (ex. London)	Primary	Secondary 11–18
1	0–2	0–2	0–3	0–6	0–4	0–7
2	3–5	3–4	4–5	7–9	5–8	8–10
3	6–7	5–6	6–7	10–11	9–11	11–12
4	8–9	7–9	8–10	12–14	12–14	13–14
5	10–13	10–12	11–13	15–17	15–17	15–17
6	14–18	13–16	14–16	18–22	18–21	18–19
7	19–24	17–21	17–22	23–26	22–23	20–23
8	25–32	22–29	23–28	27–34	24–30	24–25
9	33–44	30–41	29–40	35–45	31–40	26–32
10	44–100	42–100	41–88	46–81	41–86	33–60
Average	18.5	17	17.5	21	20	19

Percentage of pupils registered as having special needs

Decile	England			
	Primary	Primary (ex. London)	Secondary 11–18	Secondary 11–16 (ex. London)
1	0–10	0–10	0–7	0–10
2	11–13	11–13	8–10	11–12
3	14–15	14–15	11–12	13–14
4	16–17	16–17	13–14	15–16
5	18–20	18–19	15–16	17–18
6	21–22	20–22	17–18	19–21
7	23–25	23–25	19–21	22–23
8	26–29	26–29	22–24	24–27
9	30–35	30–35	25–31	28–33
10	36–95	36–95	32–77	34–77
Average	21	21	18	20

Comparable SEN data for Wales was not available.

Appendix 4: Acknowledgments

Advisory group

Kerry Ace	Finance and Policy Manager, Chartered Institute of Public Finance and Accountancy
Neil Fletcher and Gale Waller	Local Government Association
Jill Forbes	National Association of Headteachers
Chris Gale	Chair, National Governors Association
David Johnson	Secondary Heads Association
Frank Knowles	Her Majesty's Inspector, Office for Standards in Education
Huw Lloyd-Jones	Estyn, Office of Her Majesty's Chief Inspector of Wales
Sue Nicholson	National Association of Head Teachers
Jerry Oddie	Secretary, Foundation and Voluntary Aided Schools' Associations
David Reynolds	Professor of Education, School of Education, University of Exeter
Elizabeth Taylor	Head of Schools' Management Division, National Assembly for Wales Education and Training Department
Andrew Wye	Divisional Manager (Schools' Funding) Department for Education and Employment

Fieldwork sites

Many LEAs and schools assisted with this study. The Commission would particularly like to thank those listed below.

LEA

**Brent Council, Education,
Arts and Libraries**

Schools visited

Convent of Jesus and Mary Language College
Preston Manor High School
Preston Park Primary School
St Margaret Clitherow RC Primary School

**The Royal Borough of
Kensington and Chelsea,
Education Services**

**Pembrokeshire County
Council Education Services**

Sir Thomas Picton School
Tenby VC Infants' School
Ysgol Glan Cleddau/Glan Cleddau School
Ysgol Greenhill/Greenhill School

**Powys County Council,
Gwasanaeth Addysg/
Education Service**

Crickhowell High School
St. Michael's C in W Primary School
Ysgol Gynradd Rhaeadr/Rhayader Primary School
Ysgol Hafren/Hafren School

**Rotherham Metropolitan
Borough Council,
Department of Education
Culture and Leisure Services**

Aston Comprehensive School
Aston Lodge Primary School
High Greave Junior School
High Greave Infant School

**Somerset County Council,
Education Department**

Cheddon Fitzpaine C of E Primary School
Priorswood County Primary School
Rockwell Green C of E VC Primary School
The Castle School

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Borough Council, Community
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Services Directorate**

Churston Grammar School
Combe Pafford Special School
Oldway Primary School
St Margaret Clitherow Catholic Primary School

**Worcestershire County
Council, Education Services**

Catshill Middle School
Charford First School
Chase High School
Dyson Perrins C of E High School

**Pilot education
authorities**

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- Suffolk County Council
- Surrey County Council
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- London Borough of Barnet
- Staffordshire County Council
- Stockton-on-Tees Borough Council

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The Principles of Performance Indicators

Management Paper, 2000, 1862402280, £15

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LEA Management of School Attendance and Exclusion

National Report, 1999, 1862401934, £20

Held in Trust

The LEA of the Future

National Report, 1999, 1862401330, £20

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Management Paper, 1999, 1862401683, £15

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Update, 1998, 1862401217, £5

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Each year over £23 billion is spent on educating 8 million children. Schools control 82 per cent of this money themselves. *Money Matters* looks at recent developments in the way schools are funded and asks: How well are schools controlling and managing their finances? Do they receive adequate support and challenge from their local education authorities (LEAs)? Does the funding system ensure that all schools get a fair deal?

Schools, councils and government have distinctive roles to play to give children the maximum benefit from the money going in to education. Reforms to the funding system must ensure that the needs of schools are met without removing local choice in determining school funding. Councils can do more to make their funding decisions fairer and more transparent. LEA departments need to work more closely together to determine which schools need assistance in managing their budgets, and how this support should be provided. Schools need to challenge their financial and resource management performance and better link their budgets to their development plans, in order to make best use of their funding.

Money Matters has been written for LEA officers, elected council members, national policy makers, governors, headteachers and others interested in taking forward the debate on school funding and management. The report presents a series of practical recommendations, backed up by internet-based self-evaluations tools, on the actions required by schools, councils and government.

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