

Valuable lessons

Improving economy and efficiency in schools

Briefing for head teachers and school staff

with financial responsibilities

July 2009



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

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

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

Improving economy and efficiency in schools

Is any of this familiar?

- Your budget is under pressure and you are uncertain about future funding.
- You have heard of other schools making significant savings, or spending less than you do, on certain goods and services.
- You have ambitious plans for the future, but don't know what they will cost to implement.
- Your surplus revenue balance continues to increase.
- You wonder if greater collaboration with other nearby schools could help with budget pressures.
- You aren't sure what information will help you deploy your resources in the most efficient way.
- You do not know the cost of the improvements in attainment you have already achieved, or the cost of the ones you want to make.

Public finances are under pressure. This report is designed to help you get the best from your budget.

Introduction and context

Schools face challenging financial circumstances. Funding growth has already slowed, after real terms increases of 56 per cent between 1997/98 and 2007/08. Recent forecasts for public expenditure beyond 2010/11 suggest tighter funding. Those with financial responsibilities in all public services, therefore, have to consider how resources can be put to best use.

This briefing is written for head teachers and other school staff with financial responsibilities including bursars, business managers and other support staff. It is based on research that has led to the publication of *Valuable lessons*, as well as summary reports for councils and governing bodies. The briefing for governors encourages them to provide constructive challenge to the school.

The Audit Commission supports and challenges public bodies to improve value for money. This briefing provides advice on actions that schools are taking, or can consider, to improve value for money. We also provide online tools and resources for schools, including our Managing School Resources online self-evaluation tool, to support schools in doing so. The updated

tool, available from autumn 2009, contains case studies drawn from our research. To receive notification when the tool is updated, please email nationalstudies@audit-commission.gov.uk

Definition and explanation of value for money

The principle of value for money is straightforward, although measuring it is complex. The widely accepted definition of value for money refers to three elements described as the ‘three Es’: economy; efficiency; and effectiveness (Table 1).

Table 1: **The three components of value for money**

	Definition	Example
Economy	Minimising the costs of resources used for a good, service or activity	Are school supplies purchased at the best available price?
Efficiency	The relationship between outputs and the resources used to produce them	Does the timetable make best use of teachers?
Effectiveness	The extent to which objectives have been achieved	To what extent has the deployment of teaching assistants raised attainment?

Source: Audit Commission

The main focus of regulation and accountability in the schools sector is on promoting well-being and raising standards or, in other words, effectiveness. But effectiveness cannot be achieved at any price, because public money will always be limited. Those who are responsible for spending public money also need to pay close attention to the other components. This briefing therefore focuses primarily on the economy and efficiency elements of value for money.

Improving economy and efficiency in schools

In *Valuable lessons* we recommend that the Department for Children, Schools and Families (DCSF) should ensure that there is a more robust assessment of economy and efficiency.

Schools are experienced at using data and information to raise standards, but are less clear about how to ensure and demonstrate that they operate economically and efficiently.

In recent years, schools' financial management processes have been assessed against the Financial Management Standard in Schools (FMSiS). Schools and councils report that FMSiS has: encouraged better financial management; clarified roles and responsibilities; and provided a basis for the skills development of school staff and governors. However, FMSiS focuses on the processes of good financial management rather than on ensuring economy and efficiency. One head teacher summarised a common view: 'It's easy to have good documentation for bad decision making.'

How can schools improve value for money?

We have identified six areas where a school can challenge itself to improve its value for money:

- considering the financial implications of its plans;
- reviewing its financial surplus (or deficit);
- ensuring that the goods and services it buys represent value for money;
- using the school workforce to best effect;
- collaborating with other local schools; and
- using data and information to support better decision making.

The following sections explain these in more detail. We have also included questions for head teachers and for school staff with financial responsibilities. Schools can assess themselves against these and other questions on effective use of resources in our online Managing School Resources toolkit.

Considering the financial implications of school plans

Most schools have development plans that set out their aims and objectives and the activities that will enable them to meet these objectives. A well-developed plan will help target resources efficiently.

The best school development plans will include the resource implications of proposed activities, and will:

- cost all significant activities in every year of the development plan;
- include the staff costs for all significant development plan activities;
- cover a significant proportion of the school's overall annual budget;
- reflect the priorities of the school and determine its financial strategy;
- provide a basis for monitoring progress during the year; and
- have strong links to the multi-year budget.

We have recommended that councils improve the availability and quality of financial support by offering resource management and value for money training as part of the council's finance package.

Questions to consider

How well do your spending patterns reflect the school's development plan and priorities?

How well does your school development plan cover staff costs?

What links do you make between what you spend on staff or goods and services and educational and well-being outcomes?

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

What contingency arrangements does it include?

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

Schools should review their financial surplus (or deficit)

Excessive school revenue balances represent an inefficient use of public money, as retained funding is not being used to improve outcomes for children. From 1999/2000 to 2007/08, overall levels of balances have increased in real terms by 79 per cent in primary schools and by 197 per cent in secondary schools. Surpluses tend to grow as a response to uncertainty about future funding and such uncertainty is more likely, given the economic situation. The right response to uncertainty is good financial management, rather than the retention of funding.

Improving economy and efficiency in schools

A primary school should hold no more than 8 per cent of income and a secondary school no more than 5 per cent. If primary schools and secondary schools with excessive balances reduced their balances to those levels, £270 million and £260m could be released respectively.

Schools can ensure current revenue balances are spent appropriately on current pupils by having plans in place and by answering the questions below.

Questions to consider

Is your surplus balance in excess of the recommended level?

If so, what is your plan to reduce the balance?

Is it working?

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

How well does the extra spending link to your priorities?

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

For schools in deficit

Do you have a deficit management plan?

How will you achieve it?

Is it working?

Ensuring that the goods and services schools buy represent value for money

Primary and secondary schools have increased spending on goods and services from £4.0 billion in 1999/2000 to £6.8 billion in 2007/08, a real terms increase of 40 per cent. The amount individual schools spend on each item of expenditure varies considerably, even after accounting for different school sizes, geographic locations and socio-economic contexts.

The variation between similar schools implies that some may be spending substantially more than necessary. We estimate that if only the highest spending 25 per cent of schools – compared with similar schools – reduced their expenditure on certain items to the upper quartile level, savings of more than £400 million are possible nationally (Table 2).

Table 2: **Substantial savings are possible even if only the highest spending schools reduce their expenditureⁱ**

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

Source: Audit Commission

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

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

Improving economy and efficiency in schools

Schools that buy in the most cost-effective way will focus on the following four aspects:

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

Regular reviews of high-cost goods and services, such as administration and ICT, will reveal whether they are meeting the school's aims and objectives, and whether services are meeting the performance levels expected. The reviews will also help the school with decisions about future suppliers. Different options for service provision can be considered and your school's governing body has an important role.

Questions to consider

How well do the goods and services that you buy meet your requirements?

If they do not, have you considered the alternatives?

How well do your choices of goods and services align with your priorities?

Buying value for money goods and services in different markets

Your school is likely to buy products in three different markets.

Understanding each of these markets is important to ensure value for money.

- Markets for services where **councils have traditionally been the providers**. These services can include financial support, catering, caretaking and school transport. Schools that use these services well will compare council services with other providers to see who offers the best quality of service, at the best price. We found that value for money may be at risk if schools either fail to take advantage of economies of scale that councils can secure, or default to council-traded services due to familiarity, when cheaper or better alternatives are available. One school we visited saved £133,000 over three years by moving from a council-traded caretaking service to in-house provision.

-
- **Markets for high-volume items** that tend to be priced more competitively. Some schools in our fieldwork found using electronic buying systems saved schools time and money on these routine items.
 - **Unique specialised markets** with few possible suppliers.
Examples are:
 - Energy: council or professional buying organisation contracts are likely to be the cheapest as they are able to aggregate demand.
 - Catering: we visited one school that had brought its catering service in house and generated a £30,000 surplus in 2008/09.
 - Telephony: we visited a school that switched telephone supplier and achieved a 40 per cent saving on call costs.

Questions to consider

Which goods and services cost you most and which do you spend more on than other schools?

Have you reviewed whether there are better or cheaper alternatives?

Are you reviewing the quality and cost of each individual service bought from the council annually?

How are you using technology, including electronic procurement, to minimise the cost of purchasing goods and services?

Undertaking the process of purchasing appropriately ⁱ

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

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

Improving economy and efficiency in schools

Questions to consider

Are you confident that:

- school staff have appropriate authority to take buying decisions?
- the thresholds over which quotes and tenders must be sought are understood and reported?
- there is effective separation of duties between the authorisation and processing of purchasing decisions?
- you can produce an audit trail for all major buying decisions?

Using goods and services efficiently

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

Questions to consider

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

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

Effective deployment of the workforce

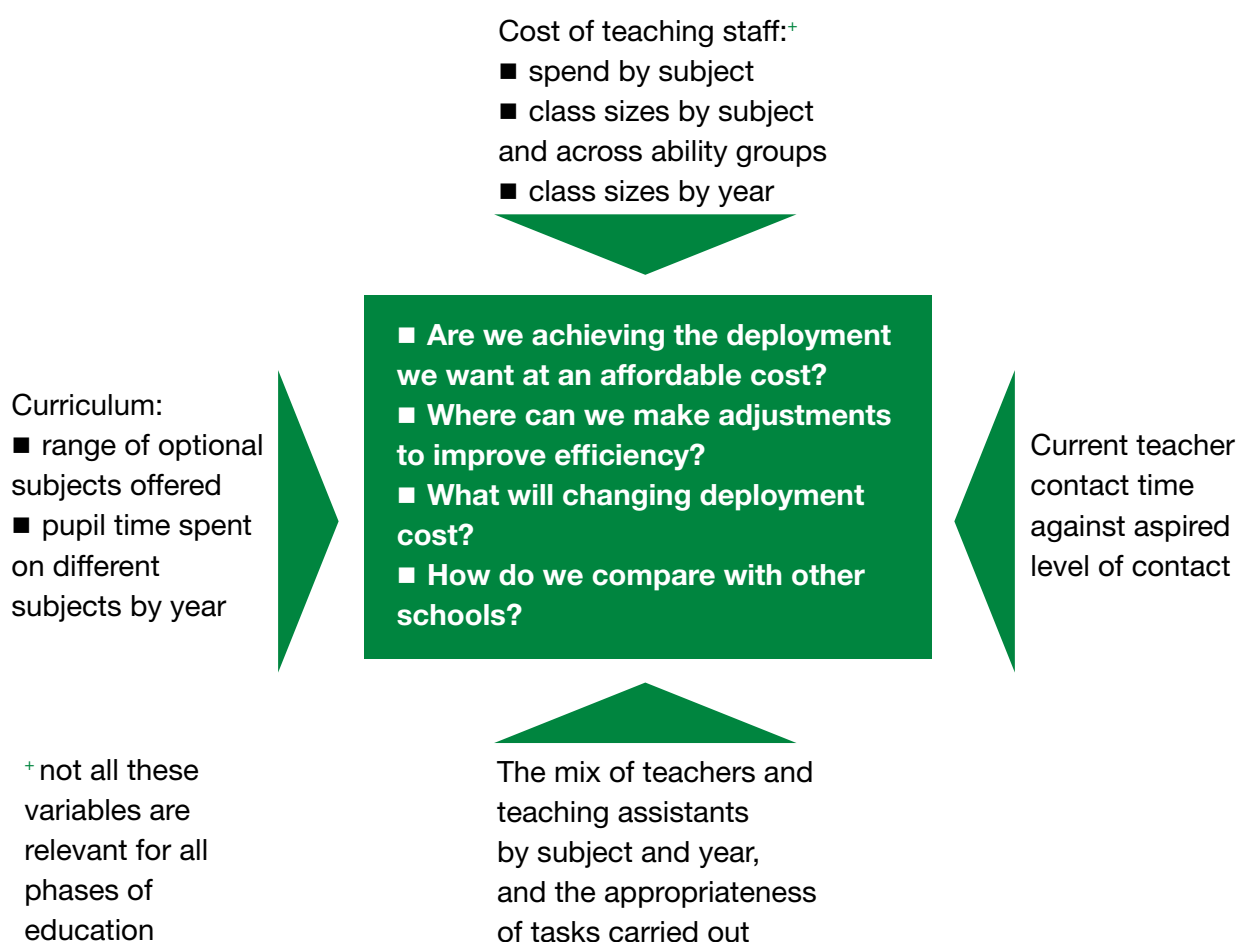
Primary and secondary schools spent more than £24 billion in 2007/08 on their workforce, 78 per cent of their revenue expenditure. Ensuring good quality teaching is the most important factor, but schools that plan well will deploy teachers and teaching assistants where they have the greatest impact.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

Schools make staff deployment decisions in the context of the 2003 national agreement on raising standards and tackling workload, and the requirements of the national curriculum. Within this context, schools retain flexibility in how they use classroom staff. We saw examples of schools that have reviewed and changed resource deployment by subject, with consequent improvements in attainment. Head teachers can also choose between employing more teaching assistants or teachers, with their different associated costs.

Schools that are good at workforce planning will take account of the variables outlined in Figure 1 when deciding on classroom staff deployment. We visited a secondary school that uses and monitors information to optimise teacher contact time and workload.

Improving economy and efficiency in schools

Figure 1: Schools can consider a range of variables when thinking about economic and efficient classroom resource deployment



Source: Audit Commission

In addition to the deployment of teaching staff, schools can improve economy and efficiency by ensuring they have considered:

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

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

As well as the questions in Figure 1, schools can consider other key staffing questions.

Questions to consider

For existing staff

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

How do you ensure this happens?

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

How well do you understand the cost of changes to the breadth of the curriculum or class structures?

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

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

For new posts

How well do you understand the long-term financial consequences of creating a new post?

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

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

Absence cover

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

What options has it explored?

Improving economy and efficiency in schools

Collaborating with other schools

In our research, schools showed different collaborative approaches that ranged from informal networks to formal federations, and delivered benefits including:

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

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

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

Questions to consider

What opportunities are there to buy goods and services or carry out joint training with other schools?

What are the opportunities to share teaching or non-teaching staff with other schools to save money?

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

Have you reviewed the costs and benefits of federation or clustering with other schools to achieve possible economies of scale?

Using data and information well

Schools make good use of performance data and information to improve pupil outcomes, such as examination results. Fewer make good use of the financial information available to them. For example, only about a half of schools used the national schools financial benchmarking website in the year to July 2008.ⁱ

Schools that use benchmarking annually will be able to compare spending with other schools to identify the potential for savings. The benefits of benchmarking come from a comparison with others and understanding why differences exist.

Figure 1 shows the importance of considering the cost of classroom staff in detail. Part of the updated Managing School Resources toolkit includes help to schools for costing workforce expenditure. The tool helps provide better data to understand resource deployment and performance, for example at subject level. Using this information, schools can compare financial inputs against outcomes, to assess whether workforce resources are deployed effectively.

Questions to consider

Which areas of your spending are higher than in a similar school?

And in which areas is it lower?

Do you know why?

Do you analyse the national benchmarking data for possible savings annually?

What savings have you made in the last year?

What further savings can you make this year?

What was the cost of improving outcomes?

What will your future improvement plans cost?

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

Other sources of information

In addition to the Audit Commission Managing School Resources toolkit, useful resources for schools include:

DCSF resources

- A strategic planning guide on its value for money unit website (<http://www.standards.dcsf.gov.uk/vfm/downloads/PDF/strategicplanning.pdf>)
- A free one-day consultancy visit to advise and support schools on value for money (<http://schools.tribalavail.co.uk/vfm/index.html>)
- The national school benchmarking website (<https://sfb.teachernet.gov.uk/login.aspx>)
- The On-line Procurement for Educational Needs (OPEN) system for schools (<http://www.dcsf.gov.uk/open/>)
- The purchasing guide for schools (http://www.dcsf.gov.uk/valueformoney/docs/VFM_Document_15.pdf)
- Guidance on energy and water management (http://www.dcsf.gov.uk/valueformoney/docs/VFM_Document_84.pdf)

Other resources

- Teachernet provides 10 top tips for school procurement (http://www.teachernet.gov.uk/management/epc/Procurement_Guidance/Top_10_Procurement_Tips/)
- FMSiS has support on staff deployment, which in turn links to a checklist for schools (http://www.fmsis.info/uploads/S4_3.doc)
- The British Educational Communications and Technology Agency (BECTA) provides guidance for schools and councils on achieving best value in ICT (<http://www.becta.org.uk/bestvalue.php>)
- Guidance provided by the Office for Government Commerce will help you improve energy usage. It recommends buying energy through a consortium that aggregates demand (http://www.ogc.gov.uk/commodities_procurement_energy_7109.asp)
- Carbon Trust: Schools Resource Pack (<http://www.carbontrust.co.uk/Publications/publicationdetail.htm?productid=ADH017&metaNoCache=1>)
- School catering guidance is available from Teachernet that gives advice on the different procurement options (<http://www.teachernet.gov.uk/docbank/index.cfm?id=10438>)
- The National Audit Office good practice guide from 2006 on smarter food procurement in the public sector recommends that schools can make significant savings on school meals (http://www.nao.org.uk/system_pages/idoc.ashx?docid=5aad1f40-4123-4e33-a95d-6789a4017d58&version=-1)

-
- The School Food Trust has also reported on school meal procurement in: *A Fresh Look at School Food Procurement Efficiency and Sustainability* (http://www.schoolfoodtrust.org.uk/UploadDocs/Library/Documents/sft_fresh_look_procurement_print_friendly.pdf)

Other Audit Commission resources:

- *Keeping Your Balance: Standards for Financial Management in Schools, 2000* (<http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/keepingyourbalance.aspx>)
- *Getting the Best from Your Budget, 2000* (<http://www.schools.audit-commission.gov.uk/>)
- *Special Educational Needs and Additional Educational Needs* value for money resource pack, 2008 (<http://www.sen-aen.audit-commission.gov.uk/>)
- *Education Funding: The Impact and Effectiveness of Measures to Stabilise School Funding, 2004* (<http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/educationfunding.aspx>)

© Audit Commission 2009

This document is available on our website at:

www.audit-commission.gov.uk

If you require a copy of this document in large print, in Braille, on tape, or in a language other than English, please call: **0844 798 7070**

If you require a printed copy of this document, please call: 0800 50 20 30 or email: audit-com-publications@capita.co.uk

For further information on the work of the Commission please contact:

Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 1212

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

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

Stock code: LEB3541



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: **0844 798 1212**
Fax: 0844 798 2945
Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk