

Valuable lessons

Improving economy and efficiency
in schools

Local government summary
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.

Education expenditure per pupil has increased by two-thirds in a decade

- English primary and secondary schools spent over £31 billion in 2007/08, an increase of 56 per cent in real terms since 1997/98.
- While school results have improved, not all targets have been met.
- Schools' budgets are now growing more slowly and the future is likely to be more austere.
- The Department for Children, Schools and Families (DCSF) claimed over £3 billion of school efficiencies between 2005/06 and 2007/08, with a target of £3.7 billion in the next three years.

Schools have weak incentives to be economical and efficient

- Value for money requires economy and efficiency as well as effectiveness.
- Schools' accountability for spending is weak; they do not have to report efficiency savings, or respond to DCSF's targets.
- Ofsted's value for money assessment has focused more on effectiveness than economy and efficiency.
- The financial management standard in schools focuses on processes rather than the real achievement of economy and efficiency.
- Councils focus on processes and helping schools in difficulty.
- Governors can challenge schools to improve economy and efficiency, but this challenge is not always strong enough.

Schools could save over £400 million through better procurement alone

- Schools' spending on goods and services increased by 40 per cent over eight years to £6.8 billion in 2007/08.
- The great variation between schools' spending on standard items shows scope for large savings.
- Schools should subject suppliers of goods and services, including councils' traded services, to competition, and use professional buying organisations to reap economies of scale.
- Councils should support schools to purchase more effectively, for example in understanding local markets and aggregating buying power.

Workforce deployment is the most important decision in schools and must be undertaken with economy and efficiency in mind

- Schools spent £24.2 billion on their workforce in 2007/08, up from £14.3 billion in 1999/2000.
- There are 32,000 more teachers, 100,000 more teaching assistants and 70,000 more support staff than there were in 1997, while pupil numbers have fallen by 80,000.
- In a more austere future, schools will need to ensure that the number of staff is affordable and the mix offers good value for money.
- Schools have more flexibility than they may realise to deploy classroom staff efficiently.
- Schools have little comparative information on costs or how workforce deployment affects outcomes for children.

Many schools have excessive balances, of which over £500 million could be released nationally

- School balances increased from £680 million in 1999/2000 to more than £1.76 billion in 2007/08.
- In 2007/08, balances in secondary schools increased by 22 per cent and in primary schools by 7 per cent in real terms.
- Hoarding money intended for education is poor value for money.
- Nearly 40 per cent of schools have excessive balances despite repeated encouragement to reduce them.

There are many ways schools can save money without adversely affecting children's education

- Use the national benchmarking tool to identify high costs.
- Improve planning to include the costs of the workforce and link financial and performance information.
- Collaborate with other schools to share both teaching and support staff; procure jointly; and share market intelligence.
- Federation is rare, but can deliver significant savings. Examples have achieved savings of 6 and 2 per cent of overall revenue expenditure.

Recommendations

DCSF should:

- ensure that there is a more robust assessment of economy and efficiency;
- develop the Financial Management Standard in Schools to provide comparisons between schools, and to focus on improving economy and efficiency;
- consult on more effective measures to reduce and redistribute school balances;
- monitor and report at national level on the achievement of efficiencies in non-pay expenditure identified in this report;
- improve the research base, and the information available to schools and governors, so that decision making on classroom staff deployment can take better account of economy and efficiency without compromising effectiveness; and
- collect unit costs for high-cost items to improve the comparative information available to schools.

Recommendations

Councils should:

- Improve the availability and quality of financial support by:
 - offering resource management and value for money training to schools as part of the council's financial package, targeting those with limited capacity; and
 - aligning, and sharing knowledge between, finance and service improvement teams to improve schools' experience of these services.
 - Support better purchasing by:
 - raising schools' awareness of high quality alternative providers of traded services, including them in any portfolio of traded services;
 - identifying schools spending more than others on items of procurement and support them to find savings;
 - ensuring that schools use electronic procurement systems to minimise purchasing costs; and
 - encouraging schools to collaborate on purchasing to benefit from economies of scale.
- Strengthen accountability for value for money by:
 - ensuring that internal audit provides assurance to governing bodies and councils on questions of resource management and recommends value for money improvements as a matter of course; and
 - ensuring that school improvement partners (SIPs) consider resource deployment as part of their role. Councils may need to provide further training to SIPs to support them.

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- Ensure that accessible financial training is available for all governing bodies. Training should cover value for money and the links between finance and school performance.
 - With their schools forums, consider funding these recommendations through, for example, traded services, refocusing existing resources on economy and efficiency, self-funding initiatives or persuading schools to use balances to invest in their own abilities to manage finances.

Recommendations

The Audit Commission will:

- work with Ofsted to review and improve the criteria for assessing value for money and the information inspectors need to make judgements on economy and efficiency;
- provide separate guidance for councils, governors and school staff with financial responsibilities;
- update our Managing School Resources tool that helps schools self-assess whether they are getting the best from their budgets; and
- provide a tool to help schools cost workforce expenditure and compare this with performance.

Copies of the full report are available at:

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



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