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

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

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

Introduction

The financial environment for schools is becoming more challenging. Following a decade of substantial real terms increases in expenditure, funding growth has already slowed. Forecasts for public expenditure beyond 2010/11 suggest tighter funding.

This briefing builds on the Audit Commission’s report Valuable lessons and is intended for directors of children’s services and their teams. It includes checklists of questions to consider. Council officers may wish to discuss the findings and responses to the questions with their lead councillors.

We found that the main focus of regulation and accountability in the schools sector is on promoting well-being and raising standards or, in other words, effectiveness. However, value for money cannot be achieved without also considering economy and efficiency. This briefing therefore focuses primarily on the economy and efficiency elements of value for money, and:

- summarises areas where councils can help schools to improve economy and efficiency;
- provides case study examples of council support for schools; and
- provides recommendations to councils.

In 2008/09, funding delegated to maintained schools represented about 34 per cent of total council expenditure in England (Ref. 1). The majority of this funding is delegated to schools via the dedicated schools grant from central government.

Since 1988, schools have gained greater autonomy from councils (Ref. 2). While councils’ accountability for money spent by schools is similar to other areas of council expenditure, councils have less influence on financial decisions. Council roles still include:

- responsibility for financial control, which remains with the section 151 officer at the council, despite budget delegation to schools (Ref. 3);
- provision of internal audit;
- responsibility to monitor, challenge, support and intervene in school improvement; and
- power to intervene in schools causing concern (Ref. 4).

Councils are required to provide support to governing bodies in procuring goods and services to ensure the ‘three Es’: economy; efficiency; and effectiveness (Ref. 5).
Even though substantial funds are at stake, councils’ ability to support improvement in economy and efficiency in schools is constrained. The central expenditure limit constrains councils from increasing spending on central services by more than the individual schools budget. Councils that want to provide additional support to schools on value for money may find it difficult to resource. Possible options include:

- providing support as part of traded services;
- refocusing existing resources on economy and efficiency;
- self-funding initiatives, for example through improving procurement (see case study 1); and
- persuading schools to use balances to provide a one-off investment in their own abilities to manage finances.

We have provided separate briefings for governors and school staff with financial responsibilities. From autumn 2009, schools can use our updated Managing School Resources online self-evaluation tool and a tool to help them cost workforce expenditure and compare this with performance.

**Councils can increase their influence on economy and efficiency in schools**

Councils have a role in three key areas of school support where the focus on economy and efficiency can be strengthened:

**Financial support**

- availability and quality; and
- national benchmarking.

**Staffing and purchasing in schools**

- procurement and traded services; and
- collaboration between schools on purchasing and staffing.

**Accountability for value for money**

- school improvement partners (SIPs);
- internal audit; and
- governor support.
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Financial support

Availability and quality of financial support
Schools’ perceptions of their council’s support for resource and financial management have improved (Ref. 6). However, this support is typically for financial administration and monitoring rather than more pro-active support to improve how resources are bought and used. In addition, councils and schools both said that support tends to be focused on schools in financial difficulties, rather than ensuring value for money in all schools. One head teacher commented that:

‘There tends to only be training or guidance for head teachers when something goes wrong.’

Furthermore, in our school fieldwork we found variation in the extent to which schools consider the financial implications of their strategic planning. For example, not all plans were costed and, in most cases, workforce costs were either not included or presented in limited detail. Head teachers believe that councils could improve the quality of support for schools by aligning finance and improvement services.

Councils can:
- challenge schools to produce well-costed development plans by providing finance support that helps head teachers cost educational developments. In one example, a council has provided this through its traded services;
- provide value for money training directly to schools as a traded service; and
- align the finance and service improvement support that they provide to schools. This could be through improved knowledge sharing between finance and service improvement teams, or by ensuring finance staff have educational knowledge.
Focus on national benchmarking
Councils can encourage schools to use the national financial benchmarking website. Schools using the site can compare their expenditure with similar schools to identify the potential for savings. Many councils provide schools with their own financial benchmarking information. However, just repackaging information provided on the national benchmarking site is not value for money. One council we visited had stopped providing this service and asked schools to use the national site.

Questions to consider
To what extent do school development plans include workforce costs?
What are you doing to improve the costing of school development plans?
How well do your school finance and improvement teams align?
How many schools in your area are not using the national benchmarking website?
What more do you need to do to encourage use?
What savings have schools in your area made?
How are you spreading the best practice?

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Purchasing in schools

Improving procurement
Primary and secondary schools have increased expenditure 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 that individual schools spend on each item of expenditure varies considerably, even after accounting for different school sizes, geographic locations and socio-economic contexts. We have estimated that if schools had bought goods and services more efficiently they could have saved more than £400 million in 2007/08. Case studies 1 and 2 illustrate the innovative approaches in two councils to help schools reduce the cost of goods and services through coordinating purchasing.

Case study 1: Knowing Knowsley’s costs
Knowsley Council employed a dedicated schools procurement officer for one year from September 2007, on behalf of the schools forum. The post was funded from retained funding from the dedicated schools grant. Part of the role was to review school procurement spending in an attempt to find possible savings. The procurement officer analysed stationery expenditure in 2006/07 from school financial systems, and compared the prices that schools were paying with the cheapest comparable supplier. Using data from a sample of 41 Knowsley schools, the procurement officer identified £62,000 of potential savings that amounted to 10 per cent of school stationery spending.

By taking a coordinated approach, the officer was also able to negotiate a 6 per cent reduction (about £14,000) on the proposed school milk contract. The officer also brokered a deal with the council’s school meals provider, which agreed to absorb the cost of using a security firm to collect cash from schools, saving school staff time.

Since the school procurement officer left, to take up a post within the Department for Children, Schools and Families (DCSF) as an Education Procurement Centre Manager, the schools forum has been supported by 10 per cent of a part-time school procurement officer. In addition, the strategic management of school procurement is coordinated on behalf of the schools forum using 6 per cent of the time of the education and schools resource manager.
Traded services

Schools report relatively low levels of satisfaction with the effectiveness of support provided by councils in purchasing traded services (Ref. 6). Value for money may be at risk if schools either fail to take advantage of the economies of scale that councils can secure, or default to council-traded services due to familiarity. All schools should be reviewing their choices of traded services annually. Councils can encourage schools to review their use of traded services and provide examples of alternative suppliers. Some councils provide this information to schools as part of their annual portfolio of traded services.

The Audit Commission publication *Healthy Competition* (Ref. 7) contains a checklist that may help councils to consider their approach to the provision of traded services for schools.

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**Case study 2: Collective buying power in Wiltshire**

Wiltshire County Council created a schools buying community in 2006 to increase purchasing power by linking 400 buyers in 240 schools. The online system can aggregate demand to enable one school to obtain quotes on all the schools’ behalf. The options it identifies are offered to each school so they can decide whether to order the goods or services. Each request remains individual and the final decision on whether to purchase rests with each school separately. The community can purchase any goods or services that are either of significant value or are difficult for schools to procure effectively and efficiently. The most popular categories are ICT, stationery and furniture. There have been six areas of procurement improvement:

- procurement training for school finance and administration officers, including value for money;
- online procurement quotations that provide schools with a range of competitive quotations, easily and quickly, saving time for school staff;
- sharing knowledge through a dedicated procurement forum integrated with school officers’ email systems. The forum also encourages recycling of surplus resources between schools;
- self-selecting groups of schools can request quotations as a single buying community;
- appraisal of supplier performance shared among community members; and
- a searchable database of community quotes that allows community members to access savings made by other schools.

The community won a supply management award from the Chartered Institute of Purchasing and Supply in 2007. The buying community has achieved cash savings of £260,000 and non-cash savings of 1,400 hours of staff time through quotation requests.
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Supporting collaboration
Schools can make significant savings through greater collaboration. This can take different forms, ranging from informal information sharing to formal federations, and from joint procurement to shared staff. Benefits of collaboration may include:

- making a broader curriculum more cost-effective;
- joint appointments (which can reduce costs);
- economies of scale, for example by aggregating purchasing; and
- saving on planning and administrative time.

The update to our Managing School Resources tool provides examples of federations. One secondary school example demonstrates how, by employing an executive principal and administrative staff across two schools and having single department heads, the management and administrative costs for one school have reduced from £633,000 to £447,000, a reduction of nearly 30 per cent. This is approximately 6 per cent of the school's £3 million total annual 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.

In another example, a secondary school has federated with two local middle schools and two local first schools. Net annual savings include £120,000 from rationalising the leadership structure and £100,000 through joint procurement. This represents approximately 2 per cent of overall revenue expenditure for the federation as a whole.

Councils can encourage schools to consider the benefits of joint staffing. In Devon, collaboration through use of local learning communities offers an opportunity to make time savings for head teachers through use of a shared school business director.
Case study 3: Implementing local learning communities

Devon’s 31 local learning communities (LLCs) are based on a geographical clustering of schools in place throughout Devon for over 30 years. LLCs are the strategic framework for partnership working between schools, wider children’s services and other agencies. LLCs also provide an area-based approach to the coordination and delivery of extended services, and link directly into the work and commissioning activities of local children’s trusts.

Devon is hosting two national pilot projects developing the role of a school business director who will work across a cluster of schools. This business management function will include negotiating contracts and discounts across the LLC, providing a bursar service to all or some schools, and may coordinate activities such as school meals, health and safety, human resources, caretaking and cleaning. However, joint commissioning and purchasing does add complexity and brings new risks for school management and governors to consider, for example:

- who is the employer in joint appointments?
- who undertakes performance management?
- how does the LLC hold and manage a collective budget?
- how is any financial risk managed and shared?
- what happens if a school wishes to disengage from the LLC?

LLCs could be considered a form of loose federation involving a significant number of schools. However, unlike the federation approach, there are no changes required in school governance. LLCs are about collaboration among local schools covering all pupil age groups, to achieve common goals. LLCs have recognised the need to develop professional infrastructures and formal protocols for financial and staff management. This ensures systems are in place across schools to enable effective joint procurement and allows future commissioning capacity to be realised.

Early experience in LLCs indicates that non-cash savings can be also achieved, including the release of more head teacher time, by removing business management aspects of the head teacher’s role.
Questions to consider
Which schools are spending more than others on high cost goods and services?
How are you supporting them to find savings?
How are you ensuring that schools use electronic procurement systems to minimise purchasing costs?
What are you doing to encourage schools to review their use of traded services?
Do you provide examples of alternative suppliers in your annual portfolio of traded services?
What savings has collaboration delivered in your area?
How are you encouraging further collaboration?

Accountability for value for money

The role of SIPs
The DCSF’s advice and guidance states that SIPs should undertake value for money comparisons, and refer to financial benchmarking data (Ref. 8). In the majority of schools we visited we found no evidence of SIPs using benchmarking data or discussing the school’s financial performance.

By neglecting this part of their role, SIPs are limiting their ability to carry out the full range of professional challenge and evidence-based assessment. Ensuring that a school’s resources are deployed efficiently is an essential part of school improvement. Although SIP time is limited, resource deployment should be considered at all schools, not just those in financial difficulty. To support this, councils may need to provide further training to SIPs.
The role of internal audit

Internal audit can have a role in providing value for money assurance to governing bodies and councils on resource management. Councils should consider including this work in internal audit programmes in schools.

Schools produce a best value statement annually under the requirements of the Financial Management Standard in Schools (FMSiS). In many councils, internal audit already assesses FMSiS. Some schools are using the best value statement proactively to improve their monitoring of value for money. There is an opportunity for internal audit to encourage this good practice further in assessments of FMSiS.

Leicestershire provides an example of internal audit supporting a drive for efficiency in schools.

Case study 4: Leicestershire internal audit school efficiency savings

The internal audit team at Leicestershire County Council has developed a database of over 100 efficiency savings that can be implemented by school bursars. The database includes efficiencies in the following areas:

- administration, including banking, postage and payment arrangements;
- energy usage, including monitoring and supplier selection;
- school dinners, including cashless catering; and
- procurement, including leasing, quotations and in-house services.

The database won an award for innovation and excellence in audit in 2006 and has been updated since.

The council shared the database with school bursars and governing bodies. School internal audit reports also refer to possible efficiency savings as part of the audit recommendations. Internal audit has generally found that schools implement these recommendations.

Efficiency savings are often of a school officer’s time so can be hard to quantify. For example, schools pay £7 per week for a cash collection service which avoids each individual school sending an administrative officer to the bank to pay in cash.

Available at: http://www.leics.gov.uk/index/education/support_for_schools/finance/audit_schools_colleges/audit_efficiency_gains-3.htm
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Support to governors
Schools’ perceptions of council support in developing the effectiveness of the governing body have improved over time (Ref. 6). However, our findings at school level revealed variation in the ability of governors to provide appropriate support and challenge to head teachers, and also variation in the level of governors’ financial skills.

We are recommending to governing bodies that they should review whether their members have adequate training in finance and achieving value for money. Councils are well placed to ensure governors have been offered this training.

Questions to consider
How well are SIPs challenging schools on spending and resource deployment?
How can the challenge be improved?
How well does internal audit cover resource management?
How can internal audit help schools find savings?
What training is offered to governing bodies on finance and value for money?
How are you ensuring that governors can, and do, attend?
Recommendations

There are three areas where we recommend that councils should do more to support schools in improving economy and efficiency.

Improve the availability and quality of financial support
Councillors should:
- offer resource management and value for money training to schools as part of the council's financial package, targeting those with limited capacity; and
- align and share knowledge between finance and service improvement teams to improve schools' experience of these services.

Support better purchasing in schools
Councillors should:
- raise schools’ awareness of high quality alternative providers of traded services, including them in any portfolio of traded services;
- identify schools spending more than others on items of procurement and support them to find savings;
- ensure that schools use electronic procurement systems to minimise purchasing costs; and
- encourage schools to collaborate on purchasing to benefit from economies of scale.

Strengthen accountability for value for money
Councillors should:
- ensure 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;
- ensure that SIPs consider resource deployment as part of their role. Councillors may need to provide further training to SIPs to support them; and
- 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 school forums, councils should 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.
In addition, 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 governors, and for head teachers 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 new tool to help schools cost workforce expenditure and compare this with performance.
Appendix 1: References


3 Local Government Act (1972)

4 Education and Inspections Act (2006)


