Financial Responsibilities of the governing body

A large secondary school may have buildings worth in excess of £25 million and an annual budget of close to £10 million. Even a small primary will have an annual budget of around half a million pounds. Managing these sums effectively can make the difference between school success and failure – and part of that responsibility lies with the governing body.

In 1992 the Government introduced legislation to delegate funding from the local authority to the school. That process has continued and the situation today is that most spending decisions are made at school level.

The governing body is responsible for ensuring that those spending decisions represent good value for money. Governing bodies have the power to look at radical options for using the school’s income, but decisions must be based on the best educational outcomes within the available resources.

Many governors are nervous about taking on finance roles within the governing body, but they soon realise that good use of resources is the basis for a strong school, which can deliver high standards of education to its pupils.

The Bursar

The role of the bursar or business manager will vary, as will the job title, from school to school. Typically a bursar will, at the very least, take responsibility for financial administration and monitoring of the budget on a day-to-day basis.

A well-qualified and experienced bursar can and should do much more than this, releasing the headteacher from the management of a wide range of financial and resource tasks.

When looking for a bursar, the most important task for governors and Heads is to identify what role the bursar should play in the running of the school. Many experienced bursars are part of the senior leadership team having undertaken bursar training that leads to the Certificate and Diploma in School Business Management from the National College of School Leadership (NCSL).

The main areas of a bursar’s skill should be in: finance, leadership, management, personnel, estates management and administration. Smaller schools sometimes employ a shared bursar who works with a number of schools and facilitates the spread of good practice for mutual benefit.

With increasing demands on schools it is clear that the vast majority of schools should employ someone in a bursar or business manager role. Relying on the
headteacher to manage the wide variety of finance and administration tasks is likely to place unacceptable strains on a Head, with predictable consequences in terms of quality of leadership and work life balance.

**How are schools funded?**

The vast majority of schools’ budget funding is central government money, which flows from the Treasury via the DCSF to LAs, and then into the local school system. The Treasury makes major strategic funding decisions, as part of a Spending Review, in a three-year cycle.

Shortly before April of the year of review, schools receive budget information covering three years, for example 2008 to 2011. Prior to the start of each financial year the notified budget will be firmed up in order to complete the actual allocation a school will receive for that particular year. Some income may be ‘ring fenced’ which means that it may only be spent on the projects / budget headings for which it was intended.

**Knowing where your money comes from**

Schools receive a budget allocation for each year, and an indication of what their budget will be, for up to the two following years.

For the majority of schools that receive their funding via the local authority, the actual amount is determined by using a locally determined funding formula.

This formula takes into account factors such as school size, number on roll, and the age range of the children. Local factors might include allowances for a school’s rural nature or for the number of black and ethnic minority children on roll.

These funds are then delegated to the school, with management responsibility devolved to the governing body and the Head. The financial controls within which delegation works are set out in a scheme for the financing of schools made by the LA in accordance with the School Standards and Framework Act 1998 (SSFA).

**The LA Budget and Schools Budget**

The LA Budget and the Schools Budget are the names given to the different types of education spending in a local authority area.

**Schools Budget**

The Schools Budget includes all the funding that is spent on pupil provision in the form of delegated budgets to schools, plus some retained provision for pupil services delivered by the local authority, such as pupil referral units and high-cost provision for pupils with special educational needs (SEN). There are strict limits on what can be retained by the local authority.

This school funding is given to the local authority in the form of a Dedicated Schools Grant (DSG). Local authorities may supplement the dedicated grant from their own funds – and some do – but they may not spend less than the DSG.
LA Budget
The LA Budget covers the LA’s strategic management functions.

Unlike the Schools Budget, the LA Budget is part of the general local government settlement and is made up of a combination of a central government grant and local taxation.

Schools Forums
The Schools Forum is one of the most important and effective ways for governors to make their voice heard at a local level. Local authorities must consult the Schools Forum in their area for advice on:

- Changes to the funding formula allocation
- Specific issues such as the terms of contracts to be let by the LA for services to schools
- Decisions on the central retention of funds for a range of expenditure on items including free school meals.

Schools Forums make spending decisions, for example on the distribution of funds recovered from school under spending, and Forums will be central to the new agenda for 14-19 education and on area wide decision making for funding for early years education.

The Schools Forum is a statutory local body with at least 15 members. At least 80 percent of the membership must be headteachers and governors from every type of maintained school in the LA. Forum representatives are elected – or selected – by their various constituencies. Up to 20 percent can be Diocesan Board representatives, LA members, LA officers and representatives from trade unions.

The NGA believes that governors should have significant representation on Schools Forums and that a good way to achieve this is via a strong local association of governors funded by the Forum itself.

Other Sources of Funding
The DCSF makes specific grants to schools to support specific projects and initiatives. For most schools this money will be routed via the local authority and can form a significant percentage of total school income.

The School Development Grant (SDG) currently covers the following projects and initiatives:

- Advanced Skills Teachers
- Excellence in Cities
- Targeted Behaviour and Improvement Programme (BIP)
- The Gifted and Talented Project
- Enterprise Learning
- ICT in Schools: Infrastructure and Support Training
- The Leading Edge programme

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• Specialist Schools
• Funding for schools with high relative deprivation, based on Free School Meal eligibility
• Transitional funding for schools that previously received the Leadership Incentive Grant but are not eligible for the new deprivation funding

School Standards Grant (SSG)

This grant is based on a formula derived from the school's roll and covers initiatives aimed to raise school standards. It includes the School Standards Grant Personalisation (SSGP), which was added in 2006-07.

Personalisation is about recognising that all children are unique with different talents, strengths and weaknesses. The grant is to enable schools to tailor their teaching and the wider support they offer to their pupils in order to meet these different needs.

Some of the SSGP funding is intended to support personalised learning beyond the school day, as part of the Government's extended schools policy agenda.

The SSG and SSGP grants are not ring fenced, though schools are strongly advised to ensure that spending supports school improvement and personalisation.

Capital Funding

Large capital programmes are usually beyond the remit of the school governing body. School rebuild projects may be funded by Private Finance Initiative (PFI) schemes, by local authority capital spending, or through the Building Schools for the Future project (BSF). It is unusual for governors to be involved in the spending, though they should be consulted about the design and involved in the discussions about the management contract for the new building. PFI projects in particular involve a long-term buildings and facilities management contract that may impact on school resources for some years to come.

But schools do have access to capital funding in the shape of the Devolved Capital Grant. This is intended for minor works. Between 2005 and 2009 this will be distributed on a formula funded basis related to school size. Funding from this grant may not be available if a school has been recently refurbished or modernised.

Primary Capital Programme

The Government is committed to renewing at least half of all primary school buildings by 2022-2023 through the Primary Capital Programme. The aim is to create primary schools that are equipped for 21st century teaching and learning, and are at the heart of their communities.

The timeframe for the preparation and approval of the primary strategy for change is as follows:
• In December 2007, local authorities were to develop a local primary strategy. Governors should have been consulted at this stage.
• By June 2008, local authorities must submit their primary strategy for change to central government for approval.
• From April 2009, funding will be available for authorities with an approved primary strategy.

Sixth Forms

As of July 2007 funding for school sixth forms, and for 16-19 year olds in further education colleges, will come from local authorities. Learning and Skills Councils, which were the source of most vocational post-16 funding prior to 2007, will now fund adult education only.

Other income sources

Schools may also raise their own funds. A school may do this in a number of ways:
• Sponsorship – from businesses and individuals
• Fundraising – for example via the Parent Teacher Association
• Non-governmental grant applications – for curriculum projects or developments on the school site
• Charging – for use of school facilities, or for specified activities (see the section on Charging)
• School Companies – which may operate as a commercial company

The National Consumer Council has published some helpful guidance on school sponsorship (Commercial Activities in Schools: Best Practice on Sponsorship, Consumer Council/DCSF)

Schools may also hold funds for third parties

Examples of this include:
• School trip money – where the school may hold pupil contributions
• PTA funds – or funds held for a community organisation based at the school, such as a crèche or playgroup
• Pyramid or cluster funding – where one school acts as a ‘banker’ for a project involving a number of schools in an area

In all of these cases the money should be handled and accounted for separately from the funds that flow from government. Virement between the delegated budget and a school's private funds is not permitted, even when the two sources of income are being used to fund the same project. Governing bodies must ensure that their internal accounting procedures keep private funds separate from the delegated budget; in many cases it would be advisable for schools to have a separate bank account for such funds.

If local authority auditors confine themselves to the arrangements for government monies – as many do – then schools must have alternative audit arrangements for the other funds. These arrangements should include annual audited accounts.
presented to the governing body and available for scrutiny.

SPENDING

The governing body of a school has a clear responsibility to oversee the way that the school’s income is spent. This will involve scrutiny of the budget and ongoing monitoring. On very large expenditure items, such as building works, ICT networks, multi-year service contracts and school catering, the governing body, through its finance committee, may be involved in the actual detail of the expenditure.

In most cases however the school leadership team will devolve spending to school departments, faculties or key stages, with middle range school leaders having budgets for their own area of responsibility. This spending is monitored by the Head and the leadership team, who report to the governing body. Governors should not be involved in spending decisions at this level.

All governing bodies should be looking at how money is spent, in order to question whether the school is achieving value for money. Headteachers and governing bodies can respond to this in a number of ways: for example, choosing between spending options and considering how to improve cost-effectiveness.

Planning the Budget

Carefully thought through budgeting is important for families, businesses and schools, and setting and monitoring the annual budget is a key task for the governing body finance committee.

This budget should reflect the priorities set out in the school’s development planning and governors should ensure that all expenditure is related to those priorities. For example, if the school decides it needs a new part-time teacher for Information Technology, then provision must be made for this in the budget. Maintained schools must submit their budget to their LA.

Schools are people organisations and staff costs make up the bulk of any school budget. However, the school’s managers are responsible for a wide range of services including:

- Repairs and maintenance of school buildings
- Curriculum resources
- School meals – including Free School Meals if delegated
- Support services – including payroll, insurance, professional advice on issues such as health and safety and personnel
- Advisory and inspection services
- Additional provision for students with SEN statements

Staff costs add up to considerably more that the salaries of the individuals employed. Each person employed creates ‘on costs’ which include national insurance and pension payments. Typically these add around 20–25% to the cost of employing the individual. But employers must also consider overall employment costs. These include:

- Training – usually called professional development
• Cover – provision for staff to step in when teachers or other key employees are absent or ill. Most schools take out specialist insurance to cover these costs, which can be significant.
• Occupational Health – professional advice for employer and employee on matters of workplace health, disability, adaptation of the workplace, long-term illness

Local Authority services

LAs provide a range of services which schools can purchase, usually in the form of a ‘service level agreement’. LAs set out their ‘offer’ on an annual basis and schools ‘buy into’ various aspects of the agreement, which may include:
• Professional support and advice on education issues
• Other advice on personnel, legal issues, health & safety – and governance
• Financial services
• Training, including governor training
• Clerking services for the governing body
• Administration of contracts for supplies of furniture and other equipment,
  Cleaning and ground maintenance
• Pupil support services, including transport

Schools may source these services elsewhere if they wish, but governing bodies need to ensure that good value for money is being obtained.

Value for Money – Best Value

Value for money is not about cost. The price of an item or a service is only part of the value for money equation.

Schools need to think about the quality of the goods and services they buy and balance that against the cost. Schools also need to ensure that suppliers and contractors meet acceptable standards, both in terms of the work they do and in terms of their employment practice. Contractors often have free access to the school whilst carrying out their work in a way that other visitors do not, and governors should check that contractors have policies in place to ensure that their employees meet the requirements of child protection legislation.

Value for Money?

Example One

The price of a desktop computer can be as low as four or five hundred pounds. But the cost over its lifetime is considerably more than that, because the lifetime cost should include things like:

• Software – including virus protection and security software
• Support – teachers should not be expected to act as ICT technicians: their contracts specifically preclude them from that role
• Peripherals – printers, servers, cabling
• Consumables – ink or toner cartridges

**Example Two**

A school wanted to fit water stations to allow children to have fresh drinking water. The school's managers accepted what they thought was a very reasonable quote of a few hundred pounds for the work, from a local contractor.

The contractor left surface wiring at a low level: something not acceptable in a school. More seriously the contractor also broke into corridor panelling, while fitting the water supply, and disturbed asbestos that had been safely sealed during previous work. The workmen then compounded the error by not reporting the asbestos find to the school. Children and staff were both exposed to asbestos dust and the school had to close to allow the damage to be safely repaired by a competent company. The eventual cost ran to several thousand pounds.

Local authorities and government agencies are expected to meet Best Value requirements when buying goods and services, and the DCSF has published guidance on Best Value in Schools.

Best Value guidance requires most public bodies to observe the four Cs.

They should:

• Challenge why, how and by whom a service is provided
• Compare performance with that of other authorities or schools
• Consult with those who will use the service and the local community
• Open up tendering to fair competition, wherever practical

Schools are not required to work to Best Value principles, but schools should work towards high procurement standards.

**Extended Schools**

 Governors should be familiar with the Extended Schools initiative, whereby all schools will offer extended services by 2010.

Extended services include a commitment to offer activities and childcare, on or off the school site, for all parents who require it, between 8am and 6pm every week day.

Schools are not required to provide the full extended offer, but they are required to investigate whether demand for the extended offer is being met in their area, and to work with agencies and providers to meet the extended offer if it is not being met elsewhere.

The introduction of extended schools has huge implications for the strategic leadership of schools. The governors' role is critical in the development of extended services as they have ultimate responsibility for deciding whether the school should offer additional activities and services and what form these should take.
To enable schools to meet their obligations under the extended schools initiative, the 2002 Education Act gave governing bodies of all maintained schools the power to provide, or enter into contracts or arrangements to provide, facilities and services that ‘further any charitable purpose for the benefit of pupils at the school, their families or people who live and work in the locality in which the school is situated’.

The rules on which funds can be used to subsidise or directly pay for extended school activities are complex. In general a school cannot use its delegated budget to fund community services or facilities; this includes activities such as breakfast clubs and after school childcare. But certain activities related to the curriculum can be funded from the delegated budget. This might include activities for a school’s Gifted and Talented group, and some activities related to personalisation of the curriculum. Local authorities should be able to offer schools advice on these matters and governors should seek advice before funding extended activities from the school’s delegated budget.

The LA’s scheme for financing schools will have been extended to cover some of the necessary arrangements for extended activities; these might include: audit requirements, treatment of income and surpluses, the supply of financial information, health and safety and insurance.

The LA has the power to suspend a school’s right to a delegated budget if the LA considers the financial management of community services provided by a governing body unsatisfactory, or that the governing body is guilty of substantial or persistent non-compliance with any rules laid down by or under the LA’s scheme.

School Companies

The 2002 Education Act gave schools the power to create school companies. Any maintained school with a delegated budget can create a school company. A school might do this if it wished to:

- Develop innovative ways to purchase goods and services
- Sell its expertise to other schools
- Use the company as a vehicle to offer local services
- Work with other schools to do any of the above

The decision to set up a company is made by the governing body. Governing bodies will need the consent of their LA to create a company, but this can only be refused where there is good reason. Each company will have an LA supervising authority.

The supervising authority:

- May direct the company to provide such information about the company’s finances, management and contracts to which the company is a party, as the supervising authority think necessary
- May direct the company to take certain specified steps in order to comply with the school company regulations
• May direct a governing body of a maintained school, which is a member of the company, to reduce its involvement in the management of the company
• May direct a governing body of a maintained school, which is a member of the company, to resign as a member of the company

A school and a company remain entirely separate bodies and the governing body will remain responsible for the running of the school. If the company gets into financial trouble the school will not suffer, and teachers will not be expected to transfer to the company.

A local authority might commission services from a school company or contract may contract the performance of functions, for example school improvement support. If these functions were contracted out to a school company the work would be performed on behalf of the local authority, which will retain ultimate responsibility.

School companies follow the legal procedures set for all limited companies. They will be private companies limited either by shares or by guarantee. In theory shares in the company could be traded: in practice government advice makes it clear that shares should be traded only to other shareholders or to company partner schools.

School companies may make a profit: in fact they should not be created if there is any doubt about their potential profitability. The articles of the company must determine that profits shall be used for the benefits of the members and to further the aims of the company.

At least 40% of the directors of a school company must be non-executive directors; that is directors who are not employed by, or contracted to, the company to provide services for payment.

**Charging**

Charging is a potentially difficult policy area for governors. Most schools charge for some activities and many events and excursions would not take place without voluntary contributions made by parents.

Schools may charge parents for some activities provided by the school; they may also ask parents for voluntary contributions. The governing body must have a clear policy, setting out how contributions will be requested or how charges will be levied, if the school asks parents to make voluntary contributions or makes charges of any kind. A charging policy must also set out the circumstances that would determine subsidies, grants and remissions.

No charges may be made or voluntary contributions requested at any time during the school’s admissions process. Education provided during school hours must be free: this includes materials, equipment, and transport provided in school hours by the local authority or by the school to carry pupils between the school and an activity. ‘School hours’ are those when the school is actually in session and does not include the break in the middle of the school day. All three and four-year-olds are entitled to two and a half hours of free education per day. Schools, including maintained nursery schools, can charge for any additional hours for this group of children.
Schools may charge for:

- Musical instrument tuition provided it is not required by the National Curriculum and does not form part of the syllabus for a prescribed public examination. No charges should be made for looked-after children or for those entitled to free school meals.
- Activities classed as optional extras, i.e. those which take place out of school hours and are not part of the curriculum.
- Repayment of public exam fees: If the examination is on the set list, but the pupil was not prepared for it at the school. if the examination is not on the set list, but the school arranges for the pupil to take it. if a pupil fails without good reason to complete the requirements of any public examination where the governing body or LA originally paid or agreed to pay the entry fee.
- Ingredients/materials for practical subjects where parents indicate that they (or the child) wish to own the finished product.
- Contributions towards damage or loss of equipment caused by a pupil's behaviour.
- Travel in a school’s minibus in certain circumstances.
- Board and lodging on residential visits even if the activity is part of the National Curriculum, except for pupils whose parents are receiving Income Support and other similar allowances.

The school can invite contributions towards the cost of activities where charging would not be legal, but it must make it clear that these contributions are voluntary. Any failure to do this, or any pressure placed on parents to pay, will place a school in breach of the Law.

The practice used by some schools of sending invoices to parents inviting a ‘voluntary’ contribution is certainly in breach of the spirit of the Law and may be in breach of the letter of the Law as well.

Governing bodies should make it clear that children of parents who do not contribute will not be treated any differently from the others. If a particular activity cannot take place without some help from parents, this should be explained at the planning stage. No pupil may be left out of a curriculum activity because his or her parents cannot, or will not, make a contribution of any kind.

The Finance flowchart sets out what may and may not be charged for in terms of trips and visits beyond the school gates, but the principles apply to in-school activities as well.
The following flowchart was developed by the Outdoor Education Advisors Panel for the Learning Outside the Classroom website.

Is the visit designed to fulfil a statutory requirement (e.g. any requirements of the national curriculum, religious education, or the syllabus of a prescribed public examination)?

NO

Is the visit residential?

NO

Is 50% or more of the visit (including any travelling) during school hours? School hours do not include the normal midday break.

NO

The visit is deemed to be out of school time

The full cost of the visit may be charged. Any remission of charges is at the discretion of the school/governor.

NO

YES

The visit is deemed to be in school time

No charges may be made for either activities or transport. The actual cost of board and lodging of a residential visit may be charged, but must be remitted in full for families in receipt of specified benefits.

YES

Is the number of half-day school sessions missed 50% or more of the number of half-days taken up by the visit including travel?

NO

YES

Voluntary contributions may be requested from parents in any of the above circumstances, but no pupil may be treated differentially according to whether or not how much their parents have contributed.