

# Examinations at Grant-Maintained Schools in England 1996-97



This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 310 of the Education Act 1996.

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# Contents

<b>Executive summary</b>	<b>1</b>
<hr/>	
<b>Part 1: Introduction</b>	<b>7</b>
Responsibilities and accountabilities in the grant-maintained schools' sector	7
Purpose and scope of the National Audit Office's examination	7
Forthcoming changes	9
<hr/>	
<b>Part 2: The financial health of the sector and the progress made by schools in financial difficulty</b>	<b>11</b>
Overall financial health of the sector	11
The Funding Agency's monitoring role and procedures	16
Review by the National Audit Office of schools in the highest financial difficulty category	19
<hr/>	
<b>Part 3: Implementation of the National Audit Office's previous recommendations</b>	<b>32</b>
Implementation of the National Audit Office's previous recommendations	32
Scope for further improvement to financial management	36
<hr/>	
<b>Part 4: The provision and management of information technology in the classroom</b>	<b>44</b>
Strategic planning for information technology	44
Arrangements for acquiring information technology hardware and software	48
Management of information technology resources	50
Suggested improvements to management procedures	54
<hr/>	
<b>Appendix</b>	
Full list of National Audit Office recommendations	60

## Executive summary

**1** This report is produced under Section 310 of the Education Act 1996, formerly Section 154 of the Education Act 1993, which requires the Comptroller and Auditor General, in each session of Parliament, to report to the House of Commons on the results of his value for money examinations at grant-maintained schools. It covers examinations at 80 grant-maintained schools in England and at the Funding Agency for Schools (the Funding Agency) between October 1996 and April 1997.

**2** The grant-maintained schools' sector in England has grown from 814 schools in 1993-94 to 1,161 in 1996-97, of which the National Audit Office have visited over a quarter. In 1996-97 these schools received government grants of £1.9 billion paid by the Funding Agency who are accountable for the expenditure of these grants under the terms of a financial memorandum with the Department for Education and Employment (the Department). Similarly, grant-maintained schools are accountable to the Funding Agency for grants paid to them.

**3** In July 1997 the Government published its first Education White Paper, "Excellence in Schools", setting out proposals for raising standards and for establishing a new framework of community, aided and foundation schools which will replace existing county, voluntary and grant-maintained schools. The implementation date for activating the new framework is likely to be 1 April 1999. The Minister of State for Education responsible for schools announced on 19 September 1997 that the present functions of the Funding Agency will cease on 31 March 1999, subject to Royal Assent.

**4** Of the 80 schools visited by the National Audit Office:

- twenty schools were selected from the 32 schools classified by the Funding Agency as in greatest financial difficulty at 31 January 1997 when the National Audit Office undertook their examination. The visits were made to identify the circumstances giving rise to schools' financial difficulties, the actions taken by them and their progress towards financial recovery; and to highlight the good management techniques employed which might be relevant to other schools which face similar challenges;

- twenty schools, which had previously been examined in 1993-94 were revisited to assess the implementation of the National Audit Office's earlier recommendations and the effectiveness of current financial management; and
- forty schools were chosen at random from those not previously visited by the National Audit Office to determine whether their provision and management of information technology provided good value for money.

**5** In addition, using information held at the Funding Agency, the National Audit Office examined the financial position of the sector as a whole and the remaining 12 schools in greatest financial difficulty not being visited. The sample of 80 schools visited was not intended to be representative of the sector as a whole. Nonetheless, the results of the examinations raised issues which will be of interest to all schools. A full list of the recommendations in this report is in the Appendix. Where the recommendations relate to the Funding Agency these issues may need to be taken forward within the context of the new school framework.

### **The financial health of the sector and the progress made by schools in financial difficulty**

**6** Overall, the grant-maintained schools' sector continues to be in good financial health with the majority of schools in a sound financial position. The Funding Agency's procedures for monitoring the financial position of all grant-maintained schools are generally sound.

**7** The net accumulated surplus of the expanded sector has increased from £75 million in 1993-94 to £94 million in 1995-96. In this period, expressed as a percentage of annual maintenance grant income, the net accumulated surplus increased from 5.4 per cent to 6.8 per cent for primary schools and reduced from 5.7 per cent to 5.3 per cent for secondary schools. Most individual schools had accumulated surpluses but around 6 per cent had accumulated deficits. The level of accumulated deficits has remained stable over the three years. The net surplus on activities in the year for the sector reduced significantly from £44 million in 1993-94 to £2 million in 1995-96, mainly because schools were applying surpluses they had generated for purposes such as capital development.

**8** The National Audit Office identified the factors underlying the financial difficulty at the 32 schools they examined, 12 of which had deficits prior to becoming grant-maintained. Since becoming grant-maintained, the main factors identified were: higher than average teaching staff costs relative to pupil numbers;

pupil numbers lower than forecast; pupil numbers declining without compensatory action taken; unplanned additional expenditure on estate related items; and reduction in income because of changes in funding arrangements.

**9** Most of the 32 schools had produced either a recovery plan or financial forecasts and were making satisfactory progress towards recovery. Two thirds of them were forecasting a reduction in their cumulative deficit during 1996-97 and many expected to improve on predictions in their recovery plans. Schools have achieved this position by, for example, one or more of the following: a complete block on all but essential spending; the loss of teaching and other posts; and postponing planned maintenance. The National Audit Office have sought to draw out lessons that might be learned by other schools.

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### **Recommendations on lessons to be learned from schools classified by the Funding Agency as in greatest financial difficulty**

#### **Recommendation 1**

All schools should pay particular attention to the findings and recommendations by the National Audit Office as regards: the main factors underlying financial difficulty since incorporation, the contribution of financial management problems, and good recovery planning, as set out in Part 2 of this report and the Appendix.

#### **Recommendation 2**

The Department and the Funding Agency should continue to disseminate lessons learned from past cases of schools where actual or potential financial difficulty has arisen. The National Audit Office's review of 32 such cases and of the lessons emerging should provide a good basis for this.

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### **Implementation of the National Audit Office's previous recommendations**

**10** The National Audit Office found that the 20 schools revisited had responded very positively to their earlier recommendations and implemented most of them. Eleven schools had made financial savings totalling £181,000, mainly on the retendering of support service contracts, by following up suggestions put to them

in 1993-94 by the National Audit Office. The schools had also made qualitative improvements to their financial management, such as a more thorough review of budgets and better segregation of duties.

**11** At most schools revisited there was some scope for further improvement in financial management arrangements in areas such as governance, the performance of the Responsible Officer role, strategic planning, the register of business interests, and the recording of assets.

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## **Recommendations on financial management**

### **Recommendation 3**

All schools should check their arrangements against the specific recommendations in Part 3 of this report, and in the Appendix, on governance, strategic planning, register of business interests, and recording of assets to see whether they could make further improvements to their procedures.

### **Recommendation 4**

The Funding Agency should consider giving further more detailed guidance to schools on the specific requirements of the Responsible Officer function, including the training needed, as part of their current review of the role and performance of the Responsible Officer.

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## **The provision and management of information technology in the classroom**

**12** All the 40 schools visited had arrangements in place to prevent wasteful expenditure on information technology but in some schools there were areas where the risk to value for money could be further reduced. Most of the schools visited had produced a strategy for information technology but only some schools had established links between the strategy and their budget and had set measurable targets. To assist in the development and implementation of strategies, several schools had set up or were setting up information technology steering groups or committees and some had appointed a link governor for information technology issues.

**13** Most of these schools had established policies for the acquisition of goods and services including competitive tendering which could be applied to information technology. Not all of these schools had considered the option of

leasing their equipment. As a result of their examination, the National Audit Office were able to make recommendations to over half of the 40 schools to help improve their acquisition procedures and achieve better value.

**14** Overall, these schools had taken steps to ensure that their information technology resources were managed effectively. However, efficient management was being hampered at over half the 40 schools visited because of the lack of information about the full cost to them of information technology, including maintenance. Also, half the 40 schools did not record the extent to which equipment was used and, therefore, were not best placed to judge future requirements and what further investment was needed. Most of the 40 schools had invested significantly in staff training but had not always evaluated its effectiveness. There was also scope for further improvement to management procedures on security and disposal of equipment.

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## **Recommendations on the provision and management of information technology in the classroom**

### **Information technology strategy**

#### **Recommendation 5**

Schools should consider whether:

- their strategic plans have clear and well-founded statements about information technology requirements linked to their budgets, with dates specified for the implementation of new systems and quantifiable targets against which progress can be monitored, for example, in terms of the number of pupils for each computer; and
- there is scope for the increased use of information technology steering groups to inform planning and assist implementation and whether a governor should be allocated specific responsibility for information technology matters.

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## **The acquisition of hardware and software**

### **Recommendation 6**

Schools should check the specific suggestions set out in Part 4 and the Appendix of this report relating to the acquisition of hardware and software to see whether they need to make further improvements to their acquisition procedures.

## **Management procedures for information technology**

### **Recommendation 7**

Schools should consider whether:

- accurate figures are available to management on the full cost of providing information technology in the classroom, including the cost of maintenance, to help them make well-informed decisions about their provision;
- to help determine the level of information technology resources required, they should keep an accurate record of the use made by staff and pupils of the equipment in place;
- they should maintain an up-to-date record of courses and other forms of training attended by staff on information technology matters to assist the planning, monitoring and evaluation of the training; and
- they need to improve their procedures on security and on the disposal of surplus equipment in line with the suggestions set out in Part 4 and the Appendix of this report.

# Part 1: Introduction

## Responsibilities and accountabilities in the grant-maintained schools' sector

**1.1** At 31 March 1997, there were 1,161 grant-maintained schools in England with the responsibility for educating over 716,450 pupils. In 1996-97, the Funding Agency for Schools (the Funding Agency) paid government grants to these schools of £1.9 billion.

**1.2** The Funding Agency are accountable for the expenditure of these grants under the terms of a financial memorandum with the Department for Education and Employment (the Department). In accordance with a financial memorandum between the Funding Agency and the governing body of each school, schools are accountable to the Funding Agency for the grants paid to them. The governing body of each school delegates day-to-day accountability for financial management to the designated Principal Finance Officer, normally the headteacher. The governing body also designates a Responsible Officer, who must not be a member of staff or the chairman of the governing body, to provide assurance on financial matters by undertaking independent checks.

**1.3** Grant-maintained schools are eligible to receive three types of government grant from the Funding Agency: annual maintenance grants, special purpose grants, and capital grants. These grants are broadly intended to replicate the various forms of funding available to local authority schools. The Department recover the largest element of the funding, annual maintenance grant, from the relevant local authority.

## Purpose and scope of the National Audit Office's examination

**1.4** Section 310 of the Education Act 1996, formerly Section 154 of the Education Act 1993, requires the Comptroller and Auditor General, in each session of Parliament, to report to the House of Commons on the results of his value for money examinations undertaken at grant-maintained schools.

**1.5** Between October 1996 and April 1997, the National Audit Office undertook examinations at 80 grant-maintained schools and at the Funding Agency. The sample of 80 schools was not intended to be representative of the sector as a whole. These examinations covered:

- the financial health of the sector and the progress made by schools in financial difficulty;
- implementation of the National Audit Office's previous recommendations; and
- the provision and management of information technology in the classroom.

**1.6** The financial position of the grant-maintained schools' sector was examined at the Funding Agency. Twenty of the 80 schools visited were among 32 which had been classified by the Funding Agency as being in greatest financial difficulty at 31 January 1997, when the National Audit Office undertook their examination. This latest review was carried out:

- to gain assurance about the financial health of the sector and how the Funding Agency monitor the situation; and
- to identify the circumstances giving rise to schools' financial difficulties, the action taken by schools to recover their financial position, and the lessons that might be learned by other schools.

**1.7** Financial management has been at the core of the examinations by the National Audit Office at each of the 305 schools visited between 1992-93 and 1996-97. In 1996-97, the National Audit Office revisited 20 schools which had first been the subject of examination in 1993-94:

- to establish the extent to which the National Audit Office's earlier recommendations, including those on financial management, had been implemented and the level and nature of any impacts achieved; and
- to ascertain the effectiveness of current financial management.

**1.8** The National Audit Office examined the provision of information technology in the classroom at 40 of the 80 schools visited to determine whether matters were being handled in a way which would provide value for money to the taxpayer. These 40 schools were selected at random from those not previously visited. The chartered accountants, Coopers and Lybrand, assisted in this part of the examination. This subject was investigated because:

- information technology is now placed at the heart of the National Curriculum and increasingly schools are having to spend significant sums of money, albeit a small percentage of their total budget, on the provision and maintenance of computers and other associated equipment; and
- many schools have limited experience of handling information technology and it would help improve value for money in the sector if examples of good practice and the pitfalls to be avoided could be published.

**1.9** Subsequent to each visit, a management report was sent to the headteacher and the chairman of the governing body of each school. The National Audit Office would like to thank staff and governors at the schools visited for their full co-operation in this examination.

**1.10** A copy of this report is being sent to each grant-maintained school.

## **Forthcoming changes**

**1.11** In July 1997, the Government published its first Education White Paper, "Excellence in Schools", setting out proposals for raising standards and for establishing a new framework of community, aided and foundation schools which will replace existing county, voluntary and grant-maintained schools. All schools will be offered the chance to choose one of the three categories. However, the Government's assumption is that grant-maintained schools will become either foundation schools which, like grant-maintained schools, will employ their staff and own their premises, or they will become aided schools, if they were formerly voluntary aided, special agreement or independent schools prior to becoming grant-maintained. The implementation date for activating the new framework is likely to be 1 April 1999. The Minister of State for Education responsible for schools announced on 19 September 1997 that the present functions of the Funding Agency will cease on 31 March 1999, subject to Royal Assent.

**1.12** Among the principles underlying the new framework are that schools will be responsible for their own standards and will be free to make as many decisions as practical for themselves, in particular on internal management, resource allocation and day-to-day operation. But this freedom will be accompanied by accountability to parents, the local community and the wider public for what schools achieve. In such a challenging environment, the need for strong school management continues.

**1.13** Parts 2, 3 and 4 of this report put forward recommendations for schools' consideration on how they might improve their management procedures. These points for consideration are relevant not only to grant-maintained schools but are universally applicable across the school sector. A full list of the National Audit Office's recommendations in this report is in the Appendix.

## Part 2: The financial health of the sector and the progress made by schools in financial difficulty

**2.1** The National Audit Office examined the financial position of the sector at the Funding Agency to gain assurance about the financial health of the sector and how the Funding Agency monitor it.

**2.2** The National Audit Office also examined 32 schools which had been classified by the Funding Agency as in greatest financial difficulty as at 31 January 1997, when the National Audit Office carried out their examination. Visits were made to 20 of these schools and records relating to the remaining 12 were examined at the Funding Agency. This examination was undertaken to identify the progress being made by these schools towards financial recovery and the lessons that might be learned by other schools.

**The grant-maintained schools' sector as a whole is in good financial health with the majority of schools in a sound financial position**

### Overall financial health of the sector

#### The requirement for grant-maintained schools to be solvent

**2.3** Under the requirements of the financial memorandum between the Funding Agency and the governing body of each grant-maintained school, the governing body must:

- plan and conduct its affairs so as to remain solvent;
- not incur overdrafts;
- inform the Funding Agency immediately if it seems apparent that payments will exceed receipts; and
- ensure that no cumulative deficit arises in its financial statements without the prior written approval of the Funding Agency.

**2.4** The governing body of a school may carry forward public funds from preceding years provided these are at a reasonable level. Where there is clear evidence that excessive surpluses exist, the Funding Agency may adjust or redetermine the grants which they pay to the schools.

## The yearly (in-year) surplus of the sector 1993-94 to 1995-96

**2.5** In the period 31 March 1994 to 31 March 1996, the grant-maintained schools' sector expanded from 814 to 1,100 schools (Figure 1). In that period:

- the annual income of the sector from both public and non-public sources, apart from capital grants for specific capital projects, increased in cash terms by 48 per cent (from £1,185 million to £1,753 million); and
- annual expenditure, excluding capital grant funded items, increased by 53 per cent (from £1,141 million to £1,751 million).

### Income and expenditure for the grant-maintained schools' sector 1993-94 to 1995-96

**Figure 1**

	1993-94 £m	1994-95 £m	1995-96 £m
Total Income <sup>(1)</sup>	1,185	1,616	1,753
Total Expenditure <sup>(2)</sup>	1,141	1,599	1,751
Surplus for the year	44	17	2
Number of schools	814	1,034	1,100

Notes: (1) Total income includes all income from both public and non-public sources other than capital grants for specific capital projects.

(2) Total expenditure excludes expenditure related to specific capital projects funded by capital grants.

Source: National Audit Office  
examination of the annual  
accounts of grant-maintained  
schools

Figure 1 shows that, during a period of expansion in the number of schools, the surplus earned by the sector each year has reduced from £44 million in 1993-94 to £2 million in 1995-96.

**2.6** For 1995-96 for the sector as a whole, income exceeded expenditure by £2 million - a fall of 95 per cent from the surplus of income over expenditure of £44 million in 1993-94. This analysis needs to be considered in the context of a sector which has generated surpluses and is now applying them for purposes such as capital development.

**2.7** In this three year period, the percentage of schools showing deficits for the year in their accounts and the amount of these deficits has increased (Figure 2):

- in 1993-94, there were 149 schools, 18 per cent of the sector, with deficits for the year totalling £5.7 million;
- by 1995-96, there were 482 schools, 44 per cent of the sector, with deficits for the year amounting to £19 million.

**Total amount of yearly  
surpluses and deficits  
1993-94 to 1995-96 and  
the number of  
grant-maintained schools  
involved**

**Figure 2**

**(a): Total amount of yearly surpluses and deficits**

	<b>1993 - 94</b>	<b>1994 - 95</b>	<b>1995 - 96<sup>(1)</sup></b>
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
Surpluses	49.2	31.9	21.3
Deficits	5.7	14.9	19.0
Net surplus	43.5	17.0	2.3

**(b): Total number of schools with yearly surpluses and deficits**

	<b>1993 - 94</b>	<b>1994 - 95</b>	<b>1995 - 96<sup>(1)</sup></b>
Surpluses	665 (82%)	681 (66%)	618 (56%)
Deficits	149 (18%)	353 (34%)	482 (44%) <sup>(2)</sup>
Number of schools in the sector	814 (100%)	1,034 (100%)	1,100 (100%)

Notes: (1) Figures for 1996-97 will not be available until October 1997 when all schools' audited financial statements have been produced and reviewed.

(2) Paragraph 2.8 explains the background to schools' deficits for the year. Schools with cumulative deficits are at Figure 3(b) and paragraph 2.9.

Figure 2 shows that, in the period 1993-94 to 1995-96, schools' yearly surpluses have reduced from £49.2 million to £21.3 million and yearly deficits have increased from £5.7 million to £19 million. The number of schools with yearly surpluses has dropped from 665 to 618 and those with yearly deficits have risen from 149 to 482.

Source: National Audit Office  
analysis of the annual accounts of  
grant-maintained schools

**2.8** Most of these deficits for the year were not a cause for concern since they were met from accumulated surpluses. Many of the schools concerned were planning for expenditure to exceed income with the intention of reducing



cumulative surpluses and spending the cash released on, for example, non-recurrent revenue projects and capital projects. For instance, during 1995-96, grant-maintained schools spent £26 million on capital projects funded from their surpluses.

### **The net cumulative surplus of the sector 1993-94 to 1995-96**

**2.9** In the period 1993-94 to 1995-96 (Figure 3):

- the cumulative surpluses reported by schools increased from £77 million to £99 million and cumulative deficits increased from £2 million to £5 million;
- the net cumulative surplus for the sector increased by 25 per cent from £75 million to £94 million;
- the percentage of schools reporting cumulative surpluses (around 94 per cent) and the percentage of schools reporting cumulative deficits (around 6 per cent) remained constant; and
- the net cumulative surplus per pupil remained fairly stable ranging between £135 and £139.

**2.10** The Funding Agency have produced “Cost Comparisons for Grant-Maintained Schools” and issued them to the whole of the sector. The comparators used are based on income and expenditure for each pupil. On this basis, between 1993-94 and 1995-96 the average net cumulative surplus as a percentage of income rose from 5.4 per cent to 6.8 per cent for each primary school pupil and fell from 5.7 per cent to 5.3 per cent for each secondary school pupil.

### **A summary of the 1995-96 position**

**2.11** The sector’s financial position at 31 March 1996 may be summarised as follows:

- the net operating surplus for the year was £2 million, much lower than in previous years mainly because of schools’ planned expenditure on capital development funded from reserves built up in earlier years;

- the net cumulative surplus was £94 million representing on average 6.8 per cent of school income for each primary school pupil and 5.3 per cent of school income for each secondary school pupil; and
- within the £94 million, most schools had accumulated surpluses but around 6 per cent were in cumulative deficit.

**Cumulative surpluses and deficits at grant-maintained schools in the period 1993-94 to 1995-96**

**Figure 3**

**(a): Total amount of cumulative surpluses and deficits**

	1993-94	1994-95	1995-96 <sup>(1)</sup>
	£m	£m	£m
Cumulative surpluses	77	95	99
Cumulative deficits	2	3	5
Net cumulative surplus	75	92	94

**(b): Total number of schools with cumulative surpluses and deficits**

	1993-94	1994-95	1995-96 <sup>(1)</sup>
Cumulative surpluses	762 (94%)	976 (94%)	1,019 (93%)
Cumulative deficits	52 (6%)	58 (6%)	81 (7%)
Number of schools in the sector	814 (100%)	1,034 (100%)	1,100 (100%)

**(c): Net cumulative surplus per pupil**

	1993-94	1994-95	1995-96 <sup>(1)</sup>
	£	£	£
	135	139	137

Note: (1) Figures for 1996-97 will not be available until October 1997 when all schools' audited financial statements have been produced and reviewed.

Figure 3 shows that between 1993-94 and 1995-96 the net cumulative surplus in the sector increased by 25 per cent from £75 million to £94 million. The percentage of schools with cumulative surpluses and deficits has not changed materially between 1993-94 and 1995-96 at around 94 per cent and 6 per cent respectively. In the period, the net cumulative surplus per pupil has also remained fairly stable ranging between £135 and £139.

Source: National Audit Office analysis of the annual accounts of grant-maintained schools

**The Funding Agency's  
monitoring and risk  
assessment  
procedures are  
generally sound**

## **The Funding Agency's monitoring role and procedures**

**2.12** One of the Funding Agency's primary functions is to monitor the financial position of grant-maintained schools. They aim to do this in a way which ensures the accountability of the public funds involved but also reflects the self-governing status of grant-maintained schools and their individual circumstances.

**2.13** The Funding Agency seek assurance on each school's financial viability and its proper use of public funds by reviewing:

- an audit of internal controls, usually by the school's external auditors, in the school's first term after becoming grant-maintained;
- the financial returns the school is required to provide (Figure 4);
- the external auditor's management letter and the school's response; and
- the school's financial position, including the level of any surplus or deficit.

**Financial monitoring  
returns provided by  
schools to the Funding  
Agency**

### **Figure 4**

#### **Early in the financial year:**

- annual income and expenditure budget and budgeted balance sheet for the current year;
- annual cash flow forecast; and
- summary income and expenditure budget for the following year.

#### **During the financial year:**

- quarterly cash flow forecasts update;
- quarterly income and expenditure statements and revised forecasts; and
- monthly updates where there is concern about a school's financial position or the school is newly incorporated.

#### **After the end of the financial year:**

- audited annual financial statements.

Source: The Funding Agency's  
Rainbow Pack of guidance to  
schools

Figure 4 shows the range and frequency of financial monitoring returns which schools are required to submit to the Funding Agency.

**2.14** Financial monitoring teams from the Funding Agency's monitoring unit validate each school's financial returns using a standard checklist based upon agreed criteria and then assess the financial position of the school. They also provide support and advice to schools on a range of financial issues on a day-to-day basis. Their watching brief includes ensuring that the returns are complete, liaising with other sections of the Funding Agency to arrive at a rounded view of the school's financial health, and visiting schools where appropriate.

### **Categories for schools in financial difficulty**

**2.15** For 1995-96, the Funding Agency introduced categories for schools in financial difficulty. Category A relates to schools where the financial difficulty is rated highest, and categories B to D to schools with lesser degrees of financial difficulty. One of the key indicators used by the Funding Agency to determine whether a school should be categorised in this way is its level of deficit defined on a sliding scale (Figure 5). The Funding Agency also take into account other factors when categorising schools for financial difficulty. For example, a school might be put into a higher category if its accounts received a qualified audit opinion or if significant changes in pupil numbers were predicted which would affect materially the level of funding and costs. Whilst the actions required by the school are the same for categories A, B and C, the Funding Agency adopt a more intensive monitoring role for schools in category A because of their more serious financial position.

**2.16** Schools in categories A to C are required to submit monthly monitoring returns and to produce a recovery plan showing how their deficit will be eliminated. There is often a need for meetings between the Funding Agency and the school, including representatives of the governing body, to discuss the recovery plans. Schools in category D must furnish an explanation of their financial position, and produce a recovery plan unless their budget forecast demonstrates clearance of the deficit within the following year. The Funding Agency also identify schools in potential financial difficulty and monitor them closely. If the financial returns received by the Funding Agency indicate an improvement in a school's financial position, this will not normally be reflected in the category allocated by the Funding Agency until the improvement is confirmed in the school's audited annual accounts.

**Figure 5**

**The Funding Agency's categories for schools in financial difficulty**

Category	Cumulative deficit as a percentage of annual maintenance grant	Number of schools		Actions required by the school
		1996 <sup>(1)</sup>	1997 <sup>(2)</sup>	
A	> 5%	18	17	<ul style="list-style-type: none"> <li>■ produce a recovery plan</li> <li>■ submit monthly monitoring returns</li> </ul>
B	3 - 5%	18	10	<ul style="list-style-type: none"> <li>■ produce a recovery plan</li> <li>■ submit monthly monitoring returns</li> </ul>
C	1 - 3%	24	13	<ul style="list-style-type: none"> <li>■ produce a recovery plan</li> <li>■ submit monthly monitoring returns</li> </ul>
D	0 - 1%	20	25	<ul style="list-style-type: none"> <li>■ explain financial position</li> <li>■ demonstrate how the deficit will be cleared through their annual budget or recovery plan</li> </ul>
A - D		80	65	

Notes: (1) From schools' audited accounts to 31 March 1996.

(2) From audited accounts to 31 March 1996 and schools' financial forecasts to 31 March 1997.

Figure 5 shows the number of schools in each financial difficulty category and the related actions required of those schools. At 31 March 1997 there were 65 schools currently in categories A to D, including 17 schools in category A.

Source: The Funding Agency for Schools

**0.9**

**2.17** Figure 5 shows that for the year ending 31 March 1996, on the basis of the Funding Agency's review of schools' audited accounts, there were 80 schools in categories A to D, including 18 schools in category A. At the time of the National Audit Office examination at 31 January 1997, there were 32 schools in category A, many of which were forecasting significant improvements. The revised position at 31 March 1997 based on schools' financial forecasts is 65 schools in categories A to D with 17 in category A.

**2.18** In February 1997 the Funding Agency's internal audit undertook a review which covered the Funding Agency's monitoring of schools' financial health. The review found that adequate controls existed which were being operated effectively and there were no fundamental weaknesses. There was, however, some scope for improvement. In response to one of the report's recommendations, the Funding Agency have produced comprehensive guidance for their staff on the treatment of schools in financial difficulty.

**2.19** The Funding Agency have introduced a revised approach to the review of schools' budgets for 1997-98 which includes comparative and trend analysis. Using this approach, they were able to identify schools, in addition to those in categories A to D, which required follow-up action. After further examination, they concluded that the majority of these schools were in a sound financial position. Only 16 were considered to be in potential financial difficulty and required further close monitoring.

**Schools in the highest financial difficulty category are making satisfactory progress towards financial recovery**

## **Review by the National Audit Office of schools in the highest financial difficulty category**

**2.20** The good financial health of a school depends upon sound school management, both general and financial. This helps to ensure the provision of education and support activities of a quality sufficient to attract pupils at a budget that can be afforded. Sound management is also a key factor in determining whether schools can avoid deficits which could reasonably have been predicted. For schools in financial difficulty, strong management in facing up to the challenges presented can minimise the period of recovery.

**2.21** The number of schools in the highest financial difficulty category is small in relation to the sector as a whole. There were 32 in category A as at 31 January 1997, when the National Audit Office undertook their examination, but the Funding Agency consider that schools' 1996-97 audited accounts will confirm that there should now be 17 schools in this category. The final figure will be available by the end of October 1997 when the Funding Agency should have received and reviewed the accounts of all schools. The National Audit Office examined the Funding Agency's records relating to the financial difficulties of all 32 schools and visited 20 of them to establish:

- the main factors underlying the schools' financial difficulties;
- the contribution of financial management problems to schools' financial difficulties;

- the planned nature of schools' recovery;
- the progress of schools towards recovery; and
- the lessons to be learned by other schools.

### **The main factors underlying the financial difficulties of the 32 schools in category A**

**2.22** For most schools, there was usually more than one factor underlying their financial difficulties. A deficit prior to incorporation as a grant-maintained school was one of the main factors underlying the financial difficulties at 12 of the 32 schools examined. These deficits occurred because the schools concerned had liabilities with the local education authority, for example, for goods or services received. Since most of these schools<sup>1</sup> had not been aware of the liability, they had set budgets for their first period of grant-maintained status which did not take into account the amount owed to the local education authority, leading to an overspend.

**2.23** Subsequent to incorporation the most common factors underlying schools' financial difficulties can be summarised as:

- higher than average teaching staff costs relative to pupil numbers (13 schools);
- pupil numbers lower than forecast (eight schools);
- declining pupil numbers without compensatory measures taken (seven schools);
- unplanned additional expenditure on estate related items (seven schools); and
- methodological or other changes in funding (seven schools).

<sup>1</sup> Three schools with pre-incorporation deficits are disputing the existence or the amount of the liability to the local education authority. Potentially, therefore, the situation could be resolved in their favour.

### **Higher than average teaching staff costs relative to pupil numbers (13 schools)**

**2.24** Teaching staff costs represent the major part of all school budgets. The National Audit Office noted that 13 of the 32 schools in category A difficulty had higher than average teaching staff costs relative to their pupil numbers. High teaching staff costs arose for a number of reasons. For example:

- at five of the schools, expenditure on supply teachers had been high due to unexpected illness or unplanned maternity leave; and
- three schools incurred the cost of a headteacher suspended on full pay.

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### **Recommendations on higher than average teaching staff costs**

Measures which schools can take in such circumstances are:

- referring to the comparative data issued by the Funding Agency to examine existing pupil:teacher ratios and current teaching staff costs to ensure that their budget is affordable; and
  - reviewing their policies which underpin the costs of teaching staff.
- 

### **Pupil numbers lower than forecast (eight schools)**

**2.25** The number of pupils in a school is the major factor determining a school's annual maintenance grant. Of the 32 schools examined by the National Audit Office, eight had over-estimated pupil numbers. Over-estimation of pupil numbers occurred for a number of reasons, for example:

- at one school, a change in the catchment area meant there was lack of information about pupil numbers since there was no history of local enrolment at the school; and
- at another school, persistent over-estimation of pupil numbers occurred because of the loss of pupils moving to schools closer to their homes outside the borough and a sixth form programme which suffered from an unusually high drop-out rate.



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### **Recommendations on forecasting of pupil numbers**

Accurate forecasting of pupil numbers and keeping pupil enrolment in line with the targets set are very important to schools' financial health. Failure to meet targets can have an adverse effect. Measures which schools can take in such circumstances are:

- setting realistic targets for pupils' enrolment; and
- assessing the impact of changes to key assumptions in pupil number forecasts and making appropriate contingency plans.

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### **Declining pupil numbers without compensatory measures taken (seven schools)**

**2.26** At seven other schools, the National Audit Office noted declining pupil numbers which had been correctly forecast. But the schools were slow to introduce measures that would either increase pupil numbers or prevent a further decline; or to identify where compensatory savings could be made on expenditure, for example:

- at one school, inappropriate marketing contributed to the decline in pupil numbers, a situation exacerbated by an insufficiently proactive senior management team; and
- four schools did not review staff costs in response to declining numbers.

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### **Recommendations on declining pupil numbers without compensatory action taken**

It is very important for schools to react quickly to a decline in pupil numbers either to halt the decline or to take compensatory action. Measures which schools can take in such circumstances are:

- active marketing of the school to parents in the area and maintaining a high profile in the community to attract more pupils; and

continued...

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- reviewing their budgets to determine whether savings could be made on expenditure, for example, on their staffing structure, and whether there is scope to increase income from external sources, such as the commercial letting of school premises.
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### **Unplanned additional expenditure on estate related items (seven schools)**

**2.27** Unplanned additional expenditure on capital projects accounted for financial difficulties at four schools. For example, one school incurred additional expenditure of £55,000 on two capital projects but has since introduced detailed monitoring of the costs of all capital projects against budgets.

**2.28** Expenditure on unplanned maintenance of buildings was one of the main factors underlying the financial difficulties at three schools. Schools with a backlog of maintenance are most likely to experience financial difficulties when emergencies arise. At one school, heating pipes under the playing fields had burst, resulting in expenditure of £13,000 to fund the repairs. As these circumstances did not threaten the school's ability to remain open, no emergency grant was available from the Funding Agency.

**2.29** In July 1996, the Funding Agency issued advice on strategic estate management as one of their value for money initiatives. This advice emanated from their earlier report on estate management in February 1996.

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### **Recommendations on unplanned additional expenditure on estate related items**

Measures which schools can take in such circumstances are:

- where major capital development is envisaged, having a sound estate strategy integrated with their main strategic plan and making financial provision for developing and maintaining the estate;
- ensuring their reserves are sufficient to cover any expenditure on capital projects which is additional to the capital funding available;

continued...

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- 
- monitoring the timetable and costs of capital projects on at least a monthly basis; and
  - making financial provision to cover the possibility of the need for emergency repairs and maintenance.
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### **Methodological or other changes in funding (seven schools)**

**2.30** Changes in the method of funding or a retrospective redetermination of annual maintenance grant were the main factors underlying the financial difficulties at seven schools. The schools could not have foreseen these changes in grant either at all or with sufficient accuracy:

- at four schools, a change in funding methodology had led to a reduction in funding so that they received a lower grant than anticipated; and
- at three schools, annual maintenance grant was redetermined retrospectively. In two of these instances, the redetermination reflected a revaluation of the rateable value of land and buildings which was backdated a number of years and was outside the control of the governing body. These schools have had to repay up to £400,000 each.

**2.31** The Department's policy is that any changes in funding methodology should be accompanied by transitional funding arrangements. In August 1997, the Department set out proposals to remove certain aspects of the present funding arrangements which treat grant-maintained schools differently from local education authority schools. The Department are consulting with grant-maintained schools on methods to reduce the effect of any loss in funding.

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### **Recommendations on changes in funding**

It is difficult for schools to cater for significant changes in funding levels which they could not reasonably foresee. To cope effectively, it is essential for schools to:  
continued...

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- assess carefully the potential financial impact of such changes by using whatever information is available, for example, in Departmental consultation papers, and by applying sensitivity analysis; and
  - create flexibility in their budgets where possible by setting aside an appropriate sum for contingencies as part of their strategic planning and budgetary process.
- 

### **The contribution of financial management problems to schools' financial difficulties**

**2.32** Only one school was identified where the sole factor underlying the financial difficulty was weak financial management. But a variety of financial management issues contributed in some measure to the financial difficulties at 16 of the 32 schools examined. There was often more than one financial management issue at a particular school. The main inadequacies in financial management at schools in category A were as follows:

- weaknesses in financial controls and accounting systems (eight schools);
- poor budget setting and monitoring (two schools);
- production of uninformative financial reports (three schools);
- role of bursar performed poorly because of a lack of experience (seven schools); and
- deficiencies in the Responsible Officer role (six schools).

**2.33** The level of financial management issues identified above is representative of schools classed as in highest financial difficulty and should not be taken as representative of the sector.

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## Recommendations on financial management

Schools need to consider whether:

- they have a suitable accounting system and whether appropriate training has been provided for staff to make best use of it;
  - they need to develop their budget preparation procedures further, in particular by taking a more critical look at the costs and identifying a wider range of options for consideration by the governing body;
  - the financial information reports for senior staff management and governors are produced on a regular basis and are sufficiently accurate and comprehensive so that performance against budget can be monitored and decisive action taken when problems arise; and
  - the performance of the bursar and Responsible Officer functions could be improved with suitable training.
- 

## The planned nature of schools' recovery

### Production of a recovery plan or financial forecasts

**2.34** All schools in categories A to C (Figure 5) are required to produce a recovery plan which addresses the causes of the financial difficulties and demonstrates how the school intends to eliminate its deficit. Of the 32 category A schools examined by the National Audit Office:

- 22 had produced a comprehensive recovery plan by 31 March 1997;
- six had produced financial forecasts but no recovery plan. Four of these schools, however, were forecasting clearance of the deficit by the end of 1996-97; and
- four had not produced a recovery plan or financial forecasts because either their financial difficulties had only recently come to light or they were in the process of updating existing forecasts.

**2.35** The majority of recovery plans had been produced by the school's senior management team and bursar in concert with the governing body. At two of the schools visited by the National Audit Office, external consultants had been

employed to assist in the development of the plan. At five other schools visited, consultants had been employed, either to test the reasonableness of the plan or to examine the quality of the school's financial management and governance.

### **Good quality plans featured five main aspects**

**2.36** These five main aspects were:

- a statement of how the school intended to eliminate its cumulative deficit;
- income and expenditure and cash flow forecasts;
- assumptions underlying recovery;
- sensitivity analysis; and
- curriculum analysis linked to reliable pupil number forecasts.

### ***How schools intended to eliminate cumulative deficits***

**2.37** All of the 22 recovery plans included a statement of how the schools intended to eliminate their cumulative deficits. In the majority of cases, the focus for recovery was on increasing pupil numbers and thus income, and reducing teaching staff costs, over the longer term.

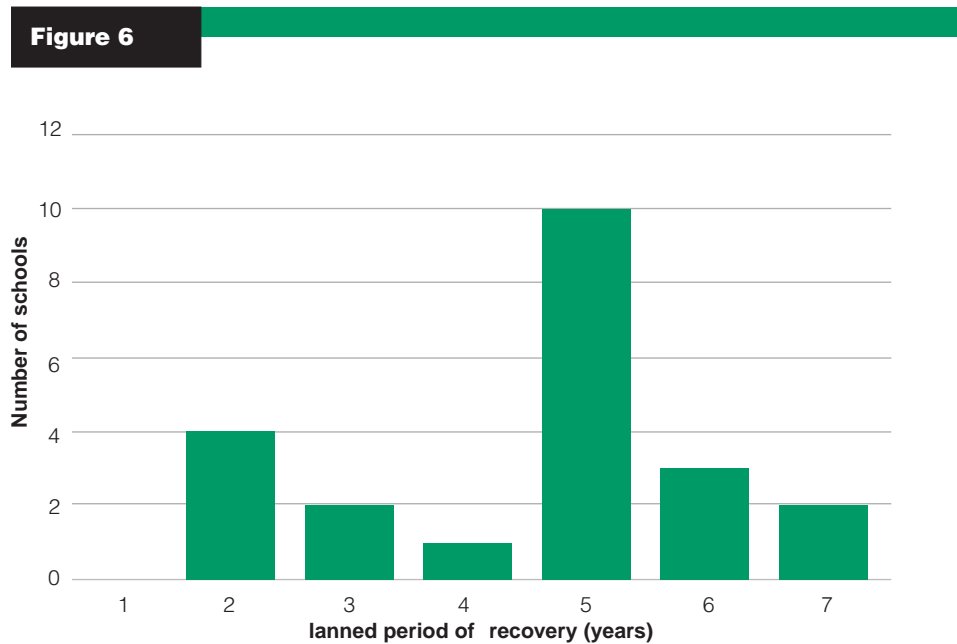
**2.38** Most schools recognised the need to achieve a balance between achieving financial stability as soon as possible and continuing to maintain or to improve educational standards, year on year. Five years was the most common period for recovery (Figure 6). Plans covered a period sufficient at least for elimination of the deficit. At seven schools, the period of recovery envisaged was less than the lifetime of the plan.

### ***Income and expenditure and cash flow forecasts***

**2.39** Of the 28 schools that had produced recovery plans or financial forecasts, all included income and expenditure forecasts. Three had produced cash flow forecasts for the full period of the plan whereas the others were producing them on an annual basis. It is important that schools produce cash flow forecasts in

addition to income and expenditure forecasts. One school examined had used a five year cash flow forecast to demonstrate the need for a loan from the Funding Agency.

**The planned length  
of time for recovery in  
schools' recovery plans**



Source:  
Schools' recovery plans

Figure 6 shows that five years was the most common period covered by schools' recovery plans.

**Assumptions underlying financial forecasts**

**2.40** The Funding Agency acknowledge the difficulty that schools may face in producing financial forecasts for the medium and long term due to the uncertainty over, for example, pupil numbers and hence the levels of funding. Inevitably, assumptions will need to be made in order to produce estimates of income and expenditure for future years. However, assumptions underlying financial forecasts need to be clearly stated in the recovery plan in order to aid understanding. Of the 22 recovery plans examined, 18 included such assumptions.

**Sensitivity analysis**

**2.41** By including the assumptions underlying recovery, it is possible for schools to undertake sensitivity or "what if" analysis. This allows a school to assess the impact of, for example, a change in pupil numbers or in the level of funding. A degree of flexibility or contingency can then be built into the plan. Fourteen schools

undertook sensitivity analysis, of which eleven included assumptions in the plan. Where schools had undertaken sensitivity analysis, the most prudent option was usually adopted.

### **Curriculum analysis linked to reliable pupil number forecasts**

**2.42** Of the 28 schools which had produced either recovery plans or financial forecasts, all had forecast pupil numbers but only 16 had undertaken curriculum analysis to establish the optimum staff numbers, taking into account, for example, pupil:teacher ratios and the percentage of staff time spent teaching. In the forecasting of pupil numbers, some schools had used demographic information collated by the planning department of the local education authority or by the Funding Agency's planning division. Others assumed that pupil numbers would rise as the result, say, of a marketing campaign.

### **Recovery plans need to be reviewed and up-dated**

**2.43** A recovery plan needs to be reviewed and up-dated as more accurate information becomes available and to reflect any recent developments. Most, but not all, of the schools amended their recovery plans in this way. However, all schools in categories A to C are required to submit to the Funding Agency monthly updates of cash flow forecasts, income and expenditure statements and revised forecasts for the current financial year.

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## **Recommendations arising from good recovery plans**

Schools should examine the form and content of their strategic plans and consider whether their plans might benefit from incorporating some of the best features of good quality recovery plans, as follows:

- cash flow forecasts to support income and expenditure predictions;
  - the assumptions underlying financial forecasts;
  - a sensitivity analysis which includes pessimistic assumptions relating, for example, to a reduction in funding and under-enrolment of pupils, and the actions to be taken in the event of these assumptions being realised;
  - curriculum analysis linked to pupil numbers to aid forecasting of staff costs; and
  - reviewing and updating plans regularly, at least annually.
-



## **The progress made towards recovery**

**2.44** The majority of the 32 schools in highest financial difficulty examined by the National Audit Office were projecting an improvement in their financial position for 1996-97. An analysis of schools' March 1997 unaudited income and expenditure returns to the Funding Agency showed that:

- 22 of the 32 schools in question were forecasting a reduction in their cumulative deficits during 1996-97; and
- 21 of the 28 schools which produced recovery plans or financial forecasts were predicting that their position would be better than that projected.

**2.45** To arrive at this position, the schools have had to take a variety of measures which included:

- a complete block on all but essential spending;
- the loss of posts both in teaching and in support areas, such as the library;
- renegotiating support service contracts to reduce costs and obtain better value for money;
- reducing overheads by mothballing classrooms;
- postponing planned maintenance; and
- more proactive marketing of the school to increase pupil numbers.

**2.46** Schools have also taken measures to improve financial procedures. For example:

- one school strengthened the finance committee of its governing body through the appointment of an additional governor and appointed a new member to the school's finance team with accounting experience; and
- another school restructured its governing body to secure more effective management and communication and overhauled its financial recording and reporting system to ensure accurate, timely, and regular reporting of the school's financial position to the governing body.

**2.47** A small number of schools have received financial assistance from the Funding Agency in the form of a loan under Section 255 of the Education Act 1996. A loan is only approved if the school requires the cash to assist it in overcoming short-term cash flow problems. Section 255 loans attract interest payable at a rate determined by the Treasury under Section 5 of the National Loans Act 1968. As at 31 March 1997, nine grant-maintained schools had received £1,030,000 in loans from the Funding Agency (or from the Department prior to the setting up of the Funding Agency). Loans made to individual schools ranged from £15,000 to £300,000. At 31 March 1997, the balance outstanding on these loans was £742,703.

### **Dissemination of lessons learned**

**2.48** The National Audit Office's examination of the 32 schools in greatest financial difficulty should provide the Department and the Funding Agency with a base for disseminating lessons to be learned to other schools.

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### **Recommendation on lessons learned**

The Department and the Funding Agency should continue to disseminate lessons learned from past cases of schools where actual or potential financial difficulty has arisen. The National Audit Office's review of 32 such cases and of the lessons emerging should provide a good basis for this.

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## Part 3: Implementation of the National Audit Office's previous recommendations

**3.1** In 1996-97 the National Audit Office revisited 20 schools first visited in 1993-94 to examine whether recommendations made had been implemented and, if so, the level and nature of impacts achieved. As financial management has been a recurrent theme of previous published National Audit Office reports on grant-maintained schools, the National Audit Office also reviewed the effectiveness of current financial management at those schools.

The schools revisited have implemented most of the National Audit Office's previous recommendations

### Implementation of the National Audit Office's previous recommendations

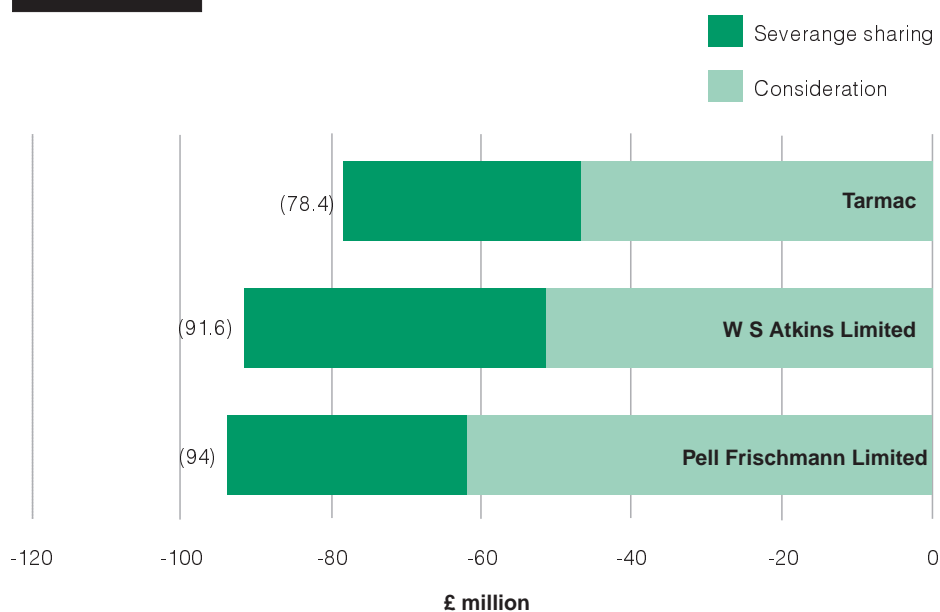
**3.2** The National Audit Office's examination at schools in 1993-94 had focused on financial management and on purchasing and estate management. Overall, the schools had responded very positively to the recommendations made in management reports subsequently sent to each school. Of the 384 recommendations made, 320 (84 per cent) had been fully implemented and another 40 (10 per cent) were in the process of implementation (Figure 7).

**3.3** All the recommendations on estate management and all but two on purchasing had already been or were being implemented. Of the 24 recommendations (6 per cent of the total) which were not implemented, therefore, most related to financial management and about two thirds of these related specifically to strategic planning.

**3.4** The positive approach demonstrated by the schools towards implementation of the recommendations has enabled significant financial benefits and qualitative improvements to be achieved.

**Selection of preferred bidder**

**Figure 7**



Notes: The final offers have been standardised for the purposes of evaluation and based upon the transfer of 900 staff which represented the mid point of PSA Projects's estimate of the likely number of transferees.

Source: Coopers & Lybrand evaluations

On the assumption that 900 staff would transfer, the Tarmac bid was the most financially advantageous.

**Achievement of significant financial savings by implementing the National Audit Office's recommendations**

**3.5** As a direct result of implementation of the National Audit Office's recommendations, eleven of the schools had achieved financial savings totalling £181,000 of which £160,000 were recurrent annual savings. The areas which yielded the savings were:

- retendering of contracts (catering, cleaning, premises and grounds maintenance, insurance, payroll, personnel and audit services) with savings totalling £160,000 of which £139,000 were recurrent annual savings;
- improved return on cash balances of £12,000 each year; and
- increased income from school premises' lettings of £9,000 each year.

**3.6** Examples of schools achieving savings or improved rates of return are given in the following case studies (Case studies 1 to 4).

**Savings of £50,000 each year achieved as a result of a school catering contract being retendered**

#### **Case study 1**

The National Audit Office had recommended to a secondary school that, in order to ensure continuing value for money, all contracts with providers of goods and services, including catering, should be retendered every three years. When the school's catering service contract came up for renewal in 1995, the school made use of a firm of catering consultants to assist and advise senior management by:

- determining how much the school should be paying for its catering arrangements in comparison with what it was paying at the time;
- drawing up a very detailed and tightly defined tender document and specification;
- selecting the companies to be invited to tender;
- conducting meetings between the school and companies invited to tender and fielding questions on the school's behalf; and
- analysing tenders and advising the school on which tender provided the best value.

The school has entered into a profit sharing arrangement with the caterer. As a result of retendering, profit sharing and tighter control over costs, the school has reduced the amount paid in respect of catering by approximately £50,000 each year. The catering consultancy cost the school £2,000 for services provided during the retendering exercise and subsequently £600 a term for analysis of the catering accounts to ensure fairness of the profit sharing arrangement.

**Savings of £75,000 each year achieved by three schools as a result of a number of support services contracts being retendered**

#### **Case study 2**

The National Audit Office had recommended to three secondary schools that, in order to improve value for money, all support service contracts be reviewed and retendered periodically. As a result of implementing this recommendation, the schools had achieved significant savings:

- one school had achieved annual savings of £50,000 by the retendering of its catering, utilities and insurance contracts;
- another school had achieved annual savings of about £15,000 by the retendering of its catering, cleaning and utilities contracts; and
- a third school had achieved annual savings of £10,000 by the retendering of its catering, cleaning and grounds maintenance contracts.

Each of the above schools told the National Audit Office that generally service quality levels had also improved following retendering.

**Two schools each  
achieving improved rates  
of return of up to £6,000  
each year on cash  
balances**

### **Case study 3**

The National Audit Office had recommended to two secondary schools that they should seek to achieve a higher rate of return on cash balances held in current accounts with their banks. Since 1993-94, by prudent investment, each of the schools has increased the interest accruing on their cash balances by up to £6,000 each year.

**Two schools achieving  
increased income from  
lettings of £5,000 each  
year and £4,000 each year  
respectively**

### **Case study 4**

The National Audit Office had noted at one secondary school in 1993-94 that, while senior management had considered the potential benefits of letting parts of the school premises, little additional income had been generated. The National Audit Office had recommended that the school should consider further marketing and promotion to improve local awareness of the school's facilities. The school responded positively and managed to increase the income from the letting of its facilities to the local community by £5,000 each year.

At another secondary school, following a review of estate utilisation recommended by the National Audit Office, and advice provided by the Funding Agency, income from lettings to local businesses has increased by up to £4,000 each year.

## **Qualitative improvements as a result of implementing National Audit Office recommendations**

**3.7** As a result of the earlier National Audit Office recommendations, the schools visited were also able to point to qualitative improvements in financial management, such as:

- more specific terms of reference for governing body committees;
- better longer term strategic planning; and
- measures to improve financial management leading to, for example, a more thorough budget review, improved performance of the Responsible Officer function, completion of comprehensive and up-to-date asset registers and finance manuals, and better segregation of duties.

**3.8** Some of these qualitative improvements are addressed in the remaining section of this part of the report which covers current practice on financial management at the schools visited.

Financial management has been strengthened but there is scope for some further improvement

## Scope for further improvement to financial management

**3.9** The schools visited by the National Audit Office in 1993-94 had relatively limited experience of financial management because many of them had only recently become grant-maintained. Most of the reports by the National Audit Office to the individual schools in 1993-94 drew attention to the need to strengthen financial management. The National Audit Office, therefore, examined the effectiveness of current financial management at the 20 schools revisited in 1996-97 to determine how well those schools had responded to guidance in the Funding Agency's Rainbow Pack and in published National Audit Office reports.

**3.10** The National Audit Office found that schools had responded well to current guidance and made good progress generally. But there remained scope for further improvement in financial management arrangements in the following areas:

- governance;
- the role of the Responsible Officer;
- strategic planning;
- register of business interests; and
- recording of assets.

### Governance

**3.11** The National Audit Office examined the composition and expertise of governing bodies, their committees and associated terms of reference, and the frequency of their meetings.

**3.12** The governing bodies of the 20 schools visited typically comprised between 17 to 22 members and met on average five times a year. Although some schools had found it difficult to attract governors with appropriate skills, all had been able to assemble governing bodies that encompassed an appropriately wide range of skills from local businesses and the community. Typically, these skills and backgrounds included accountancy, banking, local government, the legal profession, the Church, and business management and administration.

**3.13** Governing bodies are required by statute to establish an admissions committee and a disciplinary and appeals committee for both pupils and staff and each school visited had done so. In addition to these statutory committees, the schools had found it beneficial to establish, on average, four non-statutory committees for finance and general purposes, curriculum, premises and personnel. These committees tended to meet about five times a year, usually prior to the main governing body meetings.

**3.14** Nearly all schools were found to have satisfactorily defined the terms of reference for their governing body committees. Enhanced terms of reference had been introduced by two schools following recommendations by the National Audit Office in 1993-94 (Case study 5). However, one of the revisited schools did not have written terms of reference for any of its committees, while another had written terms of reference for only some. Both of the latter schools have now decided to take appropriate remedial action.

Improved terms of  
reference for governing  
body committees  
introduced by two  
schools

#### Case study 5

In 1993-94 the National Audit Office had recommended clearer definition of management and governing body responsibilities to facilitate decision-making at two schools. The schools responded by introducing terms of reference for each governing body committee which clarified roles, responsibilities and relationships with the governing body and other committees.

**3.15** At the schools visited, all finance committee meetings were attended by the bursar or finance officer. The Responsible Officer attended all finance committee meetings at all but three schools. At these three schools, the Responsible Officer function had been contracted out to specialist consultants and the Responsible Officer attended one finance committee meeting each term. External auditors attended finance committee meetings at least once during the year to present the audited annual accounts and their report.

### Recommendation on governance

Schools need to ensure that they have adequately defined terms of reference for all governing body committees which set out their roles, their relationship with the governing body and other committees, and their decision-making powers, including financial delegations.



## The role of the Responsible Officer

**3.16** The Responsible Officer's function is to provide assurance to the governing body on financial matters by undertaking independent checks, and filling a role equivalent to that of an internal auditor. Governing bodies are required to designate a Responsible Officer in accordance with requirements set out in their financial memorandum with the Funding Agency (Figure 8).

### Requirements for designating a Responsible Officer

#### Figure 8

The governing body shall designate a Responsible Officer to provide assurance on the following issues:

- the discharge of its responsibilities under this Memorandum;
- the efficient, economical and effective management of resources and expenditure, including funds, capital assets and equipment, and staff;
- the introduction and maintenance of sound internal financial controls; and
- that financial considerations are taken fully into account in reaching decisions and in their execution.

It should be noted that although the Responsible Officer is responsible for providing assurance on these financial issues, he/she is not directly responsible for the financial management of the school. To assist the Responsible Officer in discharging his/her responsibilities, he/she may use sample testing or manage reviews carried out by others, for example, additional services provided by external auditors.

The Responsible Officer should be appropriately qualified and/or experienced to carry out the role. He/she should not be a member of the school staff, nor the chairman of the governing body. He/she should therefore be either another governor or an individual not on the school staff.

Figure 8 shows that the function of a Responsible Officer is to provide assurance to the governing body on financial matters. He/she should either be a governor, other than the chairman, or an individual not on the school staff.

Source : The financial memorandum between the Funding Agency and the governing body of each school

**3.17** A wide range of people may perform the role of Responsible Officer, for example, a governor other than the chairman, a parent or a paid professional. The willingness of unpaid volunteers, such as governors or parents to fulfil this duty, will depend upon whether they feel that they have sufficient skill and time to be effective.

**3.18** During their revisits, the National Audit Office found that schools took different approaches to appointing the Responsible Officer. At 16 of the 20 schools, the role was undertaken by a school governor and in seven of these cases by the

governor who was also the chair of the finance committee. At the four remaining schools, the role has been contracted out to specialist consultants, in one instance in response to a National Audit Office recommendation in 1993-94 (Case study 6).

**Improved performance of  
the Responsible Officer  
function by contracting  
out to a firm of  
consultants**

### **Case study 6**

The National Audit Office had recommended in 1993-94 that a secondary school should consider the introduction of a formalised programme of internal control checks to be carried out at regular intervals by its Responsible Officer. During the revisit, the National Audit Office noted that, in response to this recommendation, the school contracted out its Responsible Officer function to a firm of consultants, who specialise in providing this service to schools. The National Audit Office noted the comprehensiveness and rigour of the work carried out which covered a total of 17 key areas and provided the school with a permanent record of the checks undertaken. The consultants visited the school each quarter and spent a minimum of five days at the school during the year. Following each visit, they sent a summary of the work carried out to the bursar which was copied to the finance committee. The cost of this service was around £2,000 each year.

**3.19** The effectiveness of the work carried out by Responsible Officers was subject to some variation at the 20 schools revisited:

- at 17 schools, programmed checks adequately covered bank and payroll reconciliations, other payments and the custody of assets;
- at 17 schools, evidencing of checks was satisfactory;
- at four of the schools, checks were not being conducted with sufficient regularity, that is, at least termly;
- records of the work undertaken were maintained at only half of the 20 schools; and
- at 13 schools, written reports were not provided to the governing body concerning the results of the work.

**3.20** At three of the schools revisited, Responsible Officers told the National Audit Office that they felt there was a need for further detailed guidance on how their role should be carried out and asked for advice at the time of the visit. The Funding Agency have required external auditors of schools to report specifically on

the role and performance of the Responsible Officer, in their management letters to schools. Based on the results of this exercise, the Funding Agency will consider what further advice should be given on discharging the role of Responsible Officer.

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### **Recommendation on the Responsible Officer role**

On the basis of their visits to schools, the National Audit Office believe that the Funding Agency should consider giving further more detailed guidance to schools on the specific requirements of the Responsible Officer function, including the training needed, as part of their current review of the role and performance of the Responsible Officer. Such guidance might include:

- the type and range of checks to be undertaken;
- minimum frequency levels for conducting checks;
- how checks should be evidenced;
- what permanent records of the Responsible Officer's work should be maintained; and
- the need for written reports of this work to be submitted regularly to the governing body.

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### **Strategic planning**

**3.21** Following their 1993-94 visits, the National Audit Office concluded that although aspects of strategic planning were good at some schools, many were at a relatively early stage in their development of planning systems. They needed to:

- plan more than one year ahead;
- place the plan within a financial framework; and
- set targets and identify priorities.

**3.22** Seven of the 19 revisited schools with National Audit Office recommendations on strategic planning in 1993-94, had responded positively. For example, one school had introduced a five year strategic and financial plan (Case study 7).

## Improved strategic and financial planning

### Case study 7

In 1993-94, the National Audit Office had recommended that one secondary school should improve its financial planning by forecasting its finances at least three years ahead, in accordance with guidance from the Funding Agency known as the Rainbow Pack, by providing a closer link between the budget and the strategic plan and by ensuring that planned objectives were prioritised in financial terms. In response, the school had prepared a comprehensive five year strategic and financial plan which examined a wide range of forecasts, including pupil and staffing numbers, class size, additional lesson requirements, and accommodation needs. It was later expanded to include a planned maintenance programme and information technology planning policy. The plan also took into account possible changes in Government policy by estimating how funding sources might be affected and how the school might respond. The school used the plan to support a borrowing application to potential lenders and subsequently to the Funding Agency.

**3.23** Despite these positive findings reflecting significant improvements in strategic planning, there was still scope for improvement in strategic planning at many of the 20 revisited schools:

- five schools had produced plans which did not look more than one year ahead;
- 11 schools had not fully considered the financing required for planned development;
- 11 schools had plans which listed targets that could not be measured readily; and
- 14 schools did not have arrangements to review and evaluate their performance against the objectives contained in their plans.

### Recommendations on strategic planning

Schools need to ensure that their strategic plans:

- cover a planning period of three to five years and that their plans are updated annually to maintain a continuous three to five year horizon;
- cover the financial implications of planned development;
- wherever possible include measurable objectives and targets;

continued...

- 
- contain arrangements for the review of achievement against targets and objectives, which include criteria for evaluation, and involve the governing body, school management and staff; and
  - reflect guidance on good practice included within the Funding Agency's Rainbow Pack.
- 

### **Register of business interests**

**3.24** The National Audit Office reviewed schools' arrangements to ensure that the business interests of governors and staff were properly disclosed in accordance with the requirements of the Rainbow Pack. The examination considered:

- whether each school maintained a register to record the business interests of governors and staff;
- whether the register was completed by all required personnel; and
- how frequently the register was updated.

**3.25** All 20 schools had registers of business interests. At 14 of the schools, the register had been satisfactorily completed by all of the personnel specified in the Rainbow Pack. This meant that governors and staff with significant financial responsibilities had included not only their own business interests but those of relatives and others who might exert influence. The registers at the remaining six schools had been completed by governors but not by staff with financial responsibilities.

**3.26** All 20 schools had updated or reviewed annually their registers of business interests. But only four schools reported that they updated the register between annual reviews when there were changes in relevant personnel and business interests.

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## Recommendations on register of business interests

Schools need to ensure that their registers of business interests:

- include staff as well as governors with financial responsibilities; and
- are updated or reviewed annually and whenever there is a change of governor or member of staff with significant financial responsibilities.

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## Recording of assets

**3.27** The National Audit Office examined whether schools had arrangements for ensuring that an accurate and up-to-date record of assets was being maintained. All 20 schools were found to have some form of asset record, either centralised or on a department by department basis. Seven of the schools were maintaining both centralised and departmental records and two schools were keeping only departmental records.

**3.28** The National Audit Office found inadequacies in the asset records at three of the schools examined. For example, a failure to maintain up-to-date records (at two schools, asset records had not been updated for two years), no recording of asset value and no record of the acquisition date. In each case, the schools were aware of the deficiencies and the need for remedial action was acknowledged.

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## Recommendations on recording of assets

Schools should take care to ensure that an accurate and up-to-date central assets register is maintained, which includes:

- full description of the asset, including any identification number and marks, and location;
  - date of acquisition;
  - supplier;
  - original cost; and
  - current valuation of the asset.
-

## Part 4: The provision and management of information technology in the classroom

**4.1** The National Audit Office investigated whether 40 of the 80 schools they visited had handled the provision of information technology for use in the classroom in a way which would provide good value for money for the taxpayer. These schools were chosen at random from those not previously visited. The investigation focused on:

- strategic planning for information technology;
- the acquisition of hardware and software;
- the effectiveness of information technology management; and
- the scope for improving management procedures.

**4.2** All of the schools visited had arrangements in place to prevent wasteful expenditure on information technology. Nevertheless, there were areas where value for money could be further improved. The investigation did not seek to assess how the utilisation of information technology affected the quality of education delivered by schools, which is a matter for the Office for Standards in Education.

Most schools have  
an information technology policy  
and strategy

### Strategic planning for information technology

**4.3** As regards strategic planning for information technology, the National Audit Office examined:

- the existence and implementation of a strategy for information technology;
- the role of information technology steering groups in strategic planning; and
- the role of governors in strategic planning.

## Policies and strategies for information technology

**4.4** Reflecting the importance of computers and associated equipment in the classroom, 35 of the 40 schools had set out an information technology policy as a basis for determining specific objectives and strategies. A further three schools had plans to produce a policy by Summer 1997. Most of the schools with an established policy had prepared a strategy for the future development of information technology, approved by the governing body, and linked to the school's overall aims and objectives. The National Audit Office found many commendable examples of good practice on strategic planning for information technology at individual schools (Figure 9).

### Strategic planning for information technology - examples of good practice at individual schools

**Figure 9**

- Preparation of a clear information technology policy with objectives stated and linked to the school's strategy as set out in the development plan and budget;
- Wide dissemination of the policy and strategy throughout the school;
- Consultation with departments during the development of plans for procurement of information technology and making decisions which take into account their needs thus securing their commitment to the resulting strategies;
- Identification of a number of options in the plan; and
- Establishment of a clear link between departmental priorities for information technology and the school's planned programme.

Source: National Audit Office  
visits to 40 schools

Figure 9 shows examples of good practice on strategic planning for information technology found at the schools visited.

**4.5** Some of the schools which had not prepared a policy and a strategy for information technology were in the process of developing them. The National Audit Office recommended that the necessary work should be carried out or completed as a matter of urgency. In addition, the National Audit Office were able to make suggestions to schools to help them improve the utility and effectiveness of their existing strategic plans. For example, the need to have for their strategic plans:

- a clear and well founded statement of their information technology requirements linked to budgets;
- formally documented goals such as the standardisation of equipment;



- specific targets and dates for achievement to enable senior management to assess whether and when targets have been met; and
- quantifiable targets against which progress can be monitored, for example, the number of pupils for each computer and the hours of pupils' use of computers.

### Information technology steering groups

**4.6** Nineteen of the 40 schools had set up or were setting up steering groups or committees to assist in the development and implementation of strategies for information technology. Some of the key areas which existing steering groups cover are shown at Figure 10. Such groups can be beneficial particularly in larger schools and help to reduce the risk of poor value for money, provided that:

- they are given clear terms of reference;
- they meet at least once a term and more frequently at key times;
- senior management, information technology managers, departmental heads and governors are properly represented on them;
- appropriate technical expertise is available to them; and
- after due consideration, their recommendations are acted upon.

Some of the key areas  
covered by information  
technology steering  
groups

**Figure 10**

- Consideration of strategic planning proposals;
- Definition of the future requirements for computer equipment and software;
- Advice on the procurement of equipment;
- Monitoring of the progress of new facilities;
- Review of proposals for changes to operating software;
- Monitoring progress against the strategic plan;

continued...

**Figure 10**

continued...

- Dealing with operational problems;
- Assessment of training requirements; and
- Advice on curricular matters relating to information technology.

Source: National Audit Office  
visits to 40 schools

Figure 10 shows the range of issues which schools' information technology steering groups consider.

## Governors' role in strategic planning

**4.7** At almost all of the schools which had produced an information technology policy and strategy, the governing body approved policy statements and strategies and received regular reports from school staff about progress in developing information technology facilities. Fourteen schools had strengthened the link between staff and the governing body by the positive step of appointing a governor with the appropriate skills to take specific responsibility for information technology issues.

## Recommendations on strategic planning for information technology

To sharpen the effectiveness of their plans and to assist the implementation of strategies, schools should consider whether:

- their strategic plans have clear and well-founded statements about information technology requirements linked to budgets, with dates specified for the implementation of new systems and quantifiable targets against which progress can be monitored, for example, in terms of numbers of pupils for each computer;
- there is scope for the increased use of information technology steering groups to inform planning and assist implementation; and
- a governor should be allocated specific responsibility for information technology matters.

Most schools have adequate arrangements for acquiring information technology hardware and software

## **Arrangements for acquiring information technology hardware and software**

**4.8** In most cases major computer related purchases were made following detailed internal discussions and consideration of, and approval by, the governing body. The National Audit Office identified instances of good practice as well as instances where acquisition procedures could be improved.

### **Good practice on the acquisition of hardware and software**

**4.9** Examples of good practice designed to improve value for money in procurement included:

- to secure the most economical prices, one school was making use of a local schools' purchasing conglomerate which offered low prices through bulk purchasing;
- another school had set up a teaching support services budget through which all consumables, including information technology related items, were purchased in bulk;
- one school encouraged the collection of supermarket vouchers enabling the acquisition of a further computer at no cost;
- to help ensure that suitable equipment and software were purchased, one school had put all purchases over £1,000 out to tender, with tender specifications sent to eight proven suppliers. Any prospective new supplier was asked to provide the necessary equipment for a trial period and, if successful, the supplier was added to the proven supplier list; and
- at other schools, staff were encouraged to obtain software on trial before any decision was made to purchase, and software purchases were controlled centrally by the information technology steering group.

**4.10** There were also examples of structured authorisation and approval procedures designed to reduce the risk of poor value for money:

- at one school, proposals for any major purchases were discussed with the information technology manager and approved by the headteacher with purchases in excess of £5,000 authorised by the Board of Governors; and
- at another school, all information technology procurement proposals were considered by the school management team and submitted to the finance committee for approval.

### **Scope for improving acquisition procedures**

**4.11** The National Audit Office were able to make recommendations to over half the schools they visited to help improve their acquisition procedures:

- although most of the schools visited had an established acquisition policy, including competitive tendering, which was being applied to the information technology equipment, at some junior and primary schools the policy had not been put in writing and formalised;
- some schools had to be reminded of the need for competitive tendering in accordance with the Funding Agency's Rainbow Pack guidance; and
- at several schools, the transparency of the purchasing process would have been improved if all quotes, including informal quotes, and research by school staff into prices, had been documented.

**4.12** Before September 1996, schools could only enter into an operating lease which has the character of a rental agreement with the leasing company usually being responsible for the repair and maintenance of the equipment. Since September 1996, schools have been allowed to enter into finance leases, with the approval of the Funding Agency. A finance lease transfers substantially all the risks and rewards of ownership to the school. Not all schools had considered the option of leasing their computer equipment. At a minimum, schools might consider obtaining quotes for leasing that can then be compared with the cost of outright purchase. However, schools should seek an opinion from their professional advisors (auditors and/or solicitors) before entering into any lease agreement.

**4.13** It is good practice to establish a central point for all proposed acquisitions, for example, by having all purchases authorised by the information technology manager. This procedure helps to maintain standardisation and compatibility of equipment and software and to ensure that full advantage is taken of suppliers' discounts for larger and bulk purchases.

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### **Recommendations on information technology acquisition procedures**

To help them to secure good value for money in the acquisition of information technology equipment, schools should consider whether:

- they have a written policy and procedures for tendering and contracting which are applied in practice to the procurement of information technology equipment and software;
- before acquiring equipment, the cost-benefit of a lease has been compared with outright purchase; and
- there should be a central person or committee responsible for considering acquisition proposals in order to maintain standardisation and compatibility of equipment and software, and to ensure that full advantage is taken of suppliers' discounts for larger or bulk purchases. For example, all proposed purchases could be authorised by the school's information technology manager.

Generally schools have taken steps to manage their information technology resources effectively

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## **Management of information technology resources**

### **Day-to-day management**

**4.14** Thirty five of the 40 schools visited had appointed a member of the teaching staff to manage information technology provision, although very often this work was in addition to other teaching responsibilities. At the remaining five schools the scale of provision and the limited number of staff did not justify such an appointment and alternative management arrangements were made. In all cases, the persons concerned had been provided with a job description, although in two cases these descriptions lacked detail. The range of tasks undertaken by such staff is shown in Figure 11.

## Roles of the information technology manager

**Figure 11**

### On strategic planning

- Preparation of the information technology strategic plan/input into the School Development Plan

### On acquisition

- Preparation of tender documentation for new purchases
- Assessment of tenders

### On allocation of resources

- Liaison with departments on the allocation of information technology resources

### On utilisation

- Preparation of annual timetables for the use of information technology suites

### On teaching

- Teaching information technology
- Assessment of information technology within information technology specific classes
- Liaison with other non-information technology staff on issues of assessment across the curriculum

### On training

- Provision of training for other staff either through in-service training days or on an ad hoc basis

### Other management tasks

- Management of the implementation of new equipment
- Day-to-day management of networks
- Installation of software
- Management of booking system
- Dissemination of information on new acquisitions or facilities
- Dealing with problems arising from the use of new subject specific software
- Liaison with other schools and other information technology users

Source: National Audit Office  
visits to 40 schools

Figure 11 shows that information technology managers can have a wide spread of responsibilities.

**4.15** At 26 schools the teaching staff responsible for managing information technology were assisted by full or part-time technicians, who prepared equipment for lessons, and carried out classroom support, network housekeeping and minor maintenance. In some cases, technicians had undertaken major installation work or were playing a major role in network management. In other cases, such support was not appropriate, for example, in smaller schools.

**4.16** The appointment of staff with specific information technology responsibilities, has risks as well as benefits, for example:

- at two schools, there was the risk that the range of tasks within the information technology manager's remit could become unrealistically wide. There was therefore a need to consider whether some of the day-to-day tasks could be delegated to other computer literate staff; and
- another school had become too dependent on the information technology manager and other staff needed to be trained to provide cover in the event of his absence.

### **Information technology handbooks**

**4.17** The National Audit Office found that most schools had issued guidance or information to pupils and staff on the use of information technology facilities, although much of this information had limited circulation. There were a number of commendable examples where schools had issued an information technology handbook which, as well as containing statements of policy and future strategy, provided other valuable information for information technology users on a wide circulation. Figure 12 contains a summary of the information provided in two such examples.

### **Pupils' access to equipment**

**4.18** Generally, schools provide widespread access for all pupils to information technology equipment outside of their scheduled classes, to complete class work or to undertake additional studies. All of the schools visited allowed access at lunch-time and most permitted access after school hours. At those which did not permit access after school, there was generally a good reason, such as the pupils' travelling arrangements. Some secondary schools had facilities dedicated to the sixth form and GNVQ students as required.

**4.19** In secondary schools, most computers were grouped in networked suites which were available for whole class tuition with further machines, usually stand-alone work stations but occasionally networked, located in classrooms, sixth form study areas and special educational needs units. In primary schools, computer suites were comparatively rare and equipment was deployed either in classrooms or the library.

**Examples of subjects  
covered by schools'  
information technology  
handbooks**

**Figure 12**

School 1	School 2
<ul style="list-style-type: none"> <li>■ Statement of pupil entitlement</li> </ul>	<ul style="list-style-type: none"> <li>■ Statement of policy</li> </ul>
<ul style="list-style-type: none"> <li>■ Explanation of the need for information technology</li> </ul>	<ul style="list-style-type: none"> <li>■ Facilities available (listing computers, software available on them and peripheral equipment)</li> </ul>
<ul style="list-style-type: none"> <li>■ Aims (in line with School mission statement)</li> </ul>	<ul style="list-style-type: none"> <li>■ Department staffing (listed by name, title and in the case of part-time staff showing when they are available)</li> </ul>
<ul style="list-style-type: none"> <li>■ Key objectives and intended learning outcome</li> </ul>	<ul style="list-style-type: none"> <li>■ Courses offered</li> </ul>
<ul style="list-style-type: none"> <li>■ Human resources (listed by name, position and qualifications)</li> </ul>	<ul style="list-style-type: none"> <li>■ Procedures for room booking</li> </ul>
<ul style="list-style-type: none"> <li>■ Information technology resources (showing details of computers and peripherals)</li> </ul>	<ul style="list-style-type: none"> <li>■ Notes on room discipline, health and safety issues</li> </ul>
<ul style="list-style-type: none"> <li>■ Curriculum plans for Key Stages 3 and 4, and information technology as an option subject</li> </ul>	<ul style="list-style-type: none"> <li>■ Support provided by technician</li> </ul>
<ul style="list-style-type: none"> <li>■ Summary of information technology development plan</li> </ul>	<ul style="list-style-type: none"> <li>■ Staff training</li> </ul>
<ul style="list-style-type: none"> <li>■ Brief evaluation of departmental priorities in previous year</li> </ul>	<ul style="list-style-type: none"> <li>■ Access outside classes</li> </ul>
	<ul style="list-style-type: none"> <li>■ Funding (information on what is met by the information technology department budgets and what will be recharged to user departments, and when bids for larger equipment need to be made)</li> </ul>
	<ul style="list-style-type: none"> <li>■ The information technology steering group (its role, the frequency of meetings and the names of the departmental representatives)</li> </ul>

Source: National Audit Office visits to 40 schools

Figure 12 shows that schools' information technology handbooks can be used to provide a range of useful information.



Schools can improve management procedures on the cost of provision, the usage of equipment, security, disposal and staff training

## Suggested improvements to management procedures

### Information on provision and maintenance costs

**4.20** Because of the way their accounting records were structured, some schools did not know the full cost to them of information technology. For example:

- the cost of information technology consumables, software and minor acquisitions of hardware charged against departmental budgets but not identified separately from other departmental spending; and
- the cost of maintenance recorded under accounting codes which did not distinguish between information technology and non-information technology costs.

**4.21** The varied mix of types of equipment in use, either bought or leased, and of different ages, means that schools may have to ensure that their maintenance needs are met through a range of different contracts and procedures. Twenty-three of the schools visited had limited or no records of the maintenance being carried out and its quality, and little information on the comparative costs of repairs under different types of contract. Without such information the ability of schools to make business-like decisions on how much to pay for maintenance and what type of cover to arrange will be limited.

**4.22** One way to overcome this limitation would be for schools to:

- maintain a log of the type and cost of repairs and maintenance carried out in-house and by external providers;
- regularly review the log to monitor costs and quality of maintenance;
- use the record to compare from time to time the value for money offered by alternative forms of provision;
- use the log to identify the risks associated with different types of equipment and give highest cover to key, high risk items, for example, network servers; and
- compare maintenance costs with other schools.

## **Recording the usage of equipment**

**4.23** While all the schools visited were able to provide the National Audit Office with data on the amount of time-tabled use of computer suites, many did not review their booking system records to find out how much unscheduled use was made of these facilities. Only 10 schools of the 40 visited could provide an approximate figure for the percentage of time their computers were in use. Six of these schools were able to provide documentation to support these estimates. No schools reported that they had any means of assessing the use made by either teachers or pupils of stand-alone machines located in classrooms.

**4.24** Most of the schools visited were making important decisions on the level of information technology resources required without an accurate assessment of how much the existing equipment is used. The National Audit Office accordingly made suggestions to half the schools visited about how they might make such assessments in future. The relevant information could be generated by computer software or by a manual record.

## **Review of security arrangements**

**4.25** All the schools visited by the National Audit Office had taken positive steps to safeguard the physical security of their computer equipment while at the same time allowing freedom of access. Precautions varied depending on the perceived risk, but virtually all schools used some form of security marking on individual items of equipment. Rooms were generally locked when not in use and buildings were protected with burglar alarms. In some cases additional protection was provided by security patrols. Clearly schools will need to keep these arrangements under review, particularly as the quantity and value of equipment increases and items are more widely distributed throughout school property.

**4.26** Six of the schools visited reported that they had been troubled by viruses. In common with most other organisations, schools have found it harder to provide security against viruses and hacking. The security measures applied by schools varied widely but the most common are summarised in Figure 13 together with their advantages and disadvantages.

**Security precautions for  
information technology  
systems against viruses  
and hacking**

**Figure 13**

Security Precaution	Advantages	Disadvantages
1. Banning the use by pupils of floppy disks brought in from home.	Prevents the importation of viruses.	Limits the ability of pupils to do on-going work such as assignments.
2. Allowing pupils to use only floppy disks issued by the school.	Gives the school some assurance when the disk is only used on the school machines.	Once the disk has been taken home it suffers from the same problem as in item 1 above.
3. Anti-virus software held on a single stand-alone machine (or perhaps one machine in each computer suite).	<ul style="list-style-type: none"> <li>i. Only one machine is required which may be an old type of limited capacity since it is only running one programme; and</li> <li>ii. Software can be updated more easily as new viruses are found.</li> </ul>	<ul style="list-style-type: none"> <li>i. Use is not automatic and pupils must be reminded to use the software; and</li> <li>ii. Where large numbers of pupils are trying to use the equipment at the same time delays can occur.</li> </ul>
4. Not installing, or disabling, disk drives on most machines and installing anti-virus software on the remainder.	<ul style="list-style-type: none"> <li>i. Does not rely on pupils remembering to check their own disks; and</li> <li>ii. Relatively cheap since only a small number of machines need be included in the software licence.</li> </ul>	<ul style="list-style-type: none"> <li>i. Anti-virus software may be incompatible with other system or subject specific software; and</li> <li>ii. Delays could occur if a large number of pupils wish to use disks.</li> </ul>
5. Install anti-virus software on all machines/networks.	High level of security.	High costs.

Source: National Audit Office visits to schools

Figure 13 shows that the various methods of securing information technology systems against viruses and hacking have advantages and disadvantages.

**Policy for disposing of computer equipment**

**4.27** Once the decision has been taken to replace equipment, the old equipment needs to be disposed of in an accountable manner that takes advantage of any residual value or scope for other use. The Rainbow Pack notes that assets for disposal by sale or destruction must be appropriately authorised.

**4.28** Only eight of the schools visited by the National Audit Office had a formal disposals policy to deal with the sale, scrapping or giving away of unwanted computer equipment. Schools reported that, in most cases, computers at the end of their useful economic life to the school, were out of date and had no market value.

However, there were some examples of successful sales. For example, when replacing its network one school found that it could sell the components to the local education authority for use as spares in support of similar networks installed throughout the area.

**4.29** As schools' holdings of information technology equipment increase and technological change gathers pace, the amount of surplus equipment is likely to grow. Against this background it would be prudent for all schools to set up formal procedures to control disposals. This would need to cover as a minimum:

- the school's policy on the disposal of assets;
- responsibility for authorising disposal;
- the criteria to identify items to be disposed of;
- methods of disposal to be considered;
- how to set prices for the sale of equipment; and
- procedures for receiving and recording sale proceeds.

### **Evaluation of staff training**

**4.30** At most schools formal in-service training covered information technology. Eleven of the schools visited had employed an external trainer, but the majority of courses were provided by the information technology manager or co-ordinator thereby enabling the training to be tailored more easily to the school's requirements. External courses were also attended by many staff, predominantly information technology managers, who then cascaded their experience to colleagues.

**4.31** Well over half the schools had given responsibility for the management of staff training for information technology matters to one member of staff. This was generally the information technology manager or the staff member responsible for all staff training. Despite a significant investment in the training itself, little monitoring was being undertaken by schools of the skills which staff had acquired or the adequacy of various training techniques. For example, of the 40 schools visited:

- 18 schools maintained a database of staff skills on information technology matters; and
- 10 kept a record of courses attended by staff.

**4.32** In view of these findings schools may wish to consider whether they should maintain an up-to-date record of courses and other forms of training attended as a basis for a training needs assessment for staff. This would assist in the planning of future training and could be enhanced by sending a questionnaire to staff periodically asking for their views on training needs and feedback on the adequacy of training they have undertaken. The National Audit Office made suggestions to individual schools along these lines on how training might be made more effective:

- the timing of training should be reviewed so that staff receive training just before practical application to ensure that maximum benefit is obtained;
- each member of staff should have a training plan for information technology covering the next three years;
- computer terminals could be located in the staff room to give staff access to information technology away from classroom distractions and in a mutually supportive atmosphere; and
- more use could be made of “self-help” sheets prepared by dedicated information technology staff to encourage other staff to teach themselves basic skills.

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### **Recommendations on the management of information technology**

To help them manage their information technology resources in an effective and efficient way, schools should consider whether:

- accurate figures are available to management on the full cost of providing information technology in the classroom to help them make well-informed decisions about their provision;
- they should keep a record of the nature and cost of repairs carried out on their equipment to enable them to establish the most cost-effective arrangements for maintenance;

continued...

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- to help determine the level of information technology resources required, they should keep an accurate record of the use made by staff and pupils of the equipment in place;
  - they are keeping their arrangements to safeguard physical security of equipment under regular review, particularly as the quantity of equipment increases and items are distributed more widely throughout schools' premises;
  - any of the options suggested in Figure 13 would provide improved security against computer viruses and hacking;
  - they have a policy for disposing of unwanted or obsolete equipment; and
  - they should maintain an up-to-date record of courses and other forms of training attended by staff on information technology matters, to assist the planning, monitoring and evaluation of the training.
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# Appendix

## Full list of National Audit Office recommendations

### On lessons to be learned from schools classified by the Funding Agency as in highest financial difficulty

#### Higher than average teaching staff costs (paragraph 2.24)

- 1** Measures which schools can take in such circumstances are:
  - referring to the comparative data issued by the Funding Agency to examine existing pupil:teacher ratios and current teaching staff costs to ensure that their budget is affordable; and
  - reviewing their policies which underpin the costs of teaching staff.

#### Pupil numbers lower than forecast (paragraph 2.25)

- 2** Accurate forecasting of pupil numbers and keeping pupil enrolment in line with the targets set are very important to schools' financial health. Failure to meet targets can have an adverse effect. Measures which schools can take in such circumstances are:
  - setting realistic targets for pupils' enrolment; and
  - assessing the impact of changes to key assumptions in pupil number forecasts and making appropriate contingency plans.

#### Declining pupil numbers without compensatory action taken (paragraph 2.26)

- 3** It is very important for schools to react quickly to a decline in pupil numbers either to halt the decline or to take compensatory action. Measures which schools can take in such circumstances are:
  - active marketing of the school to parents in the area and maintaining a high profile in the community to attract more pupils; and

- reviewing their budgets to determine whether savings could be made on expenditure, for example, on their staffing structure, and whether there is scope to increase income from external sources, such as the commercial letting of school premises.

**Unplanned additional expenditure on estate related items  
(paragraph 2.29)**

- 4** Measures which schools can take in such circumstances are:
- where major capital development is envisaged, having a sound estate strategy integrated with their main strategic plan and making financial provision for developing and maintaining the estate;
  - ensuring their reserves are sufficient to cover any expenditure on capital projects which is additional to the capital funding available;
  - monitoring the timetable and costs of capital projects on at least a monthly basis; and
  - making financial provision to cover the possibility of the need for emergency repairs and maintenance.

**Methodological or other changes in funding (paragraph 2.31)**

- 5** It is difficult for schools to cater for significant changes in funding levels which they could not reasonably foresee. To cope effectively, it is essential for schools to:
- assess carefully the potential financial impact of such changes by using whatever information is available, for example, in Departmental consultation papers, and by applying sensitivity analysis; and
  - create flexibility in their budgets where possible by setting aside an appropriate sum for contingencies as part of their strategic planning and budgetary process.



**The contribution of financial management problems  
(paragraph 2.33)**

- 6** Schools need to consider whether:
- they have a suitable accounting system and whether appropriate training has been provided for staff to make best use of it;
  - they need to develop their budget preparation procedures further, in particular by taking a more critical look at the costs and identifying a wider range of options for consideration by the governing body;
  - the financial information reports for senior staff management and governors are produced on a regular basis and are sufficiently accurate and comprehensive so that performance against budget can be monitored and decisive action taken when problems arise; and
  - the performance of the bursar and Responsible Officer functions could be improved with suitable training.

**Arising from good recovery plans (paragraph 2.43)**

- 7** Schools should examine the form and content of their strategic plans and consider whether their plans might benefit from incorporating some of the best features of good quality recovery plans, as follows:
- cash flow forecasts to support income and expenditure predictions;
  - the assumptions underlying financial forecasts;
  - a sensitivity analysis which includes pessimistic assumptions relating, for example, to a reduction in funding and under-enrolment of pupils, and the actions to be taken in the event of these pessimistic assumptions being realised;
  - curriculum analysis linked to pupil numbers to aid forecasting of staff costs; and
  - reviewing and updating plans regularly, at least annually.

### **Dissemination of lessons learned (paragraph 2.48)**

**8** The Department and the Funding Agency should continue to disseminate lessons learned from past cases of schools where actual or potential financial difficulty has arisen. The National Audit Office's review of 32 such cases and of the lessons emerging should provide a good basis for this.

### **On financial management**

#### **Governance (paragraph 3.15)**

**9** Schools need to ensure that they have adequately defined terms of reference for all governing body committees which set out their roles, their relationship with the governing body and other committees, and their decision-making powers, including financial delegations.

#### **Responsible Officer role (paragraph 3.20)**

**10** On the basis of their visits to schools, the National Audit Office believe that the Funding Agency should consider giving further more detailed guidance to schools on the specific requirements of the Responsible Officer function, including the training needed, as part of their current review of the role and performance of the Responsible Officer. Such guidance might include:

- the type and range of checks to be undertaken;
- minimum frequency levels for conducting checks;
- how checks should be evidenced;
- what permanent records of the Responsible Officer's work should be maintained; and
- the need for written reports of this work to be submitted regularly to the governing body.

### **Strategic planning (paragraph 3.23)**

- 11** Schools need to ensure that their strategic plans:
- cover a planning period of three to five years and that their plans are updated annually to maintain a continuous three to five year horizon;
  - cover the financial implications of planned development;
  - wherever possible include measurable objectives and targets;
  - contain arrangements for the review of achievement against targets and objectives, which include criteria for evaluation, and involve the governing body, school management and staff; and
  - reflect guidance on good practice included within the Funding Agency's Rainbow Pack.

### **Register of business interests (paragraph 3.26)**

- 12** Schools need to ensure that their registers of business interests:
- include staff as well as governors with financial responsibilities; and
  - are updated or reviewed annually and whenever there is a change of governor or member of staff with significant financial responsibilities.

### **Recording of assets (paragraph 3.28)**

- 13** Schools should take care to ensure that an accurate and up-to-date central assets register is maintained, which includes:
- full description of the asset, including any identification number and marks, and locations;
  - date of acquisition;
  - supplier;
  - original cost; and

- current valuation of the asset.

## **On information technology**

### **Strategic planning for information technology (paragraph 4.7)**

**14** To sharpen the effectiveness of their plans and to assist the implementation of strategies, schools should consider whether:

- their strategic plans have clear and well-founded statements about information technology requirements linked to budgets, with dates specified for the implementation of new systems and quantifiable targets against which progress can be monitored, for example, in terms of numbers of pupils for each computer;
- there is scope for the increased use of information technology steering groups to inform planning and assist implementation; and
- a governor should be allocated specific responsibility for information technology.

### **Information technology acquisition procedures (paragraph 4.13)**

**15** To help them to secure good value for money in the acquisition of information technology equipment, schools should consider whether:

- they have a written policy and procedures for tendering and contracting which are applied in practice to the procurement of information technology equipment and software;
- before acquiring equipment, the cost-benefit of a lease has been compared with outright purchase; and
- there should be a central person or committee responsible for considering acquisition proposals in order to maintain standardisation and compatibility of equipment and software, and to ensure that full advantage is taken of suppliers' discounts for larger or bulk purchases. For example, all proposed purchases could be authorised by the school's information technology manager.

### **The management of information technology (paragraph 4.32)**

**16** To help them manage their information technology resources in an effective and efficient way, schools should consider whether:

- accurate figures are available to management on the full cost of providing information technology in the classroom to help them make well-informed decisions about their provision;
- they should keep a record of the nature and cost of repairs carried out on their equipment to enable them to establish the most cost-effective arrangements for maintenance;
- to help determine the level of information technology resources required, they should keep an accurate record of the use made by staff and pupils of the equipment in place;
- they are keeping their arrangements to safeguard physical security of equipment under regular review, particularly as the quantity of equipment increases and items are distributed more widely throughout schools' premises;
- any of the options suggested in Figure 13 would provide improved security against computer viruses and hacking;
- they have a policy for disposing of unwanted or obsolete equipment; and
- they should maintain an up-to-date record of courses and other forms of training attended by staff on information technology matters, to assist the planning, monitoring and evaluation of the training.

## Reports by the Comptroller and Auditor General, Session 1997-98

The Comptroller and Auditor General has to date, in Session 1997-98, presented to the House of Commons the following reports under Section 9 of the National Audit Act, 1983:

Regulation and Support of Charities .....	HC 2
Managing the Millennium Threat.....	HC 3
University of Portsmouth .....	HC 4
The Skye Bridge .....	HC 5
The Contract to Develop and Operate the Replacement National Insurance Recording System.....	HC 12
Contingent Liabilities in the Dependent Territories.....	HC 13
Sales of Scottish New Towns' Commercial and Industrial Properties .....	HC 14
Vacant Office Property.....	HC 17
Ministry of Defence: Improving the Efficiency of the Procurement of Routine Items.....	HC 31
Inland Revenue: Employer Compliance Reviews.....	HC 51
Highlands and Islands Enterprise: Value for Money Review of Performance Measurement .....	HC 64
Contracting Out of Career Services in England .....	HC 113
Protecting Environmentally Sensitive Areas.....	HC 120
Measures to Combat Housing Benefit Fraud .....	HC 164
Tenants' Choice and the Torbay Tenants Housing Association.....	HC 170
Ministry of Defence: Major Projects Report 1996 .....	HC 238
The Sale of the Married Quarters Estate .....	HC 239
The Management of Growth in the English Further Education Sector .....	HC 259
Further Education Colleges in England: Strategies to Achieve and Manage Growth.....	HC 260
The PFI Contracts for Bridgend and Fazakerley Prisons.....	HC 253
Exchange of Information on Direct Taxation within the European Union .....	HC 276
Prison Catering .....	HC 277
Examinations at Grant-Maintained Schools in England 1996-97.....	HC 301