

STRATEGIC FINANCIAL MANAGEMENT & VALUE FOR MONEY

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Strategic Financial Management & Value for Money

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Strategic Financial Management & Value for Money

1 Purpose

- 1.1 The purpose of this guidance note is to advise schools on some of the key principles of strategic financial management and how to achieve value for money in the context of the school budget

2. Strategic Financial Management

- 2.1 Sound financial management and controls are essential to schools because they provide an effective framework for financial planning and accountability and safeguard the use of public funds
- 2.2 In the context of financial management good leadership is essential in ensuring and demonstrating that the financial resources in school are being used efficiently and effectively.
- 2.3 A school that is well managed financially will not only use its financial resources properly but will also be seen by others to do so, is likely to be well managed in other respects and is therefore a better all round school
- 2.4 Schools must be willing and able to show how they have used their financial resources and be able to respond honestly to questions about financial probity.
- 2.5 Financial management must be open and transparent and have integrity. The minutes of the Governing Body meetings are a strong source of evidence in demonstrating the discussions held and the decisions that have been made by the school and the governors
- 2.6 Openness, transparency and integrity are widely accepted to be the key underpinning principles of good corporate governance.
- 2.7 Strategic financial planning is crucial to good financial management practices.
- 2.8 Strategic financial planning is the process whereby an organisation defines its strategy and direction and then makes decisions about allocating resources (funding and people) to pursue this strategy.
- 2.9 In the context of schools, strategic financial planning is about bringing together the overall aims and objectives from the School Development Plan and aligning these with the budget process in the short, medium and longer term

- 2.10 Setting a School Budget that is informed by the School Development Plan will ensure that the resources available fit in with long term plans, achieve the objectives economically and are targeted efficiently at improving the quality of educational outcomes and standards
- 2.11 A well run school that implements sound strategic financial planning and management suffers less financial loss and waste, and therefore has more to spend on pupils
- 2.12 All schools must ensure that their financial arrangements comply with the current Financial Regulations and Standing Orders of the City Council and the Birmingham Fair Funding Scheme of Delegation.

3 Value for Money

- 3.1 Schools are facing some very challenging financial circumstances in future years.
- 3.2 Forecasts for public expenditure suggest much tighter funding and those with financial responsibilities in all public services have to consider how resources can be put to best use
- 3.3 Schools therefore have to consider how resources can be put to best use.
- 3.4 Value for Money is about achieving the best possible outcomes for pupils in the most efficient way and at a reasonable cost
- 3.5 Value for Money comprises of three main elements:

- 3.5.1 Economy

Securing goods, services and personnel at the best price for a given level of quality

- 3.5.2 Efficiency

The best deployment of goods, services and personnel to achieve a set of outputs

- 3.5.3 Effectiveness

The right mixture of outputs to achieve a particular set of outcomes. It is up to each school to determine what constitutes the right mixture of outputs

4. How Can Schools Improve Value for Money?

The former Audit Commission identified 6 areas where a school can challenge itself to improve its Value for Money:

- Consider the financial implications of its plans
- Review its financial surplus or deficit
- Ensure that the goods and services it buys represent value for money
- Using the school workforce to best effect
- Collaborating with other local schools
- Using data and information to support better decision making

4.1 Considering the Financial Implications of School Plans

4.1.1 School Development Plans set out aims and objectives and the activities that will enable them to be met

4.1.2 A well developed Plan will help target resources efficiently and SDP's should always include the resource implications of proposed activities

4.1.3 The School Development Plan should:

- Consider all significant activities in every year of the Plan
- Include the staff costs of all significant activities
- Cover a significant proportion of the schools overall budget
- Reflect the priorities of the school and determine its financial strategy
- Provide a basis for monitoring purposes during the year
- Have strong links to the 3 Year Financial Forecast

See Appendix A – Questions to Consider

4.2 Schools Should Review Their Financial Surplus or Deficit

4.2.1 Excessive surplus balances represent an inefficient use of public money as retained funding is not being used to improve outcomes for children

4.2.2 Overall balances in Birmingham Schools have increased in the last 10 years

4.2.3 Surpluses often grow as a response to uncertainty about future funding. However, the right response to uncertainty is good financial management rather than the retention of funding

4.2.4 A primary school should hold no more than 8% of income and a secondary school no more than 5%. See '**Surplus and Deficit Balances**' chapter

- 4.2.5 Schools can ensure current balances are spent appropriately on the pupils on roll at the current time by having plans in place and linking those plans to current priorities.
- 4.2.6 School balances can only be spent once so schools must be sure that the balance is not committed to recurring expenditure in the future
- 4.2.7 For schools in deficit a Deficit Repayment Plan for the recovery of the deficit must be formulated and agreed with the Local Authority – Schools Financial Services. See **'Surplus and Deficit Balances'** chapter

See Appendix B – Questions to consider

4.3 Ensuring that the Goods and Services Schools Buy Represent Value for Money

- 4.3.1 The amount that individual schools spend on each item of expenditure varies considerably even after taking account of different size schools, geographical locations and socio economic contexts
- 4.3.2 The variation between similar schools implies that some may be spending substantially more than necessary
- 4.3.3 Schools that buy in the most cost effective way will focus on the following:
 - How well the goods and services meet the needs of the school
 - Regular review of high cost goods and services such as ICT will reveal whether they are meeting the schools aims and objectives

See Appendix C – Questions to consider

4.4 Effective Deployment of the Work Force

- 4.4.1 Primary and Secondary Schools spend approx 80% - 85% on their workforce
- 4.4.2 Ensuring good quality teaching is the most important factor but schools that plan well will deploy teachers and teaching assistants where they have the greatest impact
- 4.4.3 The deployment of classroom staff is the most important financial decision in school
- 4.4.5 In addition to the deployment of teaching staff schools can improve economy and efficiency by ensuring that they have considered:
 - The most economic and efficient way to provide staff absence cover (directly employing cover teachers or buying in from cover agencies)

- The deployment of non education staff i.e. employment of an ICT Technician, and generate income by contracting with other schools

See Appendix D – Questions to consider

4.5 Collaborating With Other Schools

4.5.1 A variety of different collaborative approaches can be used ranging from informal networks to formal federations

4.5.2 The benefits of collaborations include:

- Sharing information and awareness about markets for goods and services
- Economies of scale in purchasing
- Sharing leadership and other staff resources

4.5.3 Local circumstances will determine the most effective way of working together

See Appendix E – Questions to Consider

4.6 Using Data and Information Well

4.6.1 Schools already make good use of performance data and information to improve pupil outcomes i.e. examination results

4.6.2 Fewer schools currently make good use of the financial information available to them i.e. the financial benchmarking website

4.6.3 Schools that benchmark their financial performance annually will be able to compare spending with other schools to identify potential for savings

4.6.4 The benefits of benchmarking come from a comparison with others and understanding why differences exist.

See Appendix F – Questions to consider

Other resource documents to support Value for Money judgements can be found at Appendix G and Appendix H

QUESTIONS TO CONSIDER

CONSIDERING THE FINANCIAL IMPLICATIONS OF SCHOOL PLANS

- How well do your spending patterns reflect the School Improvement Plan and priorities?
- How well does your School Improvement Plan cover staff costs?
- How does the 3 Year Financial Forecast and School Improvement Plan assess potential changes in pupil numbers or major costs?
- What contingency arrangements does it include?
- How will you know if the assumptions made in the plan prove to be too optimistic?

Appendix B

QUESTIONS TO CONSIDER

REVIEW OF SURPLUS AND DEFICIT BALANCES

Is your surplus balance in excess of the recommended level?

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

How confident are you and your governors that the plan will reduce the balance?

How well does the extra spending link to your School Improvement Plan priorities?

Can you be sure that your surplus balance is not committed to recurring expenditure?

Do you have a Deficit Repayment Plan?

How will you achieve it?

Is it working?

QUESTIONS TO CONSIDER

**ENSURING GOODS AND SERVICES REPRESENT VALUE
FOR MONEY**

How well do your choices of goods and services align with your School Improvement Priorities?

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

Have you reviewed whether there are better or cheaper alternatives?

Are you reviewing the quality and cost of each individual service/contract bought annually?

Are you confident that school staff have appropriate authority to take buying decisions?

Are you confident that the thresholds over which quotes and tenders must be sought are understood and reported?

QUESTIONS TO CONSIDER

EFFECTIVE DEPLOYMENT OF THE WORKFORCE

How well does the pattern of staff deployment follow your schools vision and the priorities outlined in the School Improvement Plan?

How do you ensure that this happens?

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

How does any proposed new post support the school's vision and School Improvement Plan?

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

What options have been explored?

QUESTION TO CONSIDER

COLLABORATING WITH OTHER SCHOOLS

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

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

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

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

QUESTIONS TO CONSIDER

USING DATA AND INFORMATION

Which areas of your spending are higher and/or lower than a similar school?

Do you know why?

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

What savings have you made in the last year?

What further savings can you make this year?

Appendix G

Name of Budget Holder:

Order No:

Cost Centre:

Purchase date:

Please complete details below in relation to the attached copy order. Return the completed questionnaire to the Finance Office urgently. Your views will be analysed to assist with ensuring 'Value for Money'

(Please tick as appropriate)

Was the item a resource detailed as part of the School Development Plan?	Yes	Partly	No
Why did you use this supplier?	Regular supplier guaranteed value for money		
	Cheapest option		
	Most Expensive option		
	Recommended by colleague / B'ham City Council		
	Only supplier for product		
Would you recommend this supplier to colleagues at school or within other educational establishments?			Yes/No

(Please tick as appropriate)

Have you purchased this particular make/model of the product before?	Yes	Partly	No
Is the product?	Economic		
	Efficient		
	Effective		
How was the quality of the product?	Good		
	Satisfactory		
	Poor		
Would you purchase this item again?			
Would you recommend this product to colleagues at school or within other educational establishments?			Yes/No

(Please tick as appropriate)

Did you consult with other staff within your department before making this purchase?	Yes	Partly	No
Did you consult with pupils for their view on the suitability of the purchase?	Yes	Not Relevant	No
Did you consult with others? If yes please state details of whom:	Yes	Partly	No
Do you normally consult with others before making a purchase?	Yes	Depends on item	No

(Please tick as appropriate)

Do you use this particular supplier for this product regardless of price?	Yes	No	
Have you assessed whether another supplier can provide the product differently or better?	Yes	No / lack of time	No
Did you negotiate with the supplier for a discount or better offer on the purchase?	Yes	Partly	No

Any other comments regarding your purchase:

Any comment relating to your choice of supplier:

Any suggestions to improve the school 'Value for Money Strategy' for purchasing:

Completed by / Signature.....

Date.....

(insert name) School

Value for Money Strategy Document

1. Introduction

1.1 This document establishes *(insert name)* School's Value for Money Strategy for purchasing. It sets out :

- Why a value for money strategy is needed;
- The benefits to the school of having a Value for Money strategy,
- The key approaches to Value for Money
- The schools purchasing structure;
- The schools proposed approach to delivering value for money in purchasing;
- Key implementation and monitoring targets;
- Proposals for taking the strategy forward.

1.2 The Strategy will, at this stage, concentrate on obtaining value for money in purchasing. This can be extended to other key areas, such as the delivery of curriculum, at a later date should the Governing Body feel this would be beneficial.

2. Why the Strategy is needed

2.1 Value for money is a statutory duty on local authorities to secure continuous improvement in the way that services and functions are exercised by the most economic, efficient and effective means possible. Whilst value for money does not apply statutorily to school governing bodies, schools are expected to demonstrate that they are following value for money principles in their expenditure of public money, and as part of their evaluation of standards, the curriculum, partnership with parents and management.

2.2 In managing their budgets all schools should be striving to utilise available funding in the most efficient and effective manner for the school. Key to this is seeking to obtain value for money for all purchases being made.

2.3 The principles of Value for Money have received a significant level of exposure to the general public. This higher profile has resulted in a far greater level of awareness, understanding and expectation by parents and in many cases the children of the school. The school has a duty to be open in ensuring that all stakeholders are aware of how it intends to ensure value for money is being obtained.

- 2.4 The development and introduction of a Value for Money Strategy will give the school the opportunity to be at the forefront, leading in an area other schools will have to become involved in over the next few years.

3. The Benefits of a Value for Money Strategy

- 3.1 The introduction of a Value for Money Strategy will provide a number of key benefits to the school.
- The Strategy will formally establish, and help to highlight, the governors' commitment to creating a value for money culture throughout the school.
 - The Strategy will raise awareness of the benefits the school can obtain from working towards a value for money culture.
 - The Strategy will help to clarify governor and staff responsibilities in relation to value for money.
 - The Strategy will provide a framework within which the school can work towards creating a value for money culture.

4. Approach to Value for Money

- 4.1 The aim of the Value for Money Strategy is to help the school achieve continuous improvement in the way it carries out its purchasing function. The approach used to ensure such improvements are achieved is to carry out a regular programme of review by applying the four key principles of best value –

Challenge - why, how and by whom the service is provided

Compare - performance against others

Consult - with key stakeholders

Compete - the use of competitive measures, wherever practicable, to secure efficient and effective provision

- 4.2 By applying these principles to all aspects of the purchasing procedures, the school can ensure that it is working positively towards establishing a process

that will deliver, monitor and improve the efficiency and effectiveness of the purchases being made.

5. Overview of Schools Purchasing Structure

5.1 Detailed below is an overview of the schools purchasing structure.

- All staff can raise internal order requisitions for the purchase of goods.
- Budget holders sign and approve the internal order stating the budget from which the goods will be purchased.
- Internal order requisitions are processed by the Finance Team
- Official orders are raised and printed and then copied twice:
 - the official order is posted to the suppliers
 - a copy of the order is retained in the Finance Office attached to the internal requisition
 - a copy of the official order is passed to the budget holder

5.2 The school already has good practice procedures for the purchase of Audio-Visual and Information Technology equipment:

- Any internal order requisition for AVA or IT equipment is checked and approved by the ICT & Learning Resources Manager for compatibility with school hardware, software, price and value for money, before an official order is raised.
- The Finance Team ensure all order requisitions raised for such equipment, by curriculum budget holders, are brought to the attention of the Learning Resources Manager before being processed.

For such a specialised area this procedure is practical. It is not possible to adapt this system for all purchases.

6. Proposed Approach

6.1 For the Strategy to be effective there must be a commitment throughout the whole of the school. The following steps should be taken to maximise the potential for successfully implementing the strategy.

6.2 The first, and most important requirement, is for the Governors and Head Teacher to clearly be seen to support the Strategy. The 'Top Down' approach will give the Strategy authority and credibility with all stakeholders, whether they are employees, parents, pupils or other partners. Therefore the Strategy needs to be agreed and approved by the Governing Body.

- 6.3 All strategic staff (those in a position to influence purchasing in any way) should be informed of the Strategy and the need to comply with it. Each should be given a copy and asked to sign to say they will work to it.
- 6.4 All other staff should be informed of the Strategy. A copy should be made available in the Staff Room so that all staff are aware of the policy, why it is there and what it aims to achieve. In addition a copy of the Strategy will be included in the Staff Handbook.
- 6.5 A monitoring process should be introduced to both enable the nominated monitoring officer to assess the level of compliance with the Strategy and to ensure that all officers involved in the purchasing operation are aware that non-compliance may be identified.

6.6 Proposed Monitoring & Reviewing System for Value for Money

6.6.1 Within normal school financial practice, monthly budgetary 'cost centre reports' are provided for budget holders. This would be the most appropriate time for monitoring, reviewing and recording 'Value for Money'. This could be done by choosing a random selection of purchasing items from each key budget area. Each budget holder with responsibility for the selected purchases would be asked to complete a simple Value for Money questionnaire. **See Appendix G**

6.6.2 Draft Procedure:

- A random order will be selected from each of the main key budget headings with the exclusion of the salary budget.
- An assessment questionnaire with a copy of the order and relevant invoice will be issued to the budget holder.
- Once the assessment questionnaire is returned to the Finance Office the information will be transferred to an analysis spreadsheet.
- A copy of the Value for Money assessment questionnaire, order, and invoice will be filed to back-up the analysis report.

In addition, there will be regular overview monitoring of purchasing to ensure that orders are being placed in the most efficient manner. This would help highlight if companies are receiving separate orders from different budget areas losing the benefits of the potential for negotiating savings.

6.6.3 An Annual Report will be made to the Governing Body giving an overview on how the process has worked and the results of the monitoring processes. This report should also be used to enable the Governors to review the Strategy.

- 6.6.4 The introduction of a Value for Money Strategy, and the implementation of a monitoring process, will provide the school with the opportunity to consider the introduction of performance indicators, which will assist with the assessment of continual improvement – a key element in Value for Money

7. Key implementation and monitoring targets

This section outlines the key milestones and target dates for implementing the strategy.

Governors approval

Strategy issued to key officers

Strategy made available to all staff

Monitoring process put in place

Review of process

Annual report to governors

8. Taking the Strategy forward

- 8.1 This Strategy is about improving the use of resources throughout the school, about getting the best value from the money expended and about ensuring that the school gets the best quality supplies and services within the financial resources available.
- 8.2 If the Strategy is to be successfully going forward there needs to be total commitment to value for money throughout the school. To achieve this, the Governors, Head Teacher and Senior Management Team must be seen to fully support the strategy.
- 8.3 A demonstration of commitment from the top will set the style and tone which will cascade down throughout the school. This top-down approach will then influence the day to day operations ensuring value for money considerations become an integral part of the purchasing processes.
- 8.4 All staff, particularly budget holders, would need to agree and comply with the importance of the Value for Money Assessment Questionnaire. Staff need to understand that it is about improving the use of financial resources throughout the school while achieving value for money. A review of overall

purchasing could also provide the potential for negotiating purchasing discounts.

- 8.5 The monitoring process will complement the implementation of Consistent Financial Reporting which will be introduced in the near future, making benchmarking with schools throughout the country easier to achieve.