# Primary Schools' Financial Tool Kit

Guidance from the Rochester Diocesan Board of Education for Voluntary Aided, Voluntary Controlled and Foundation Church of England Primary Schools within the Diocese of Rochester

April 2017

## 1. INTRODUCTION

The educational landscape has and continues to be subject to major change and funding for schools is a critical element.

At the time of writing, the greatest future financial challenges are likely to be associated with:

a. Overall estimated efficiency savings of £3 billion, (£1.3 billion savings in procurement spending and £1.7 billion savings in workforce spending), by 2019 – 2020, against a background of growing pupil numbers.

b. Alterations to funding levels following the introduction of the National Funding Formula.

c. Estimated real term funding reductions of between 6% and 11% by 2019 -2020 resulting in an estimated average reduction in funding for primary schools of £74,000.

d. Anticipated reductions and the phasing out of the general funding rate element of the Education Services Grant (ESG).

e. A review of High Needs funding and

f. Increases in school staff pay, pension and National Insurance contributions.

Whilst these proposed measures apply to all schools, small schools (under 210 pupils) will face particular financial challenges given that their income is smaller and therefore their ability to reduce expenditure, vire between budget headings and benefit from economies of scale is more limited. In circumstances where financial deficits persist a sharing of leadership and support services with other schools and smaller non-teaching senior leadership teams will need to be implemented.

This guidance is intended to assist school leaders and governors in considering their school's current and future finances, prior to making key decisions and thus securing their future, financial sustainability and viability.

We are extremely grateful for the service of all those connected with our Church of England schools' communities, many in a voluntary capacity.

We hope you find this guidance useful and please do not hesitate to contact a member of the Diocesan Board of Education team should you have any queries or require further assistance.

## 2. FINANCIAL DUTIES AND RESPONSIBILITIES

The headteacher, (along with other staff) is accountable to the Governing Body for the operational management of the school's financial performance.

Governing Bodies have the formal, strategic responsibility for the financial management of their schools and therefore they will need to demonstrate that they have approved, monitored and ensured the budget is managed effectively. Such tasks are usually delegated to a Finance Committee whose minutes and reports are presented to the full Governing Body for consideration and approval.

Headteachers and governors are often the recipients of financial reports and statements and need sufficient understanding of their contents to enable them to:

- make judgements about the financial health of the school.
- evaluate the financial sustainability of the school's long-term development plans and
- challenge the information they are provided with.

Maintained schools are not obliged to publish accounts but are required to submit a return, via their local authority, as part of the Consistent Financial Reporting (CFR) regulations introduced in April 2003. This information is used to populate the schools' financial benchmarking website and to pre-populate the section 251 outturn statements.

All Church of England Voluntary Aided and Voluntary Controlled maintained schools are required to follow financial reporting procedures laid down by their Local Authority (LA) in their scheme for financing schools (made under section 48 of the School Standards and Framework Act 1998) and associated local documentation.

## 3. PRINCIPLES

The following main assumptions have been adopted in this guidance:

a. Benchmark

Given the numerous variances between individual schools, influenced by differing local circumstances, establishing a universal benchmark is challenging. The adopted benchmark within this guidance has been established after researching and scrutinising historic CFR and LA data associated with regional groups of schools with differing local circumstances.

b. Surplus

Ideally schools should plan and manage finances so as a surplus between income and expenditure is achieved. It is important to ensure, that the total carry forward rollover balance at the end of a financial year is within the limit set by the local schools forum (usually 8% of income codes I01,I03,I05 & I018), so as to avoid a potential financial claw back by the LA.

3. PRINCIPLES (continued)

c. Income and expenditure

It is imperative to avoid either an in year deficit between income and expenditure and a negative year end rollover.  In such circumstances a budget recovery plan must be urgently instigated to rectify matters. Virement between individual budget headings is permissible providing they have been approved by the school's full Governing Body.

The three most important factors when estimating school budgets are as follows.

- Income derived from funds delegated by the LEA including pupil formula funding, SEN funding, high needs pupil funding and pupil premium funding (items I01, I02, I03, I04 and I05). These typically account for over 90% of a school's annual income.

- Staffing costs which typically accounts for between 70% and 80% of annual income. Once the annual school census return is complete staffing requirements can be estimated and known/planned changes entered on a staff salary calculator for the annual budget. The staffing implications of changes in pupil numbers should also be factored in for future periods and

- Premises and ICT costs typically accounts for a further 6% to 12% of annual income. ICT and premises development plans should provide the basis for these estimates, as they are costed and prioritised and used to set the annual budget.

4. TEMPLATES AND EXAMPLES

a. Templates

There are two key templates to assist in evaluating school finances.

i. The three year plan template

Figures for the shaded areas should be input for each of the three years with only positive numbers. The total income and expenditure, benchmark calculations/comparisons, in year surplus/deficit and rollover carried forward figures are automatically calculated. The first column of figures should be those figures relating to the last complete year and the next two columns of figures relating to estimates for the next two years.

Consideration should be given to the three year trends for individual income and expenditure lines. Comments over variances can be inserted together with explanations and any proposed measures to increase income or reduce expenditure.

4. TEMPLATES AND EXAMPLES (continued)

a. Templates (continued)

ii. Staffing schedule template
Given that staffing costs represent the highest single item of expenditure it is recommended that these costs are input, (within the appropriate shaded areas) evaluated and any emerging trends considered further together with any remedial measures noted within the comments section.

Some common challenges can be summarised as follows:

- Long serving members of staff with higher salary levels

- Large senior leadership teams with high salary levels

- More class teachers than classes of pupils

- Large numbers and costs associated with teaching assistants or higher level teaching assistants

- High levels of costs associated with supply teachers, education support staff, premises staff, catering staff and administrative and clerical staff and

- High numbers and costs associated with teaching and learning responsibilities (TLRs) and other enhancements.

b. Examples
Five paired examples of actual 2015 – 2016 income and expenditure associated with similar sized schools ranging from 70 to 420 pupils are provided. These demonstrate the financial variances between different schools despite, their local similarities. Figures in blue are areas worthy of further scrutiny and investigation.

The commentary, within the paired examples, provides some additional guidance on individual income and expenditure headings that could be investigated further and the measures that could be taken to improve financial sustainability.

The examples can also be used as a further reference point for similar sized schools against which they could compare their own individual income and expenditure.

The main, common variances can be summarised as follows:

- Variances in the amount of funding received from LEAs (I01) ranging from £12,454 to £134,719 for similar sized schools.

4. TEMPLATES AND EXAMPLES (continued)

b. Examples (continued)

- Variances in the amount of funding received for facilities and services (I08) ranging from £2,483 to £39,471 for similar sized schools.

- Variances in expenditure associated with staffing costs (E01, E02, E03, E04, E05, E06, E07, E08 and E26) ranging from £1,642 to £175,830 for similar sized schools.

- Variances in expenditure associated with premises costs (E12, E13, E14, E15, E16, E17 and E18) ranging from £1,381 to £13,751 for similar sized schools.

- Variances in expenditure associated with ICT and administrative supplies costs (E20 and E22) ranging from £1,560 to £12,850 for similar sized schools and

- Variances in expenditure associated with learning resources costs (E19) ranging from £3,238 to £101,482 for similar sized schools.

Appendix 1 provides some examples of financial queries that should be raised.