

**Dudley Metropolitan Borough Council**

**Schools Forum – 6 December 2005**

**Joint Report of the Director of Children's Services and Director of Finance**

**Financial Management Standard**

**Purpose of Report**

1. The purpose of this report is to inform Schools Forum on the proposed implementation of the Financial Management Standard (FMS) within Dudley schools in line with the DfES expectations.

**Background**

2. The Financial Management Standard (FMS) is a DfES initiative that encourages schools to adopt and apply best practice in all areas of financial control and management.
3. The DfES introduced the FMS in 2004 after a pilot study undertaken during 2002. It aims to provide a statement of what a financially well-managed school would look like. It provides a clear and consistent benchmark schools can use to encourage self-improvement.
4. The Standard is intended to help schools in evaluating the quality of their governance and financial management and to aid staff to become better financial managers. Effective management in schools is essential so that they can make the most of their resources, demonstrating value for money; exercise proper controls over the significant amounts of public money delegated to them; and to allocate resources effectively to meet school priorities for development and improvement.
5. The standard is analysed under five headings. These are:
  - a. Leadership and governance;
  - b. People management;
  - c. Policy and strategy;
  - d. Partnership and resources;
  - e. Processes.

6. The FMS is attained once a school has undergone a rigorous internal and external evaluation programme, and has been independently assessed.
7. Further background details regarding the Standard were presented to Schools Forum at the July 2005 meeting.

### **DfES Guidance**

8. On 21 July 2005 the DfES published the 'New School Funding Arrangements from April 2006'. The document confirms, inter-alia, its expectations in respect of the Financial Management Standard.
9. "Ministers have decided that the Department's Financial Management Standard will become compulsory for secondary schools by the end of 2006-2007, and that the Department will consult partners on when it should become compulsory for primary and special schools. We expect the assurance given by the Chief Financial Officers on the section 52 outturn form for 2006-07 to include assurance that all of their secondary schools are meeting the Standard."
10. Further consultation is expected to be issued by the DfES shortly on a timetable for primary and special schools. The DfES propose that compliance with the Financial Management Standard will become essential for all primary and special schools, on a phased basis, between March 2008 and 2010.
11. The requirement for the Statutory Chief Financial Officer (the Section 151 Officer) who in Dudley's case is the Director of Finance, to declare that their authority's secondary schools meet the Financial Management Standard by 31 March 2007 will be a condition of the Dedicated Schools Grant (DSG) payment. As local authorities (LA) will be responsible for schools' adherence to the Standard, it will be up to them to decide how the compliance is delivered.
12. The July document includes at paragraph 7.4.  
"The overview of schools' financial standards is a routine part of local authorities' management and audit activity. Local authorities will need to focus on overall financial health as well as internal controls, making better use of the information available to them. To embed good practice in local authorities' normal processes for supporting school improvement, a successor to the Financial Management in Schools programme will be launched in the autumn. This programme, entitled

Supporting Schools' Financial Management, will concentrate mainly on increasing capacity and initiative within local authorities to ensure the financial health of the schools that they maintain. In addition, specific training on the Benchmarking website and the Financial Management Standard and Toolkit will be available from the Department through the National Bursars Association. From September, School Improvement Partners (SIPs) and Ofsted will also start to provide a support and challenge role to schools on financial management and balances.”

13. The requirement to meet the Standard does not necessarily mean that all schools will have to receive an external assessment of the Standard as set out in the initial guidance. The external assessment is designed to give schools an opportunity for confirmation and recognition that they meet the Standard, not as a process to replace existing audit procedures in place within authorities, but will give authorities an option to satisfy themselves that schools meet the Standard and will be valid for three years.
14. The DfES have indicated that it is for local authorities to decide what options will be available locally for who can perform the assessment. Possibilities will range from local authority internal audit officers, LA finance officers or national third party assessors.
15. If the LA performs the assessment, the DfES are likely to recommend that schools should also be given access to an external assessor, if they wish to receive such an assessment. Schools will be responsible for meeting the cost of assessments. Where the LA performs the assessment it may charge the school for the assessment and add these costs as a new service in the form of a Service Level Agreement (SLA).

### **Dudley Scheme**

16. Dudley is proposing that Internal Audit performs the assessment, along with an advice and supporting role.
17. Internal audit would work with the school to achieve the Standard, working with other professional services such as Governors, Personnel, Accountancy, and School Development Advisors as necessary.
18. In order for the existing internal audit programme to work in conjunction with the programme required under the Standard, it is proposed that the current audit programme is varied in line with the conditions of the

Standard, which has to be reassessed every 3 years. Thus the internal audit programme for secondary schools will be changed from every 2 years and primary/special schools from every 4 years so that all schools receive their internal audit, as well as a full assessment against the Financial Management Standard, every 3 years.

19. Internal Audit intends to resource work on the Financial Management Standard from 1<sup>st</sup> April 2006 and will work closely with schools. This work will not only assist secondary schools to achieve compliance in 2006/2007 but will also allow internal audit to develop training, guidance and sample files of evidence that will be relevant to all other schools when they are also required to comply with the Financial Management Standard.
20. The DfES estimates that full assessments against the Standard will take 2 days. In addition to the assessment, which will be undertaken at the time of the internal audit work in the school, Internal Audit also intend to visit schools for 1 day during each of the intervening years as part of a 'health check' approach. The cost for this full service will be approximately £550 for each school per annum. Due to the timescale of compliance particularly for secondary schools, it is proposed that work, initially with secondary schools, will commence by April 2006 but also, during 2006/2007, preparatory 'gap analysis' work will be commenced with the next phase of primary schools. A rolling programme of support and assessment would then be established.
21. The DfES advise that the LA should have systems in place to equip its officers with the necessary skills to perform the assessment. The Section 151 officer (DoF) should be confident that the persons performing the assessment have the appropriate skills and experience. Accredited officers should undergo refresher training on the Standard and Toolkit every 2 years.
22. Internal audit officers are proposing to use the next few months as a preparatory period to acquire the knowledge and the necessary training from organisations such as the National Bursars Association (NBA). Internal Audit will then seek to arrange training for schools from the NBA. Further details would be presented to schools next term.
23. Whilst the DfES have not included specific sanctions into the proposals for schools that do not comply with the standard, it is clear that the compliance should not be considered as optional. The objective of the standard is to enable schools to demonstrate that they manage the public funds allocated to them in a proper and accountable manner

and, as in the past, a failure to properly manage the finances could result in the delegation of funds being withdrawn for a school.

### **Proposal**

24. It is proposed that the Schools Forum note the content of the report in respect of:
  - a. The DfES expectation that all 22 secondary schools in Dudley will meet the Financial Management Standard by March 2007;
  - b. That the Director of Finance, as the Council's Section 151 officer, will need to provide assurance to the DfES that all Dudley secondary schools are meeting the Standard in order to comply with the Dedicated Schools Grant conditions; and
  - c. The proposal that Internal Audit work with all Dudley schools to perform the independent assessment required for the formal accreditation of the Standard.
  - d. The provision of the service outlined by Internal Audit is accepted.

### **Finance**

25. The funding of schools is prescribed by the DfES through the Financing of Maintained Schools Regulations (England) 2004 and the LEA budget, Schools Budget and Individual Schools Budget (England) Regulations 2004. From 2006 it will be amended to the school Finance (England) Regulations 2005.
26. From 1<sup>st</sup> April 2006, the Schools Block will be funded by a direct DfES grant: Dedicated Schools Grant (DSG)

### **Law**

27. Councils' LMS Schemes are made under Section 48 of the School Standards and Framework Act 1998. The Education Acts 1996 and 2002 also have provisions relating to school funding.
28. In accordance with Section 151 of the Local Government Act 1972, every local authority is required to make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.

## Equal Opportunities

29. The Council's Equal Opportunities Policy is taken into account when considering the allocation of resources.

## Recommendations

30. Schools Forum is requested to note the proposals as set out in this report and advise the Director of Children's Services as necessary.



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