

REPORT REFERENCE:

**REGULATORY AND OTHER COMMITTEE REPORT**

<b>NAME OF COMMITTEE:</b>	Schools Forum
<b>DATE OF MEETING:</b>	26/1/11
<b>SUBJECT:</b>	Financial Management Standard in Schools
<b>REPORT BY:</b>	Tony Warnock Head of Finance (Children's Services)
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<b>IS REPORT CONFIDENTIAL?</b>	No

**SUMMARY**

The purpose of this report is to provide an update on recent developments relating to the Financial Management Standard in Schools (FMSIS).

The Secretary of State announced on the 15 November 2010 that the FMSIS would cease with immediate effect. This report outlines the Local Authority's (LA) current position and proposals for taking this forward.

**DISCUSSION**

The Schools Forum has received several reports on the FMSIS since it was first introduced (the reports are listed in the 'Background Papers' section below).

The Government introduced the FMSIS in 2006, following the national funding 'crisis' in 2003. The intention was to help strengthen financial management in schools. All schools were required by law to have reached the Standard by 31 March 2010 and, as reported to the Schools Forum on 13 October 2010, 80% of Lincolnshire schools had done so.

The Secretary of State's announcement on the 15 November 2010 stated that the FMSIS would cease from that date. However, in a series of published questions and answers, it was stated that:

- Effective financial management in schools remains important, not least because schools are responsible for considerable sums of public money.
- A replacement system will be introduced before the summer of 2011. This will be a much simpler version concentrating on the key points for which Governors and Heads ought to assure themselves.
- The DfE expects those schools that fail to achieve the FMSIS to be amongst the first to achieve the new standard.
- The new system will concentrate on demonstrating value for money rather than processes.
- It will be developed in conjunction with schools and be proved as acceptable and helpful to them before it is introduced.
- It will be usable by academies and free schools, as well as the maintained sector.

As a result of this announcement, the LA plans to end the current, local arrangements for the FMSIS. However, the LA remains firmly of the view that good financial management is vitally important for all schools, not least given the rise in the number of schools overspending last year and the expectation of tighter budget settlements in the next few years. That view is strengthened by the knowledge that poor financial management can lead to additional costs being charged against the Dedicated Schools Grant (DSG), including for school redundancies. So, it is very important that the LA has effective measures in place to ensure that schools develop and continue to maintain important financial management practices. Indeed, this is expected under the Scheme for Financing Schools.

This is therefore an opportune moment for the LA to consider how it will help support schools with financial management whilst the Government develops its new approach. In the past two years, the Schools Forum has supported the use of £0.060m from the DSG to assist schools with completion of the FMSIS and, not only has that been warmly welcomed by schools, it has had a positive impact. The LA is, nevertheless, expected to secure savings of c.25% on its budgets over the next four years and the support available from the Audit team to schools is expected to diminish to a level whereby individual schools might expect to be visited only once every five years. That could increase the risk of some schools having poorer financial management that is not detected or addressed, resulting in overspending and an increase in the redundancy costs that are charged to individual school budgets and the centrally held redundancy budget funded from the DSG.

To reduce those risks and to help ensure that schools continue to adopt sound financial management practices, it is proposed that the £0.060m funding from the DSG continues. This would be used by the Audit team to undertake checks every other year of each school's key documentation (e.g. relating to their budget setting; financial reporting to Governors; financial planning, and; the control environment). Ordinarily, this work would be undertaken remotely (to minimise travel time and costs) but, in some instances, may involve visits to schools.

This approach would provide regular, focused checks across all schools. The benefits are likely to be significant in terms of improving financial management at this crucial time and it should reduce the impact upon the DSG caused by redundancies and the writing off of overspends for any schools that close. The work would run in parallel to the more detailed Audit visits that will take place periodically and it would allow the Audit team to continue to provide advice and guidance to schools, thereby helping them to avoid overspending and depleting the resources that are available to pupils in future years.

This proposal is not expected to be inconsistent with the Government's new standard. As reported many times previously, the LA continually reviewed its approach to the FMSIS and created, or made

changes to reflect, best practice. Most notably, this included the introduction in April 2009 of the 'lighter touch' approach for second round FMSIS assessments. That dealt with the widespread criticism nationally from schools, that the FMSIS was too process driven and bureaucratic. The LA is not advocating a new bureaucratic system, but one that would provide assurance and help all schools to maintain good financial management practices. In that sense, the proposed use of these funds may be considered an investment. If adopted, it is proposed that this new approach would be reviewed when the government introduces its new national standard.

## RECOMMENDATIONS

The Schools Forum is asked to:

- a. note the contents of the report;
- b. support the LA's proposal for continuing to utilise £0.060m of the DSG to assist schools in maintaining good financial management practices.

## APPENDICES (If applicable) - these are listed below and attached at the back of the report.

None

## BACKGROUND PAPERS

PAPER TYPE	TITLE	DATE	ACCESSIBILITY
Report	DfES' directed revisions to Schemes for Financing Schools	24 January 2007	County Offices, Newland, Lincoln
Report	Financial Management Standard in Schools	7 November 2007	County Offices, Newland, Lincoln
Report	Financial Management Standard in Schools	8 October 2008	County Offices, Newland, Lincoln
Report	Financial Management Standard in Schools – arrangements for 2009/10 and beyond	28 January 2009	County Offices, Newland, Lincoln
Report	Financial Management Standard in Schools	1 July 2009	County Offices, Newland, Lincoln
Report	Financial Management Standard in Schools	7 October 2009	County Offices, Newland, Lincoln
Report	Financial Management Standard in Schools	13 October 2010	County Offices, Newland, Lincoln