



The future of  
***FINANCE IN  
EDUCATION***

With flat budgets, increasing pupil numbers and the transition to an academy model, the way schools manage their finances is changing. Find out what you can do to get ahead.



# *Executive summary*

Education in England is undergoing significant change when it comes to the way schools manage their finances. Previously, schools had a reliance on local authorities to make decisions when it came to budgets, financing and governance. While the introduction of the academy model gives schools and teachers greater independence, it also assigns more responsibility to them alongside Multi-Academy Trusts (MAT), to make sure they are in financial control.

Technology has a big part to play here. Schools will previously have relied on local authorities to make the big decisions when it came to hardware, software and services. This one-size-fits-all approach was inefficient and often didn't provide the functionality and usability that many schools required. With academies this has changed; through procurement, decision makers can pick the technology and services that are most suitable for their needs.

This report looks at the catalyst for these changes and the challenges when it comes to budgeting, financial control and procurement, as well as reporting and governance. It offers advice on what schools under local authority control need to do when they start to plan their transition to academy status.

# What type *of academy?*

## **Single academy:**

This will not be applicable to all schools. Only schools that fulfil the following criteria can become a single academy:

- 'Outstanding' or 'good' latest Ofsted rating, with 'outstanding features'
- Pupil attainment and progress must be above the national average
- Ability to prove healthy financial state

Schools converting to a single academy must be able to support at least one other local school.

## **Multi-Academy Trust:**

A Multi-Academy Trust (MAT) is a group of schools governed by a single trust and a single board of trustees. They also share staff and expertise, and make savings when buying goods and services.

The MAT can establish a separate governing body for each of its academy school. These are called local governing bodies. The board of trustees can then delegate some of its functions to the local governing bodies.

To convert as a MAT schools can either join an existing trust or work with other schools to set up a new trust.

To convert as a MAT, each school in your proposed trust needs to submit a separate application and each governing body must pass a resolution to convert to become an academy. As part of the application schools will need to provide evidence of how the stronger schools in the MAT will help the weaker schools to improve.

Source: <https://www.gov.uk/guidance/convert-to-an-academy-information-for-schools/1-before-you-apply>

# The *changing nature of finance* within the education sector

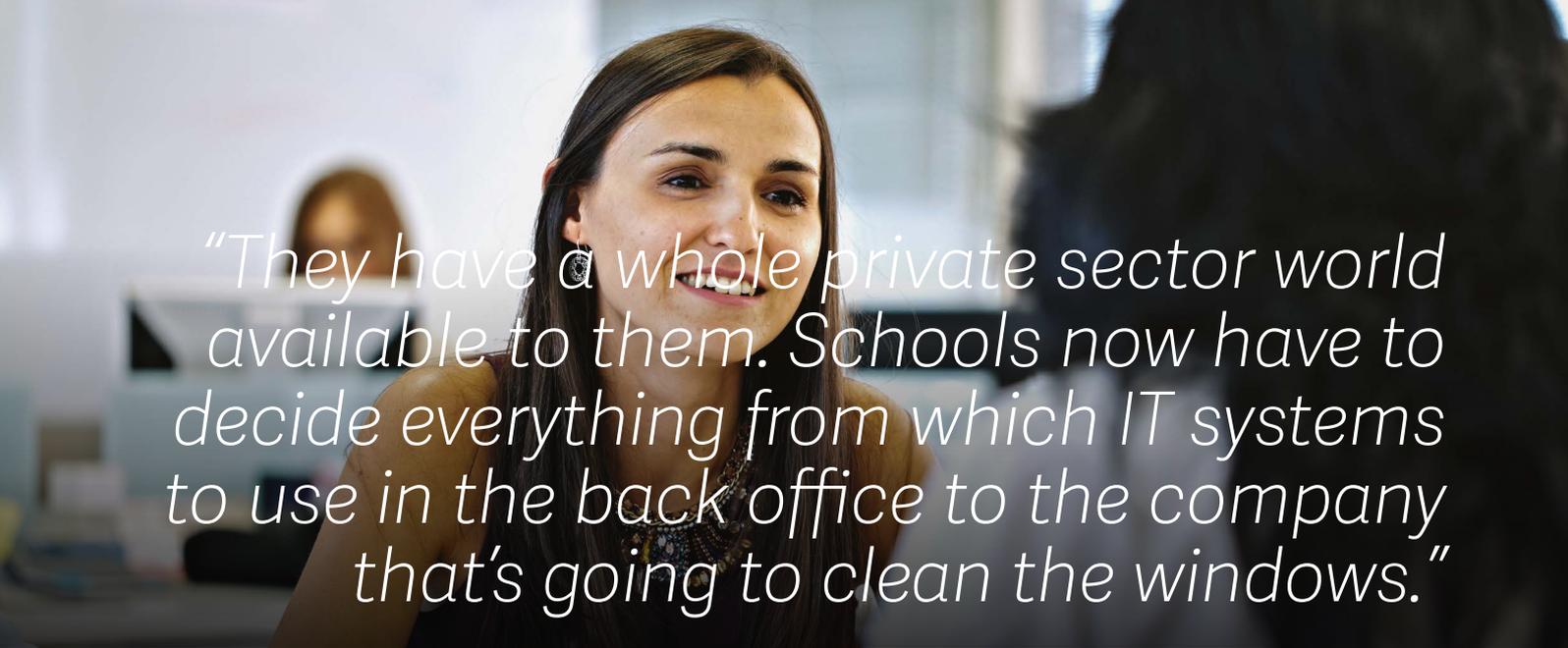
## **Introduction**

It's a time of unprecedented change in the English education system. With significant budget cuts in real terms combined with a rise in pupil numbers, and exceptional societal and technological transformation, the way schools operate is undergoing unparalleled pressure.

One of the greatest changes, and arguably challenges, facing schools is the rise of the academy model. First mooted in 2000, academies were created to help failing secondary schools by putting in new leadership and enabling them to have a greater say in how their own budgets were spent. Academy status was expanded to encompass successful schools which were seeking greater control over their operations, curriculum and management. Since 2010, the number of academies has risen dramatically and the Government has now mandated that all schools in England will have to convert by 2020 or commit to converting by 2022.

## **Funding changes**

Under the academy model, independent state-funded schools receive their funding directly from central government, which means they can manage their own finances, curriculum, HR, governance and other operational duties, from cutting the grass to school meals. Previously, this would have all been supplied through the local authority, which would sub-contract them out on the school's behalf and charge the school for each service accordingly.



*“They have a whole private sector world available to them. Schools now have to decide everything from which IT systems to use in the back office to the company that’s going to clean the windows.”*

Tom Clark is Chair of the Board at Freedom and Autonomy for Schools – National Association (FASNA), which is a not-for-profit, school members association. Clark, who was also previously Chief Executive of George Spencer Foundation School, says government cutbacks have meant councils no longer have the resources to provide all of these services effectively. Therefore, by adopting academy status, schools have the opportunity to approach the private sector and open market, driving better value for money which means more funds can be invested in delivering high-quality education to pupils.

For the first time, schools have the ability to question everything they purchase, says Mike Rohan, Business Development Manager at Sage. “They have the whole private sector available to them. Schools now have to decide everything from which IT systems to use in the back office, to the company that’s going to clean the windows and the emphasis must be on achieving value for money,” he says.

This can be seen as an opportunity, but could also be a daunting prospect for some schools. Many schools, particularly the smaller primaries, will be unsure of what to look for, Clark adds. They are being financially encouraged by the Government to join MATs; multiple schools all joined together for greater buying power, which can collaborate for supplier advice, support, strategy and expertise (see page 4).

### **Taking financial responsibility**

However, while academy status means schools are now accountable for everything they spend money on, this doesn’t come without its own

challenges. If they overspend on the funding they've been allocated, there is not the safety net of the local authority lending them money as they may have previously. Therefore, the need to understand financing and balance books is critically important.

Many schools, according to Clark, don't even have their own bank accounts, never mind hands-on experience of managing budgets, payroll or more complex financial functions. "While some schools have their own bank accounts and are used to managing budgets, others have not had the resources to do this," he says.

Previously, when it came to managing finances schools would have to use financial accounting software mandated by their local authorities. This could often be problematic, according to Rohan. A local authority has a one-size-fits-all approach, regardless of whether the school is a large secondary or a small primary. This means the technology is often too complex and unwieldy for a primary school, yet without the functionality that a secondary school needs.

### **At the forefront of technology**

Additionally, if schools are tied into multi-year contracts it means that even as technology moves on, often the financial software doesn't keep pace. For example, in the past few years cashless payment systems have become more popular, where children are able to 'charge' cards with cash to pay for school meals. Schools have faced challenges such as integrating online wallets and automated back-office functionality; often schools in local authorities using older software would be stuck. "Making a comparison with smartphones, you can imagine the frustration today's average user would have if they were stuck with an old-style Nokia from years ago, compared to a new iPhone," Rohan says.

Under the academy programme, schools will be free to choose their own accounting software and can ask questions around financial functionality that had previously been out of their control, helping them to get the tools they need.

## Think differently and strive for efficiency

Essentially, says Rohan, in an academy, the head teacher is in charge of what, to all extents and purposes, is a small-to-medium-size business. “Schools will need the capacity to deal with finance – just like a business does – with financial acumen and astuteness, and the ability to follow financial procedure.”

Head teachers need to think like leaders in the private sector, finding ways to mitigate risk, standardise processes and make sure everything from finances to health policies are effectively managed and under control, he adds.

With school budgets frozen for the next five years, many will have to strive for added efficiencies to meet financial needs. Thinking like a business, they can do several things – keep costs down, drive more value and create different income streams. Additionally, with the freedom of being an academy, schools can spend less on inefficient contracts with suppliers that aren’t doing the job properly. Previously, under the local authority, they wouldn’t have had that option.

## Drive more value

“Like all public services, schools are going to have to drive their own efficiencies, and this will ultimately create a more effective education for children” says Clark.

A photograph of a woman with blonde hair, wearing a red top, smiling and looking towards a man whose back is to the camera. They appear to be in an outdoor setting with trees in the background.

*“Like all public services, schools are going to have to drive their own efficiencies, and this will ultimately create a more effective education for children.”*

Being part of a MAT can help, he adds. “Each trust can have tens of schools involved, so these are large entities able to drive better value from all their suppliers.

“Private sector suppliers are going to want to do business with trusts who have millions of pounds of spending power. They are going to offer competitive prices that deliver better value to all of these schools. That ultimately means schools will have more money left over to spend on teaching and pupils.”

For primary schools and smaller secondary schools that may not have in-depth financial experience, access to shared experience and expertise as part of a MAT can be particularly useful.

## **Creating income streams**

When it comes to creating their own incomes, while academies receive funding from the Education Funding Authority (EFA), they will also attain registered charitable status. While this has additional complexities such as greater transparency, financial accountability and independence, there are opportunities. School heads can raise additional funds through the framework of being a charity, through tax exemptions such as Gift Aid and the use of independent fundraising.

Rohan says: “Schools will have to get creative. They should start to think about who their customers are and how they can work with their local communities to support them and encourage donations and fundraising. Businesses constantly need to think of new income streams and academies will have to do the same.”

# Preparing for the transition to *academy status*

Schools in the UK are likely to face an eight per cent real-time decline in per-pupil spending over the next five years, according to the Institute of Fiscal Studies, [\(IFS\)](#)<sup>1</sup>. Additionally, the Local Government Association reports that an additional 336,000 primary school places will be needed by [2024](#)<sup>2</sup>. This, combined with the added pressure of the transition to an academy model, means many schools face a challenging few years ahead.

One crucial area where schools could ease the pressure is financial management – getting this right could make the journey much less daunting. Both secondary and primary schools are being encouraged (with financial incentive) to join MATs, which have greater resources between them, (see page 4)

Financially, MATs have the flexibility to operate their schools much more effectively and efficiently. However, this business-like structure means more responsibility and accountability for both school and staff.

There are a number of key issues that schools will have to approach in the transition to becoming an academy:

## **Budgeting, financial control and auditing**

Under the academy model, schools will move away from local authority funding and instead be centrally funded through the EFA. As part of the requirements outlined in its Financial Handbook for Academies, each MAT must have a Chief Financial Officer (CFO) and qualified finance staff. The trust must also prepare

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<sup>1</sup> <http://www.ifs.org.uk/publications/8027>

<sup>2</sup> [http://www.local.gov.uk/web/guest/media-releases/-/journal\\_content/56/10180/7786184/NEWS](http://www.local.gov.uk/web/guest/media-releases/-/journal_content/56/10180/7786184/NEWS)

and monitor financial plans to “ensure ongoing financial health” of the schools within its group.

Childcare and Education Minister, Sam Gyimah MP, said recently: “Good financial health and maximising the efficient use of funding is essential to delivering educational excellence. The economic climate means there is more impetus than ever for schools to become as efficient as they can. For schools to deliver the high standards we expect of them, they must start from a position of [strong financial management](#).”<sup>3</sup>

Under the guidelines, a board of trustees must approve a balanced budget with the EFA for the financial year from 1 September to 31 August. Previously with a local authority, this was from April to March. The board must also provide assurance to the EFA that funds are in sound financial health through a budget forecast, as well as managing its cash position, avoid going overdrawn, and ensure bank accounts for each school are run effectively.

Regardless of whether a school joins a MAT, each academy will have to take responsibility for balancing its own budget. This involves an understanding of incoming revenue and outgoing payments, and ensuring bills are paid on time. Additionally, as schools take a more business-like approach to their finances, they should look at the value for money of their contracts, unnecessary overspend on procurement costs and at improving overall efficiency.

According to Rohan, academies within a MAT could take a strategic approach to this – for example, they could share the cost of an accountant or experienced financial manager across the group.

## Reporting and governance

While using shared resource can be useful, the budget reporting of each individual academy is also crucial. Generally speaking, MATs have to report to the EFA on whether they’re on track with budgets, whether they’re spending what they said they would, and mitigating any overspend.

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<sup>3</sup> <https://www.gov.uk/government/collections/schools-financial-health-and-efficiency>

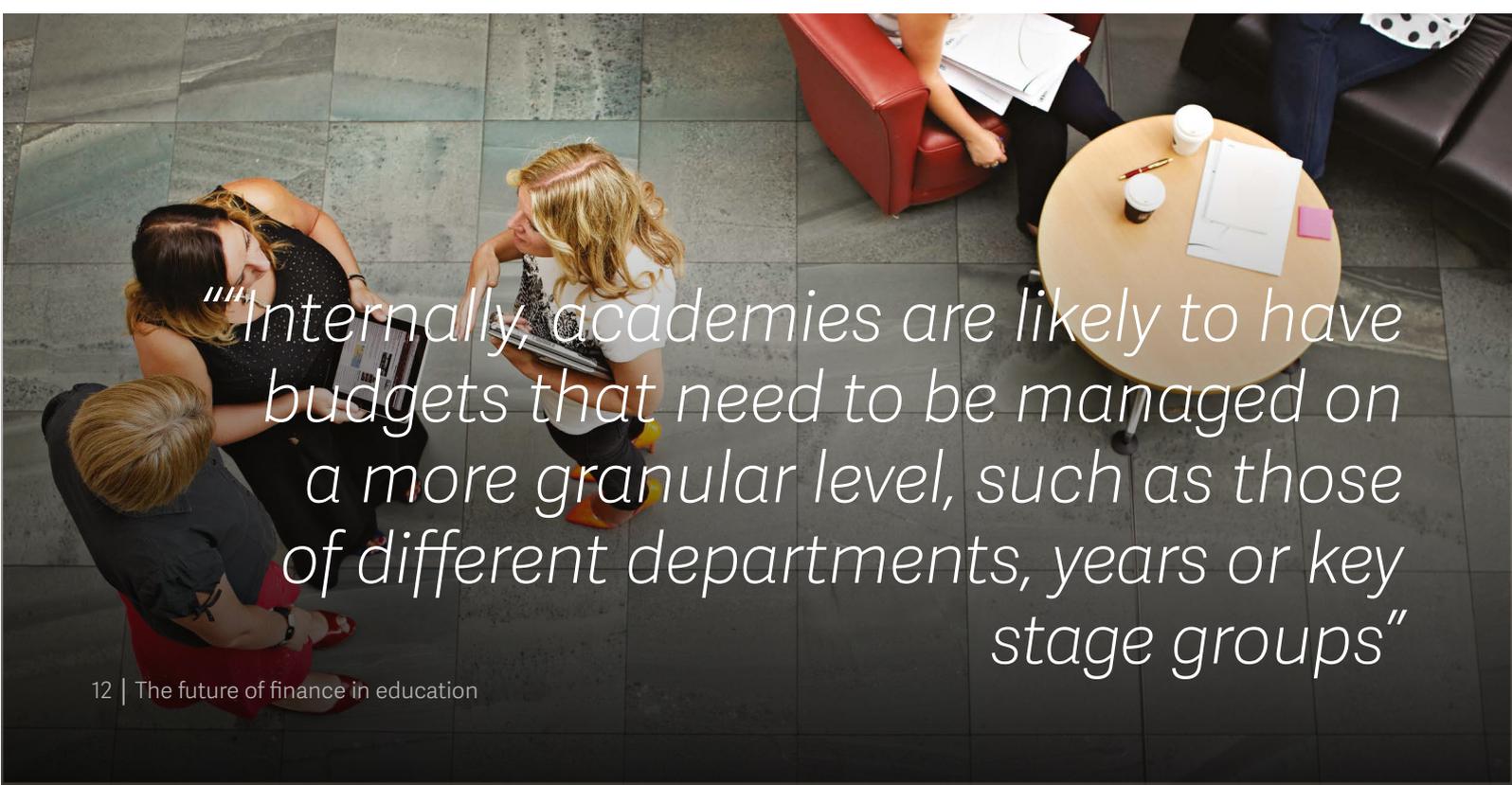
Rohan says: “Internally, academies are likely to have budgets that need to be managed on a more granular level, such as those of different departments, years or key stage groups, for example. Each budget holder will want to make sure they spend every penny of the budget before the end of the year, because if they don’t, it could be reduced.” The right tools, such as financial management software, are important to enable this level of granularity in reporting.

Instead of sending reports to a local authority, academies will be sending a report which will form part of a consolidated MAT report to the EFA. The trust must prepare an annual report and accounts, incorporating accounting policies approved by the board of trustees and audited by a statutory auditor.

It’s important that all academies within a MAT must fully understand the structure, aims and functions of each element so the process of transition is transparent and the task isn’t under or overestimated.

## Fundraising

As well as more in-depth governance, schools transitioning to an academy will need to understand what gaining charitable status involves. This doesn’t only mean a greater need for transparency in all financial affairs. There are advantages, such as tax benefits in the form of Gift Aid, which can help raise additional funds. While head teachers need to start thinking more like a



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business, they also need to understand how they tap into a framework of operating as a charity. The MAT could consider hiring experts that specialise in fundraising, for example.

Understanding the grants and fundraising opportunities available to schools is important. Clark says: “The conversion process isn’t hugely complicated, and there’s a process for doing it. For converting to an academy, schools get a grant of £25,000 from the Government, which could be spent on legal advice, systems and resources to help head teachers understand and manage the changes.”

## Taking control

Although the pressure is hitting many schools hard, there are opportunities to be gained when transitioning to academy status, says Clark. “Per-pupil funding is flat – the only additional funding that will come to schools is if a school has extra children. There are a lot of unfunded cost pressures to do with National Insurance, for example, or teacher and support staff pay and pensions. Although budgets won’t be cut, they’ll be frozen. Over the lifetime of this parliament, schools could see a 10 to 12 per cent increase in costs that are unfunded.”

With such financial pressures every penny needs to be scrutinised and accounted for. Money spent on inefficient or needless contracts with suppliers is money that is being taken directly out of teaching budgets. Previously schools had little choice but to ‘buy’ services from the local authority – whether they were good value or not. Under the academy model every service and contract can be renegotiated or better value sought from private sector organisations. And with many MATs having a large number of academy members, the combined budgets can be large, enticing private sector firms to bid competitively to win the deal. That’s a powerful reason for academies to collaborate, making efficiencies in procurement and their management structures. Operating more efficiently like this means schools can put the cash they save towards facilities and resources that matter to pupils such as sports equipment or laptops.

Schools aren't expected to have this knowledge in house. The CFO within the trust should have an intimate knowledge of technology that can help academies understand budgets and analyse spending. This can be transformative, saving huge amounts of money by intelligently using the funding they have. The right technology enables schools to pinpoint where there's too much spending, allowing a CFO to understand where they could be making savings and delivering a better quality education to their pupils at the same time.

## Moving to the cloud

It's not just the technology itself that academies should look at. With all contracts — from grass-cutting to catering — open to negotiation, schools could also consider the way their technology is delivered. In the past, the use of on-premise technology by local authorities meant that schools would be reliant on the council to fix locally installed systems. Now, instead of outsourcing IT to a local supplier to service the technology, such as maintaining an onsite server, an alternative option could be to use technology that's based in the cloud. Using cloud-based software would mean schools get the same level of functionality, but security, maintenance and bugs would be managed by the vendor themselves.

Rohan adds: "A major part of transitioning to an academy will be going through procurement processes to find more effective and efficient suppliers. Many suppliers will be offering cloud software, for example, with Microsoft it's all about Office 365 and the cloud in the education market. When it comes to financial software, cloud functionality also allows academies to link with other web-based services that they might use through integration of apps and developer toolkits."

# Five financial considerations when *becoming an academy:*

**1**

## ***Join a Multi-Academy Trust (MAT)***

This could help schools gain greater buying power, allowing them to re-evaluate teaching structures and resources for greater efficiency.

**2**

## ***Budgets, reporting, spend analysis and governance are all vital areas that schools need to now undertake***

The management within a MAT can help, as well as new financial technology.

**3**

## ***Understand the advantages of gaining charitable status***

This is beneficial, as it ensures as much money as possible is gained through tax breaks and fundraising.

**4**

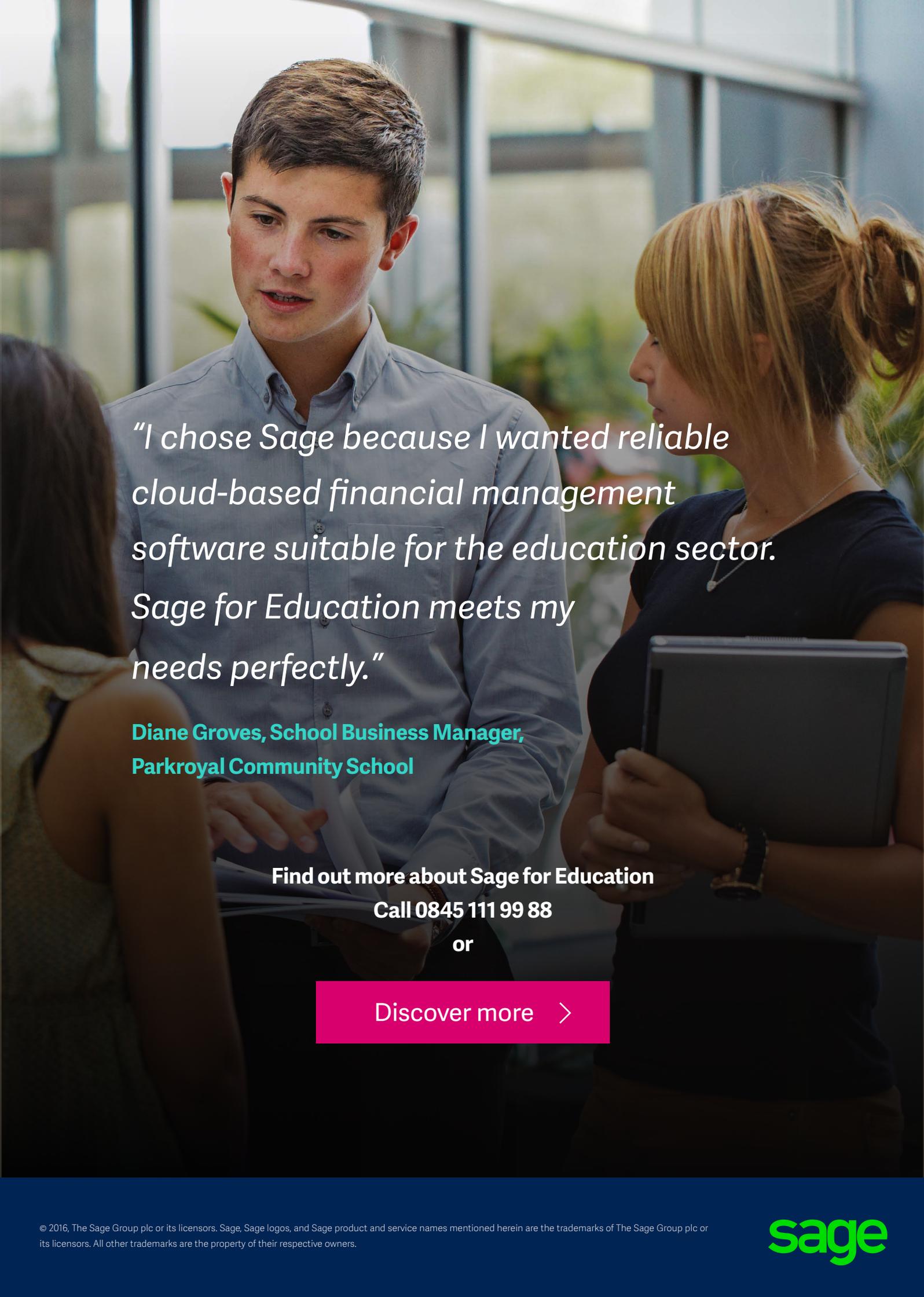
## ***Drive value for money through procurement***

With all contracts up for grabs, schools should look to drive as much value for money as possible from the private sector, renegotiating contracts and using the buying power of the MATs.

**5**

## ***Look at new delivery mechanisms for technology, such as cloud-based computing***

This negates the need for a local supplier to maintain technology, which can be maintained at a vendor level instead, further helping to save money.



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**Diane Groves, School Business Manager,  
Parkroyal Community School**

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