



# Formula funding of schools, decentralization and corruption: a comparative analysis

by

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## Presentation of the series

Several studies conducted during the last decade have clearly emphasized the negative impact of corruption on the economic, social and political development of countries. Indeed, corruption increases transaction costs, reduces the efficiency of public services, distorts the decision-making process and undermines social values. The studies have also shown a strong correlation between corruption and poverty: Statistical regressions suggest that an increase in a country's *per capita* income by 4,400 United States dollars (US\$) will improve its ranking on the index of corruption (international scale) by two points (OECD, 1995). Moreover, it has been observed that corruption tends to contribute to the reinforcement of inequities by placing a disproportionate economic burden on the poor and limiting their access to public services.

As a result, fighting corruption has become a major concern for policymakers and actors involved in development. In view of the decrease in international flows of aid and the more stringent conditions for the provision of aid due to growing pressure on public resources within donor countries as well as taxpayer demands that governments increase transparency and accountability in resource management, it is regarded today as a major priority for countries and international agencies working in the field of development co-operation. The Drafting Committee of the World Education Forum has expressed this concern in the following terms: "Corruption is a major drain on the effective use of resources for education and should be drastically curbed." (UNESCO, 2000)

A rapid review of the literature shows that a number of attempts have already been made to tackle the issue of corruption both globally and

sectorally. In the social sector, for example, several studies have been conducted on corruption in the provision of health care services. However, it appears that the education sector has not been given proper attention by national education authorities and donors despite the many grounds for attaching a particular priority to the challenge of combating corruption in education:

- No public sector reform aiming at improving governance and limiting corruption phenomena can obtain significant results as long as the case of education has not been properly addressed. This is particularly true given the importance of the education sector, which in most countries represents the first or the second largest public sector both in human and financial terms.
- Any attempt to improve the functioning of the education sector in order to increase access to quality education for all cannot be successful if problems of corruption, which have severe implications for both efficiency in the use of resources and for quality of education and school performance, are not being properly dealt with.
- Lack of integrity and unethical behaviour within the education sector is inconsistent with one of the main purposes of education, which is to produce ‘good citizens’ respectful of the law, of human rights and of fairness (it is also incompatible with any strategy that considers education as one of the principle means of fighting corruption).

In this context, the IIEP launched a new research project dealing with ‘Ethics and corruption in education’ within the framework of its medium-term plan for 2002-2007. Corruption is defined as “the systematic use of public office for private benefit that results in a reduction in the quality or availability of public goods and services”. The main objective of this project is to improve decision-making and management of educational systems by integrating governance and corruption concerns in methodologies of planning and administration of education. More specifically, it seeks to develop methodological approaches for studying and addressing the issue of corruption

in education and to collect and share information on the best approaches for promoting transparency, accountability and integrity in the management of educational systems, both in developing and industrialized countries.

The project includes works on topics of relevance such as teacher behaviour, school financing, textbooks production and distribution and academic fraud. It also includes monographs on success stories in improving management and governance as well as case studies that facilitate the development of methodologies for analyzing transparency and integrity in education management.<sup>1</sup>

Within this framework, the IIEP asked Rosalind Levačić and Peter Downes to co-ordinate a comparative study of the relationships between the use of formula funding as a tool of decentralization and the opportunity for corruption and fraud. The report is based upon the experiences of four countries: Australia, Brazil, Poland and the UK. It highlights the importance of both adequate data collection to contribute to stakeholders' involvement in monitoring transparency, the need to ensure that finance is not deflected from its proper use and the merit of proper monitoring and control using auditing procedures.

Jacques Hallak and Muriel Poisson

1. The information platform 'ETICO' was also created within the framework of the project. It is available on the IIEP's web site, at the following address: <http://www.unesco.org/iiep/eng/focus/etico/etico1.html>

This study was prepared under the supervision of Muriel Poisson, Programme Specialist at the International Institute for Educational Planning (IIEP), and Jacques Hallak, international consultant.

# Contents

Presentation of the series	5
List of abbreviations	11
Executive summary	15
Introduction	19
Chapter 1. Overview of funding systems in the four countries	31
Chapter 2. School funding formulae	47
Chapter 3. Transparency	67
Chapter 4. Data collection and verification	81
Chapter 5. Financial control at school level	91
Chapter 6. Audit of schools' accounts and procedures	109
Chapter 7. The detection of fraud and corruption	119
Chapter 8. Summary of key issues emerging	131
Conclusions and recommendations	143
References	147
Appendix 1. Background to the case study countries	151
Appendix 2. Questionnaire	164
Appendix 3. Poland: Ministry of Education formulae for allocating subventions to local authorities for educational expenditure	168



Appendix 4.	Formulae for allocation of funds to individual schools in Victoria	170
Appendix 5.	The school financial calendar in Victoria	176
Appendix 6.	Cambridgeshire County Council – financial regulations for schools	178
Appendix 7.	Consistent financial reporting – the principles behind the new budget headings	220

## List of abbreviations

ALF	Activity-led funding
AWPU	Age-Weighted Pupil Unit
CASES	Computerised Administrative Systems Environment for Schools
CFR	Consistent financial reporting
CMIS	CASES Management Information System
DEST	Commonwealth Department of Education, Science and Training
DET	Department of Education and Training
DETYA	Department of Education, Training and Youth Affairs
DfES	Department for Education and Skills
D & I	Disabilities and impairments
EFSS	Education formula spending share
ESL	English as a Second Language
FAMIS	Finance and Management Information System
FSM	Free School Meals
FUNDEF	Fundamental Education Development and Teachers Valorization Fund
GUS	Main Statistical Office

HRMS	Human Resource Management System
ICT	Information and communication technology
ID	Personal identification
IIEP	International Institute for Educational Planning
INEP	National Institute of Educational Research
LDB/LDBEN	<i>Lei de Diretrizes e Bases da Educação Nacional</i> (Federal Law on education)
LEA	Local Education Authority
LA	Local Authority
LMS	Local management of schools
MCEETYA	Ministerial Council on Education, Employment, Training and Youth Affairs
MEN	Ministry of National Education
MIS	Management Information System
MZB	City Accounting Office
NGO	Non-governmental organization
NIK	National Chamber of Control
NPQH	National Professional Qualification for Headship
OECD	Organisation for Economic Co-operation and Development
OfSTED	Office for Standards in Education
PLASC	Pupil Level Annual School Census
PRSM	Physical Resource Management System
PTA	Parent Teacher Association

R & I	Rurality and isolation
RIO	Regional Accounting Office
RMIC	Risk Management Implementation Committee
SLN	Special learning needs
UK	United Kingdom
UNESCO	United Nations Educational, Scientific and Cultural Organization
VAT	Value-added tax
VET	Vocational education and training
ZEA	School Economic and Administration Unit



## Executive summary

This study sets out to examine the relationship, if any, between the decentralization of funding for schools and the prevalence of corruption and fraud. Although the report may appear to be of technical interest to a limited audience, the issues it seeks to address are of considerable significance to all those involved in the administration and delivery of education.

Given that the proportion of the national budget devoted to education is significant for both developed and developing countries, it is essential that public funds be directed effectively and used for the purposes for which they are allocated. The misuse of public funds is a serious matter both in terms of the ethical and criminal implications for the abuser and in terms of the deprivation of funding inflicted on pupils and students.

This report is based upon work carried out in four countries: Australia (the State of Victoria), the United Kingdom (specifically England), Poland (with particular reference to two cities) and Brazil (focusing on one state, Rio Grande do Sul).

The report starts by defining what is meant by ‘formula funding of schools’ and summarizes the key principles of self-management that are essential elements in recent trends in education finance. An attempt is then made to define ‘corruption’ in the educational context and the authors suggest how, in theory, formula funding and school self-management should reduce the likelihood of corruption occurring.

The study methodology, i.e. the questionnaire and e-mail debate, is then explained in more detail. The areas on which respondents were invited to

comment, including funding formulae, transparency of information, data collection, financial control practices and the detection of fraud are highlighted.

Education finance models cannot be understood out of context so there is a brief description of each country and its school systems in *Appendix 1*. A summary of the way in which schools are funded in each of the countries is given in *Chapter 1*, with particular attention being paid to developments towards greater financial autonomy for schools. It is important for the reader to appreciate that all four cases are at different stages of decentralization of school finance and management.

The report examines each of the main areas in detail, bringing together the responses from each country (*Chapter 2*).

In connection with **transparency** (*Chapter 3*), the report considers the extent to which stakeholders (school principals, school councils, parents, pupils and the local community) can understand the basis on which money is allocated to their individual establishment and how it is used. This reveals, perhaps not surprisingly, that there is a massive need for training at all levels in the education system. School leaders, traditionally trained through the route of academic progression and pedagogic practice, now find themselves intimately engaged in financial procedures for which they may not have the experience necessary or possibly the temperament.

Formula funding depends by its very nature on numbers and therefore the accurate **collection of data** (*Chapter 4*) and its external verification are essential if deception is to be avoided. The report looks at the various ways in which the accuracy of data can be ensured and highlights the differences between those countries that can afford sophisticated information technology and those that cannot.

Turning more specifically to the **avoidance of fraud** (*Chapter 5*), the report looks at measures taken within the school setting to ensure that finance is not deflected from its proper use. The need to reduce the handling of cash to a minimum, the separation of ordering and ‘receiving’ goods and a sound and detailed system of financial procedures emerge as key features.

As human nature is fallible, the fear of detection is a strong deterrent to corruption. The report looks in detail at the range of **auditing procedures** undertaken at various levels, from within the school to by local and national government (*Chapter 6*). It concludes that auditing is becoming an increasingly rigorous and effective tool.

When it comes to examining to what extent fraud is detected (*Chapter 7*), the writers of the report are unable to unearth strong data either because not much education fraud is taking place or because it is not recorded by the authorities under a separate heading. Nevertheless, it has been possible to give examples of fraud which have occurred in spite of all the procedures in place.

Bringing all the various elements of the report together, the writers have summarized the key issues (*Chapter 8*), highlighting the different but equally valid ways in which the four countries are addressing the issue of corruption. In spite of the technical complexity of many of the detailed issues considered throughout the report, the writers have been able to come up with a set of clear recommendations that should be of help to educational administrators considering systemic change.

The appendices give further details from each of the four countries including some examples of financial control practices which could be particularly helpful for any jurisdiction setting out in the direction of greater self-management and formula funding.





# Introduction

The purpose of this study is to assess how well a system of formula funding of schools accompanied by decentralized financial management at school level can reduce opportunities for corruption compared to centralized systems of school funding and resource management. The study attempts to do this by undertaking four case studies of countries that have introduced formula funding of schools and financial management at school level. The four countries selected – Australia, the UK, Poland and Brazil – were chosen because they provide differing examples of ways in which school formula funding and self-management have been introduced. The Australian case study is the State of Victoria as this was the first state to implement a high degree of school financial decentralization. In the UK, England was selected for a case study as it is both the largest of the four education systems and the most decentralized in terms of financial management. In Poland two local authorities, Kwidzyn and Swidnik, were selected as they are among the few authorities funding schools by formula. For Brazil, the case study focuses on the State of Rio Grande do Sul as it has promoted the decentralization of finance for learning resources in the Brazilian context.

A questionnaire was drawn up and answered by expert *rapporteurs* in the four countries. The questionnaire asked about the overall context of the school funding system, details of the funding formula used, transparency of information, data collection, financial control practices and the detection of fraud. This report synthesizes the case studies by comparing the findings from each for the main issues just listed and concludes with an overall summary and recommendations.

## Key concepts

In this study the key concepts requiring further elaboration are:

- formula funding of schools; and
- corruption.

### ***Formula funding of schools***

A funding formula is an agreed rule for allocating resources to operational units such as schools that is universally applied to all schools of a given type within an education jurisdiction (Ross and Levačić, 1999). A formula may allocate resources in kind. Centralized education systems often allocate teachers by a formula that relates the number of classes to the number of students according to the curriculum specified for these latter. In this study we are concerned with school funding formulae used to allocate financial resources to schools which as laid down in financial regulations may spend these resources as they wish. Thus we are concerned with school funding formulae used as part of a decentralized system of school finance for public schools. In some systems private schools are funded by government on a per pupil basis. These systems are not considered in this study, which is focused on formula funding in public school systems. Funding formulae are very frequently used by national or federal governments to allocate funding for education and other public services to lower tier authorities. We are not concerned with these types of formulae in this study, although they are an important part of the system by which money filters from central government to schools and thus are significant factors in the transparency of the school finance system.

The essential features of a school funding formula accompanied by decentralization are:

1. The formula specifies a quantum of finance that the school can spend on specified resources: In a highly decentralized system almost all the resources used by a school are delivered to it via the formula whereas in less decentralized systems only some resources (e.g. non-staff items) are allocated in money terms to the school.
2. The formula is applied consistently to all schools within the jurisdiction.
3. Decisions are taken at school level (either by the principal or school council or a combination of both) as to how to spend the money allocated by the formula, with the principal and school council being held accountable for the management of the delegated resources.

Reforms implementing a high degree of decentralization of the management of school finances have been taking place since the early 1990s in a number of countries, such as the United Kingdom (specifically England, Wales and Scotland), New Zealand, the Netherlands and in parts of Australia, Canada, Sweden and certain school districts in the USA. Decentralized financial management replaced a centralized system in which all or most of a school's resources were provided directly by the education authority, which told schools how many teachers and support staff they could have and how much they could spend on books and equipment. Central authorities also had control over school buildings, carrying out their own assessment of the physical condition, maintenance and repair of the buildings and supplying a direct labour force to carry out the work. As owners of the properties, the central authorities also received the income derived from the use of the buildings for other purposes outside normal school times.

In contrast, self-managing schools have the freedom to use the resources allocated to them in the way they judge most appropriate in their context for the particular pupils enrolled at the school. Some schools may therefore decide to spend less on teachers and relatively more on support staff. Others may invest in their buildings and maintain them to a much higher standard than

previously. Yet others become more proactive in marketing their facilities to the local community in order to increase income for the school.

‘Self-management’ in state-funded schools does not amount to genuine and total autonomy. State-funded schools are still constrained to teach to national programmes. For example, their pupils take national tests and examinations, schools are inspected by nationally regulated teams of inspectors and teachers trained according to national criteria and paid according to a national pay scale. A standard definition of a self-managing school is:

“a school in a system of education to which there has been decentralised a significant amount of authority and responsibility to make decisions related to the allocation of resources within a centrally determined framework of goals, policies, standards and accountabilities.”  
(Caldwell, 2002: 35)

The degree of financial delegation experienced by schools in the case studies reported in this study varies considerably. In Victoria (Australia) and England, schools are responsible for purchasing almost all their resources from their delegated budget. In the Polish examples the degree of delegation covers staff and supplies while in Brazil it only covers non-staff items.

The main factor or indicator in a funding formula is the number and age of pupils at each school. If parents have a choice of school then this gives parents the power to give or withhold resources from a school according to their perceptions of school quality. Equity considerations can be built into a funding formula so that schools with higher costs due to their location (e.g. in rural areas) or which serve higher cost pupils (due to social disadvantage or learning needs) are funded additionally according to indicators of need in the formula.

## ***Corruption***

An important distinction for this study is that between the *opportunity* for corruption and the *rationale* of actors in seizing that opportunity (Hallak and Poisson, 2002: 16). This report focuses on how well school formula funding can reduce the opportunities for corruption, using a few individual examples of corruption to illustrate factors that affect opportunities for corruption under formula funding. Defining corruption is not straightforward, as the boundary between what is regarded as corrupt and non-corrupt practice can differ according to the cultural context. The IIEP report on *Ethics and corruption in education* (Hallak and Poisson, 2002: 17) proposes as a definition: “the systematic use of public office for private benefit whose impact is significant on access, quality or equity in education.” This definition is adopted here. However, even with this definition the boundary between corruption and inefficiency due to shirking by public sector workers or incompetence due to indolence is not clear-cut.

Several types of corruption relevant to a comparison of centralized and decentralized school finance systems can be distinguished:

1. Money intended by central government for schools does not reach these latter due to fraudulent practice. This may involve incentives for officials to divert money earmarked for education, other uses of the money within the public sector or the diversion of both non-specific and categorical grants for education into private use.
2. Bribery at all levels in the system, such as contracts being awarded to suppliers for services or resources in return for clandestine payments in cash or in kind, reduces the quality and quantity of educational provision.
3. Fraudulent reporting of data at school level causes a school to receive more than it should according to the allocative rules. This can occur in both centralized and decentralized systems. Under centralized resource management, schools have an incentive to report more classes or teacher

hours than they actually need or have. In a formula funding system, schools may report more students than are enrolled or higher indicators of need than actually exist in order to secure more funding. Although there may be no direct benefit for private use in cash terms, the management, staff and students at the school benefit from better conditions of service or greater prestige and influence. The falsely appropriated funds must have been diverted from their intended use in the public sector and this has equity and access implications.

4. Fraud may occur at school level where money intended for school use is diverted for the personal benefit of individuals, either in cash or in kind.
5. Fraud arising from the misuse of non-public funds, for example donations from parents, income from fund-raising ventures or extra-curricular activities. As many of these are conducted at school level with the transfer of cash between individuals (pupils bringing in payments in cash, teachers making out-of-pocket payments in cash) there is a risk of misappropriation if internal procedures and controls are not specific and enforced. Provided this element of school income is limited (i.e. state funding does not assume a high level of external contributions) the likelihood of fraud is relatively restricted in its extent.
6. Shirking by employees at school level lies at the boundary between corrupt and merely inefficient practices. Examples of such shirking are failure by head teachers to monitor teachers' performance, absenteeism by teachers for unjustifiable reasons or failure to teach adequately due to lack of preparation.

The main features of formula funding that should reduce opportunities for corruption are:

- transparency, as the amount each school should receive is calculated objectively and can be made available to the public and openly published;

- incentives at school level to manage resources efficiently, enhanced by parental choice of school.

By increasing transparency and accountability, school formula funding should reduce opportunities for type 1 (above) corruption. In fully decentralized systems the allocation of funds to each school is published and accessible for public scrutiny on websites or in hard copy. The budget proposals, expenditure allocations and financial outlays of each school may be examined by any interested party. Therefore, provided the proper systems of checks and balances are in place (an important point to which we will return later) all those who handle funds for schools must do so in a climate of openness and accountability.

School level financial management removes incentives for falsely inflating the number of classes or teaching hours. It also increases incentives for school principals to ensure that teachers work efficiently and are not absent. Even if school choice is limited or non-existent for parents, scrutiny of a school's budget and its use of resources by a school council will put pressure on school staff to avoid inefficient or fraudulent practices. However, formula funding can create its own opportunities for corruption unless measures are put in place to minimize these. Schools have an incentive to inflate data that trigger funding in the formula, although this can be prevented by external checks and sanctions but even more effectively by selecting indicators that the school cannot influence. Managing finances at school level also gives more people the opportunity to misuse small sums of money compared to a centralized system where fewer officials have scope to misuse larger sums. Financial management at school level must, therefore, be accompanied by comprehensive and enforced financial regulations and external auditing of school accounts.

Some of most spectacular and large-scale examples of corruption in education relate to capital projects, such as the case of the collapse of school



buildings in southern Italy. In this sense, education is no different to other services where high value and complex contracts provide both incentives and opportunities for corruption. Except in highly decentralized systems such as those in Victoria and England, school funding formulae do not apply to capital expenditure. Even where they do so apply, the formulae are not used to allocate large-scale projects due their uneven incidence between schools. Where annually available capital funds are allocated by formula and school managers and school councils are concerned for the welfare of their schools, they are likely to be less vulnerable to corruption than more distant officials who deal on a regular basis with large contracts.

Clearly, the extent of corruption that occurs within either a centralized or a decentralized system depends on cultural attitudes as to what is ethical and acceptable practice. Discussions with English specialists in the field of audit and financial control have indicated the unofficial ‘80/10/10 rule’: i.e. 10 per cent of people are so honest that they would never seek to defraud anybody; 80 per cent will defraud if they can see a way of getting away with it; 10 per cent will defraud whatever controls are put in place. These proportions are likely to vary according to the political and social circumstances of a country. In a country in which public officials are paid very badly, the temptation to defraud is much greater. In countries in which public servants are well paid and have a certain social standing, it is less probable that fraud will take place.

## The methodology of the enquiry

The enquiry was conducted by means of a questionnaire (see *Appendix 2*) with subsequent e-mail discussion. The questions asked and the rationale behind them are summarized below.

### ***Overall context***

Respondents were asked to provide a factual description of the way in which education funding is distributed in their country, specifying the formula used to allocate money to an individual school and listing the types of indicator used in the distribution formula. Where changes have taken place recently, details were requested of the major differences between the country's current formula funding methodology and the previous method of funding education.

### ***Openness of information***

As transparency is a powerful deterrent to corruption, respondents were asked whether the amount allocated each year to each school is in the public domain, how this figure is published and to whom it is readily available. Even when information is published, it may not be easy to understand so respondents were invited to comment on the accessibility of the published information to school managers, teachers, parents, school council (i.e. the governing board) and members of the local community.

### ***The generation of the budget prior to distribution***

An essential aspect of a needs-led funding methodology is that the needs of pupils and activities of schools are defined and costed as part of the budget-building process. Respondents were asked to comment on the level of detail in the construction of the formula and the way in which it is published. For example, is school provision defined in terms of teaching staff, non-teaching staff, books and other learning resources, premises, management costs and/or administrative costs? Alternatively, are none of these used, with instead a global sum being merely determined by simple factors such as pupil numbers?

### ***Data collection and verification***

In systems driven by formulae and pupil numbers, the collection and verification of data are critical features of the process. Respondents were asked to provide details of how data for the indicators in the distribution funding formula are collected (e.g. number of pupils, number of pupils with additional educational needs). Misreporting of data is a potential source of fraud so a question was asked to elicit an evaluation of the scope for misreporting. If data are collected only once a year, problems can arise for schools with high turnover of students so a question was asked regarding the frequency of data collection. Finally, respondents were asked to show how data are independently verified, a process which is essential if fraud is to be reduced.

### ***Budget scrutiny at school level***

Respondents were asked to describe how the use of financial resources by schools is recorded and to whom it is reported. For example, details of financial management protocols were requested specifying what measures are taken, if any and by whom and whether there is a discrepancy between the budget allocated to a specific heading and the expenditure incurred. Given that budget planning is an imprecise art, it is useful to know what degree of tolerance is permitted by financial management protocols.

### ***Technical support for school managers***

Many, probably most, school principals reach their leadership post by means of a sequence of promotions starting from being a teacher. Financial expertise is not specified as a skill in those starting on a teaching career, yet it becomes essential for people leading self-managing schools. Respondents were asked about the level of technical support for financial management provided for schools. Codes and protocols are essential for the efficient and

honest management of schools so there was a question about the availability of a standard code of financial practice for all schools and its geographical coverage, e.g. national, regional or local. Examples were sought of the features of a financial code such as separation of duties, limits on expenditure authorization, requirement for several quotations on purchases above certain thresholds and declaration of financial interest.

School-based financial management is demanding in terms of information systems. The questionnaire was designed to find out if there is a single management information system for all schools (in a locality, region or nation) or whether schools create their own.

### ***Internal and external audit***

Respondents were asked to describe the audit measures that ensure compliance with financial regulations and the levels of audit (e.g. within a school, locally but outside the school or by a nationally regulated external body). Information was also sought on whether the system has in place a local (i.e. school level) board/committee/governors with front-line responsibility for ensuring public accountability for the use of school revenues as well as adherence to high ethical standards.

Given that people fall short of perfection in following financial procedures, evidence was sought on the measures that might ensue if satisfactory compliance with financial procedures (short of criminal corruption) is not achieved.

### ***The detection of fraud or corruption***

The questionnaire concluded with a specific focus on fraud and corruption. First we wished to determine how well documented the country is in terms of the detection of fraud or corruption in the education system. We then sought opinion on whether, since formula funding was introduced,

there has been any change in the extent of corruption detected, for example in the misreporting of data in order to increase fraudulently a school's budget allocation or with respect to the expenditure of money from the school's budget for personal benefit.

Finally, respondents were invited to identify any loopholes in the formula funding methodology that have allowed corruption to take place and to describe measures that have been taken to close these off. Drawing on their own experience, respondents were then asked to suggest measures that they would recommend to any country or state thinking of moving from a centralized to a decentralized system for the funding of schools so as to eliminate or reduce the possibility of corruption.

## *Chapter 1*

### Overview of funding systems in the four countries

The use of formula funding must be understood within the overall context of the school systems and their financing in the four countries. We consider each country in turn in order of the degree of decentralization of school funding that had been implemented at the time the case studies were written, beginning with Victoria which had implemented the greatest decentralization and ending with Rio Grande do Sul with the least decentralized system. A further description of the educational context of each country is provided in *Appendix 1*.

The report on each country begins with an outline of the funding of the school system and summarizes the main differences between the school finance system prior to introduction of the various degrees of decentralization as well as the current situation.

#### Victoria: Australia

The case study relates to the government school system of the State of Victoria. Australia is a federal country. Education of children of school age is a state responsibility, although there is also national involvement in this (see *Appendix 1*). Victoria has the second largest state education system in Australia with over 550,000 students, 35,000 teachers and 1,600 schools. Since the mid-1970s reform of education in Victoria has been relentless, with a consistent trend of devolution of authority, responsibility and accountability to the school level to arrive at the system described in the case study. Victoria

in many ways has led Australian education reform. With significant reforms over the past 10 years occurring in most states, Victoria serves as an excellent example of what is now occurring across Australia.

Prior to the developments described in detail below, Victorian schools were centrally administered. Finances were held and managed centrally and the allocation of teachers and funds for resources determined at the administrative centre. What used to be called ‘technical schools’ had always enjoyed a high degree of autonomy in the use of resources but this was not the case for the majority of schools. Prior to devolution, considerable difficulties had developed in accurately describing and detailing total resource allocation to individual schools as a multitude of different conduits had evolved, all with different criteria and many subjectively based. Devolution entails the development of formula funding where both the criteria and the actual amounts received by each school become widely known. Inevitably, the first attempts at formula funding sought to replicate historical allocations but on a detailed basis. This approach identified serious inequities that then needed to be addressed, particularly as alignments between learning outcomes and resources were sought as governments established high order outcome targets for all students.

Victoria commenced the move towards school self-management and school formula funding in the mid-1980s. Successive governments have all (irrespective of political persuasion) continued this development. Currently, Victorian schools have the highest proportion of school resources in the school global budget of any educational jurisdiction in the world. Not only is this proportion high (94 per cent), but equally important is the flexibility with which it may be applied to the educational process. This includes staff profile determination and staff selection, with schools paying actual staff costs (not averages). Schools are allocated their budget as part credit/part cash. The credit allocation is to facilitate the centre’s administration of payrolls on behalf of schools. Credit allocations can be converted to cash allocations at school

request. Cash allocations are directly controlled through school administered bank accounts. By choice, schools can allocate cash for short terms to a central school investment fund but interest and capital are returned to school controlled bank accounts when required for expenditure.

Devolution within the government education system in Victoria, as in the vast majority of other instances throughout Australia, has not represented devolution merely to the school but rather to the community and its school. This has occurred due to devolution having been about far more than resources. Fundamentally, it has developed to assist in the process of matching student learning and cultural/social needs to educational provision. A centralized administration identifies national and state goals for learning but key local input is required to identify local priorities and cultural/social factors.

The necessary local input to education policy development has occurred in Victoria through the development of school councils in which parents, teachers and the community jointly share responsibility. Working within a government framework of policies, standards and accountability requirements, the school council undertakes strategic and annual planning involving charter writing, long term strategic planning and policy making, approval of annual plans (including resource allocation) and school review. The principal and staff work within frameworks provided by both government and school council to design and deliver curricula and monitor student performance.

Local responsibility for the effective and efficient use of educational resources is a phenomenon closely associated with the development of school councils. An associated phenomenon is transparency of resource allocation that is discussed in more detail later.

While the approaches outlined above are to be applauded for many reasons, there remain many inequities in the Australian school system. Caldwell and Roskam (2002: 9) note that in international tests of reading,



mathematics and science, “[a]mong the countries with the best performing students Australia has one of the highest ranges of student achievement between students”. In many studies over the past decade, Teese and colleagues at The University of Melbourne Educational Outcomes Research Unit have highlighted the marked differences in student learning outcomes and career paths that exist, with significant differences noted for student characteristics such as gender, location, socio-economic status and cultural background (key references are: Teese, Davies, Charlton and Polesel, 1995; Teese, 2000; Teese and Polesel, 2003). Together with this evidence of differences in student outcomes, it is worth reflecting on the differences in school funding indicated in the main report, with the wealthiest schools in Australia (high-fee independent schools) spending up to three times the amount on student instruction compared to the poorest schools (various government and low-fee independent schools).

## England: UK

Almost all state schools in England are maintained and funded by Local Education Authorities (LEAs) that are part of general purpose elected local authorities. Local authorities receive grants from central government that finance around 75 per cent of local service expenditure, the rest being raised mainly from ‘council tax’ – a residential property tax. The majority of central government grants for local government services are unhypothecated. This means that locally elected councillors make decisions on spending priorities and the council tax rate. However, this freedom has at times been circumscribed by central government capping of council tax. A new step in 2004 has been central government insistence that local education authority funding of schools rise by a prescribed amount per pupil. It is important to appreciate that education is not a stand-alone service. It is part of the package of services administered by local government including social services, such

as local road maintenance, leisure services and planning, of which education from nursery to secondary school is the single biggest expenditure.

The basic principles by which central government allocates block grants for local services to local authorities have been in place since 1958 (Glennerster *et al.*, 2000), although the actual grant system has changed a number of times. The most recent change was in 2003. Since 1958, central government has sought to achieve a degree of fiscal equalization between local authorities (LAs) by setting central government grants to reflect differences both in LAs' need to spend on services including education and in their fiscal capacity. The latter is the amount of local tax that each LA could raise if it set a 'standard' tax rate on its tax base of domestic property. Central government assesses each LA's need to spend using a formula. The main elements of the formula are fixed by the policy regime in operation at the time, while details of the formula are determined annually by negotiations between central and local government representatives.

The school financing system is split into two stages. First, central government allocates money for education to local government as part of a local government block grant and second, LEAs allocate funding to schools. Central government grants for local authorities cover school provision for 3 to 16 year olds (the end of compulsory schooling) as well as some grants for adult education. Schools that educate 17 to 19 year olds receive funding for these students *via* the Learning and Skills Council that is financed by central government and also distributes grants to other post-16 educational institutions. This grant is distributed by a different formula. We concentrate here on the funding of 3-16 education.

Each LEA's need to spend on education is assessed by central government using a formula which consists of the numbers of pupils in the pre-school, primary and secondary age ranges, indicators of social deprivation related to learning need, a scarcity index for low population density and an

area adjustment factor for regions with above average wage levels. This assessment of spending need for education is, since 2003, called the Education Formula Spending Share. Together with the allowance for differences in fiscal capacity, this assessment determines the amount of the grant received by a local authority. However, the formulae used for determining differences in LAs' spending needs have always been subject to dispute related to differences in LA interests and to technical issues concerning the indicators used in the formulae. The changes in 2003 were yet another attempt to address such criticisms and their mixed political reception well illustrates the problems of changing the distribution of money when some recipients benefit and others lose, as was the case with LAs in the 2003 grant reforms.

The second stage in the distribution of resources to schools, which is from the LEA to the school, underwent a major reform in the early 1990s following implementation of the 1988 Education Reform Act in England and Wales, which introduced Local Management of Schools. This required LEAs to delegate budgets to schools for most of their resources including staff and to determine each school's budget by a formula that must be approved by the Department for Education and Skills (then known as the Department of Education and Science). The major determinant of school budgets must be the number and age of pupils. As parents were also permitted greater choice of state school, a demand-led system of school finance was created. School governing bodies (school councils) were made responsible for the management of each school's budget and for the quality of education provided by the school. If the school has 'foundation' status rather than 'community' status, the governing body is also the employer of the staff and owner in trust of the school's assets. The governing body of a state school appoints the head teacher who, with the aid of governors, appoints staff. Similar, although not as far-reaching delegation of school budgets was also introduced in Scotland.

Prior to the introduction of Local Management of Schools (LMS) in 1990, schools were financially administered by LEAs. Schools were told

how many teachers and support staff they could employ and all personnel and salary matters were handled by the LEA. The LEA provided all cleaning and maintenance services and covered centrally all the costs of insurance. The only financial flexibility available to schools was the so-called ‘capitation allowance’. This was a per pupil allocation for the purchase of learning resources which the school could use to purchase whatever it wished – for example there was no prescription on which textbooks were to be purchased.

Accountability for the generation, distribution and application of funding for schools was complex and indeed, up until 1990 very few head teachers and governors would have had any idea at all of how schools were funded. The introduction of LMS in 1990 brought education funding out into the public domain and led to increasing pressure on central government to reform the way in which it distributed its funding to LEAs. After a period of debate, research and consultation the government revised the LA grant distribution system in 2003, with changes relating particularly to school funding.

A major aspect of the new system introduced in April 2003 was to make it more difficult for local councillors to spend less on schools than the government deems necessary. Further regulations required LAs to pass on to schools increases in funding provided by central government. A significant change in the 2003 grant distribution formula was to split the Education Formula Spending Share (EFSS), which is the amount the LA is deemed by central government to need to spend on education for 3-16 year olds, into two blocks: one for the LEA and the other for schools.

The LEA block represents around 12 per cent of the total Education Formula Spending Share. It includes the cost of providing places for pupils, administering admissions, supplying home-to-school transport, ensuring standards in schools, assessing children with special educational needs and the strategic overview provided by the Chief Education Officer and his/her staff. The money allocated for spending on pupils has been placed in the

Schools block, which has four sub-divisions: under-fives, primary (5-11 years old), secondary (11-16 years old) and high cost pupils. The EFSS for each LEA follows the same pattern and the details of how it is reached are in the public domain. Within each sub-division there is a basic allocation for each pupil (the same across the country) topped up with extra funding according to a formula for additional educational needs and geographical circumstances (supplements for high cost parts of the country and for scarcity).

The new LEA funding system introduced in 2003 had the unintended consequence of many schools actually experiencing budget cuts when the government had increased its overall funding for schools by 3 per cent in real terms. The political embarrassment this caused led the government to make even further inroads into local authority discretion by requiring that the increase (3.4 per cent – 4 per cent in 2004/2005) in per pupil funding provided by the central government via the Schools block be passed on to schools. Thus the promise of a reform to simplify school funding and make it more equitable has led to even further complexity and short-run tinkering with the system.

In addition to the funding from LEAs there are a multitude of Department for Education and Skills (DfES) funding streams, termed special or specific grants, which make up about 14 per cent of the money spent on school-based education. These grants from central government, known as Standards Funds, go directly to schools (administratively channelled *via* the LEAs). Some are earmarked for tightly defined purposes such as ethnic minority learning support and funding for promoted teachers. There are also a number of specific schemes for particular types of school that receive extra funding. Finally, money is raised locally for schools by parents or charitable foundations.

The effects of this diversity of funding are huge differences in the funding level per pupil, some of which are due to compensatory funding and hence much debate about the equity of the funding system.

## Poland

Poland has an almost fully decentralized system of education, with local governments (*gminas*) responsible for primary education and county level local governments (*powiats*) responsible for secondary education (Levitas and Herczyński, 2002). Nevertheless, the national government is legally responsible for ensuring the constitutional right to education and for financing education, which is the single largest expenditure item of the national budget.

As a result, Poland funds its education in a two-tier system first from central government to local government and then from local government to the schools. The first step uses a formula (known informally in Poland as ‘the algorithm’) by which the Ministry of Education allocates block grants, called education subventions, to local authorities to support their expenditures on schools. The first such formula, introduced in 1994, was for elementary schools. The present formula, introduced in 2000, replaced the previous version of the formula that had been in operation since 1996. The main differences between the formula operating since 2000 and the previous one are:

1. Inclusion of secondary schools and funding of these on a per student basis (previously they were funded directly by the various ministries on a historical basis, with significant inequalities within the secondary school sector and severe under-funding of secondary schools in comparison with primary schools).
2. Inclusion of non-school institutions such as psychological advisory centres, after school facilities and teacher libraries and funding of these on a per student basis (previously they were funded directly and on a historical basis, maintaining historically determined, inequitable distribution of these facilities).
3. Buffer mechanisms maintain the per student subvention: Previously the buffer mechanism guaranteed each *gmina* its previous year’s education

funding irrespective of changing student numbers so that in some *gminas* with declining student populations per student funding skyrocketed.

4. The old mechanism maintained some weak references to class sizes.

The formula is based essentially on student numbers, with many weights for specific categories of students (see *Appendix 3*). The main weights are the additional weight for students in rural schools and a less important weight for students in schools in small cities (up to 5,000 inhabitants). There are additional weights for handicapped students, students in sports schools and sports classes, minority schools and students based to the school. There is a small weight for secondary school students and some weights for specific types of vocational schools. There are also some weights for extracurricular activities and non-school institutions. The determination of education funding to a given local government takes into account its previous year's per student subvention (through so-called buffers) so that per student subvention cannot change radically from year to year.

At the second stage, local governments allocate resources to individual schools. The *gminas* and *powiats* are free to spend their education funding in any way they see fit, including for non-education services, but are legally obliged to provide free education in accordance with state laws. Most local governments allocate funds to schools on the basis of employee (mainly teacher) and utility costs. This is historical budgeting, so that inter-school differences in funding levels (as in staffing levels) are perpetuated from year to year. The main factor driving the differences in per student allocation is class size, which is not mandated nationally and which the local governments find it very difficult to influence. This is especially true for rural *gminas*, where often the class size is below 15. So-called mixed *gminas* (a small city with a surrounding rural area) find it especially difficult to equalize class sizes and per student allocation between urban and rural schools.

Very few Polish *gminas* have introduced formula based funding to individual schools. Two that have done so are Kwidzyn and Swidnik, two small cities. Their voucher funding approaches are presented as case studies of school formula funding in Poland. In 1994 both *gminas* replaced previous historical budgeting practices with voucher systems. In Kwidzyn, until recently there were different voucher values for different schools. In Swidnik, the city is extending the list of exclusions that are school functions funded outside the voucher mechanism.

Aside the funds allocated to schools through local governments in the form of the education subvention, the Ministry of National Education (MEN) allocates other, relatively insignificant funds for specific priority programmes. This support, in cash or in kind, is allocated either to local governments or directly to schools through regional representatives of the MEN. Priority programmes include school buses (for which funding is given to local governments that need it most), computer laboratories for schools and some programmes for socially disadvantaged students (such as textbooks for poor students and stipends for students from rural schools continuing education in general academic schools).

A separate important issue for education finance in Poland concerns non-public schools. Although non-public schools charge tuition fees, they are entitled to financial support from state funds. This was an issue of fierce debate in Poland. Initially this support was defined as 50 per cent of average expenditure per student in analogous schools in a given municipality, a definition that led to significant disagreement on what those schools were entitled to (NIK, 1999 and NIK, 2002). Since 2001, all non-public schools providing education to children under 18 years old are entitled to 100 per cent of the appropriate per student allocation from the central budget, while non-public schools for adults (over 18s) receive no such support at all on the ground that this level of education is not compulsory. This simplified procedures and resolved most of the disputes.



## Rio Grande do Sul: Brazil

The Republic of Brazil is a federation of states and municipalities, giving rise to three levels of government: Union or federal level; 26 states (plus Brasília, the Federal District), and 5,561 municipalities (cities). Each of these governmental units has ‘responsibilities and competencies’ for education. Municipalities are responsible for early years and fundamental education; states for fundamental and secondary education; and the Union for higher education. Basic education consists of three levels: early years (*Educação Infantil*) for children ages 0 to 6; fundamental education (*Ensino Fundamental*) covering 8 years of compulsory schooling; and secondary education (*Ensino Médio*) for 3 years. Literacy and fundamental education are the top priority in the overall education budgeting process. Roughly 90 per cent of basic education is public, i.e. takes place in state or municipal schools; Ten per cent of enrolments are in private schools. All three levels of government are required to collaborate in the fulfilment of their educational responsibilities. Accordingly, the Union must provide complementary and redistributive technical and financial assistance to state and municipal basic education and states should co-operate with municipal governments in their respective jurisdictions.

Brazil has a decentralized fiscal system in which federal, state and municipal governments collect taxes. However, due to differences between the amounts collected to fund decentralization of public services, the Union makes compulsory transfers to state and municipal governments and the states also transfer part of their direct tax revenue to municipalities.

There are two major sources of public funding for education, accounting for 97 per cent of total sector expenditure. One is the general tax revenue fund that comprises federal, state and municipal taxes. The other is the *Salário-Educação* – a 2.5 per cent tax on all monthly payrolls collected through the social security system and distributed proportionally to states for exclusive use for fundamental education.

States and municipalities must spend at least 25 per cent of public revenue on education and the Union 18 per cent. Some states and municipalities have raised this (for example to 35 per cent in the state of Rio Grande do Sul and 30 per cent in the city of Porto Alegre). It is estimated that on average the Union contributes 25 per cent, states 48 per cent and municipalities 27 per cent to the total public funding of education. However, there are longstanding accusations that the minimum levels of spending are not met or do not reach their proper destinations. Some of these accusations have resulted in legal and administrative recourse followed by a few convictions of public officials (including city mayors and state governors).

In 1996 a Federal Constitution Amendment and a federal law mandated that at least 60 per cent of state and municipal 'minimum expenditures on education' – i.e. 15 per cent of state and municipal revenues – should be used for fundamental education while the Union should allocate for this purpose 30 per cent of its 'minimum' – i.e. 5,4 per cent of federal revenue. The law also established the Fundamental Education Development and Teachers Valorization Fund (FUNDEF) that comprises a federal fund, 26 state funds and 5,561 municipal funds. This is to be enforced for 10 years up to 2006. The FUNDEF is the most important redistributive funding policy in education ever designed in Brazil as it supposedly equalizes public funding per student within each state and also sets a minimum national funding value per student. This requires that the federal fund supplement the funds of state where the per student value is below the national minimum. As result, a few of the poorest states and municipalities have had their education budgets improved. However, the national minimum is very low and insufficient for ensuring quality standards. Big differences remain in per student values between state funds, maintaining regional disparities. Furthermore, there are no rules for funding schools according to pupil enrolments. Another problem is that as FUNDEF has enforced spending on fundamental education, early and secondary education have suffered.

Brazilian legislation earmarks public funds for education: 18 per cent of federal and 25 per cent of state and municipal revenues must be spent exclusively on programmes, projects and activities directly related to schools' main objectives. As a result, social assistance expenses such as meals and health must be covered by the general public fund or other funding sources. There are also several legal restrictions on funding private schools. All these measures have contributed to raising actual public expenditure on education and to directing it towards public schools, thus limiting the historical practice of clientelism through the distribution of scholarships and many other benefits associated with schooling for privileged citizens.

The *Salário-Educação* Fund is considered an additional source and is (currently) restricted to public fundamental education. This fund is divided into two quotas: a federal and a state quota. The federal quota, corresponding to one-third of total revenue, is distributed to federal projects such as school transportation, books for students, school libraries, pupils' meals and special education needs and is also allocated to individual state and municipal schools. The state quota, corresponding to two-thirds of the state's revenues from this specific source is used at each state's discretion. This is therefore a fund with a very limited redistributive effect. However, some state quotas have redistributive guidelines. In Rio Grande do Sul, state law provides that the *Salário-Educação* state quota be divided between the state and municipal governments according to the number of pupils enrolled in fundamental education public schools under each of their jurisdictions (i.e. the same criteria as is applied to FUNDEF's state fund). This is one of the few states where the state quota is distributed to municipal school systems by a formula and is an expression of the 'collaboration' between the state and its 497 municipalities.

Prior to 1997, the education budget of the State of Rio Grande do Sul was very centralized: State schools did not receive any cash allowance for any kind of expense. All school supplies, equipment, repairs and maintenance had to be requested from the regional office that represents the State Secretary of Education.

Therefore, with the implementation of State Decree n. 37104/96 that introduced 'financial autonomy' for state schools, some cash for basic supplies, ordinary maintenance and a few investments (such as equipments) began to flow into state schools. This element of resourcing is the subject of the case study reported here.

It should be noted that during the last few decades most state schools were (and are) poor in terms of building, classroom conditions, facilities, pedagogical resources and maintenance. It was not uncommon for a state school not to receive any supplies, equipment and maintenance from the state authority during the course of an entire year. As schools depend on a state authority, with regional offices hundreds of kilometres away they were forced to rely on their community for some expenses and services (including any phone calls or transportation for the school principal and teachers who were obliged to travel to the regional office). Either on the direct initiative of principals and teachers or with the support of parents and community leaders through Parent & Teachers Associations, the schools organized parties and popular cultural events and rented some space or facilities in order to have money for maintenance and some special investments. This led to cumulative inequalities among schools related to differences in community wealth and in local preferences for voluntary donation.

It should also be noted that the cash amount provided to state schools by the new distribution formula is minimal. In general, it is equivalent to US\$13 per student/year (which corresponds to four packages of 500 letter size paper sheets or to 0.7 per cent of the most junior teacher's salary).

## Comparison of case study funding regimes

School finance regimes in the four countries differ. In Australia, England and Poland two levels of government are involved in school funding whereas

in Brazil there are three levels. In England and Poland central government provides largely unhypothecated grants to local authorities to assist in financing services and both allocate this by formula. In Victoria the federal government allocates grants to both private and public school systems but the majority of funding for public schools is provided by the state government. Brazil has rules relating to the proportion of taxation that should be allocated for the different phases of education. England has the most interventionist central government ministry of education, operating a policy aimed at improving educational standards backed by additional funding which is channelled to schools through direct grants.

All four school finance systems were centralized prior to the introduction of their current forms of decentralization. Victoria began decentralizing in the mid-1980s and England in the late 1980s. In both cases, the proportion of the budget delegated to schools has increased over time and the management of school finance is highly decentralized, being the responsibility of the school council. Victoria attaches particular importance to the delegation of school management responsibilities to community level. In Poland only a few local authorities fund schools by formula. The cities of Kwidzyn and Swidnik began a system of 'vouchers' or formula funding for staffing and learning resources in the mid-1990s. Here too policy has evolved over time, with funding formulae becoming simpler and more concentrated on pupil numbers as the main determinant of the amount allocated. The State of Rio Grande do Sul in Brazil began formula funding in 1996. Funds are only for maintenance and equipment and represent small amounts per pupil. Schools in Brazil are the least well resourced of the four countries, reflecting relative GDP per capita. The school funding contexts for the case studies are therefore diverse in terms of governance arrangements, degree of decentralization and level of resourcing.

## Chapter 2

### School funding formulae

The four case studies provide examples of both similarities and differences in school funding formulae. In all four examples, the number of pupils is the most important factor in the formulae that differ in the extent to which they take account of differences in pupil needs and school costs. In the two Polish *gminas* and especially in Rio Grande do Sol, these cost differences are funded outside the formula or not explicitly addressed.

#### Victoria: Australia

Although Victoria delegates 94 per cent of school funds directly to schools with a high degree of flexibility in their use, the formulae involved are many, complex and reflect historical patterns in the main. The associated decrease of transparency is well recognized by Victorian education authorities and work is currently in progress to simplify allocation formulae for the 2004 school global budget and beyond. The reform process is not only being driven by transparency but also by equity. Victoria's target for 2010 is for 90 per cent of students to successfully complete Year 12. This achievement is being sought through a raft of reforms including a school global budget based on educational considerations as expressed through the stages of schooling and highly focused on compensatory funding for inequalities in learning outcomes.

The current funding formulae are based on three key components: core, needs-based and priority programmes. The main elements of the formula are summarized below and details are given in *Appendix 4*.

### ***Core***

Core funding allocations provide for teaching staff, support of teaching and learning, premise costs and on-costs. Core funding represents approximately 80 per cent of the school budget.

One part of the formula determines a teaching staff quota based on enrolment and type of school. Funding (with the exception of the principal/head teacher position) is then provided as a set amount per position to cover salary and on-costs. The coefficients are different for primary and secondary schools. When allocating funds schools determine their own leadership and staffing profile to best suit their requirements within available funds, calculating staff costs as actual salary costs rather than averages. Funds in excess of the school's own determined staffing requirements may be accessed as cash. Flexibility also includes the capacity for special payments to any staff member (with the exception of the principal) within a specified range limit.

That part of the formula for non-teaching staff and school operational costs is based on enrolment and school type. Premises funding includes contract cleaning, grounds maintenance, utilities, maintenance and minor works as well as split-site allowances. Utilities are based on historical costs while other allocations are formulae driven. These formulae are complex and maintain historical patterns. On-costs funding provides for additional costs associated with payroll tax, superannuation charges and WorkCover premiums (insurance).

### ***Needs-based funding***

A critical element in the development of school global budgets in Victoria has been the determination of indices to allocate needs-based resources. In the past 6 years, Victoria has focused on development of these needs-based provisions in line with its policies of inclusion of students with disabilities and

impairments in ordinary schools and the pursuit of equity of learning outcomes for all students. Agreed indices and funding formulae have helped to assure schools and communities that appropriate funding is guaranteed, predictable and transparent. This can be contrasted with, for instance, most other Australian education jurisdictions, where inclusion policy has been pursued but appropriateness of resources is a matter for constant negotiation with the centre and levels of resources can vary from year to year.

Needs-based funding is provided through formulae-driven allocations for disabilities and impairments, special learning needs, English as a second language and rurality and isolation. Total needs-based funding comprises approximately 20 per cent of all funds allocated to schools. The indicators of needs-based funding are:

- the degree and nature of student disabilities and impairments, funded at six levels reflecting the total costs of provision;
- a special learning needs index relating to the proportion of students at the school who are disadvantaged through family and other circumstances;
- levels of need for students from non-English speaking backgrounds;
- small rural school size adjustment factor; and
- location (rurality and isolation) index.

### ***Priority programmes***

An additional 16 programmes provide allocations specific to the needs of individual schools. They include language background other than English (LOTE), indigenous education, professional development and special initiatives. For 2003, many of these allocations have been incorporated into the CORE allocation to reduce complexity, increase transparency and demonstrate their permanent inclusion in recurrent school funding.



### ***Complexity***

In summary, the Victorian allocative formulae are complex, an outcome probably related to a focus on historical factors in their derivation. It is emphasized that this problem is currently being addressed in Victoria with the aim of producing a new approach for 2004.

### **England: UK**

Since local management of schools (LMS) was implemented in 1990, every LEA has had to devise its own LMS scheme (renamed 'Fair Funding' after the Labour government came to power in 1997). The DfES issues guidelines to which LEA funding schemes, including funding formula, must conform but some local discretion is permitted. Each scheme must be approved by the DfES so, although there are minor variations, the 150 LEA schemes broadly follow the same pattern.

The LMS scheme is devised by LEA officers, usually in collaboration with representatives of the schools (head teachers and governors) and with the approval of the elected members. Since January 2003 each LEA is required to have a 'Schools Forum' to which head teachers and governors are elected. This gives greater formality to a process of consultation, which at best had been excellent and at worst haphazard in some parts of the country. The Schools Forum is an advisory body; with final decisions being made by the locally elected councillors.

The LMS/Fair Funding scheme distributes money to schools predominantly according to the number of pupils enrolled, weighted according to their age (the so-called Age-Weighted Pupil Unit – AWPU). At least 75 per cent of the available money must be distributed according to pupil numbers. A further 5 per cent can be allocated according to students' additional

educational needs. The remaining 20 per cent may be used for additional educational needs or to allocate money for small school size or premises costs allocated by area of the school or other factors such as split sites and swimming pools. The grounds maintenance element is usually linked to the size of the playing fields. A further sophistication may be a factor for the age of the building.

An AWPU is calculated for each pupil according to the year group (reception through to Year 11). Year 3 is usually given the lowest weighting of 1.00 with the other year groups receiving higher allocations. The highest allocations are usually attributed to Years 10 and 11 where pupils are taught in smaller groups to allow for curriculum options.

As the national financial year runs from April to March and the academic year from September to August, schools receive money for five-twelfths of one academic year and seven-twelfths of the subsequent year. Given that pupil numbers may not be the same year after year, LEAs normally estimate, in collaboration with the school, the number of pupils expected to be enrolled the following September. Any later adjustments are then made based on the actual national census figures collected annually in January.

Schools also receive money to compensate for the extra costs of pupils with learning difficulties who may need to be taught in smaller groups. Currently this is generally done by the proxy factor of Free School Meals (FSM). Schools receive extra money according to the proportion of their pupils registered as eligible to receive FSM (which means that their family is in receipt of the Income Support unemployment benefit). This proxy has been criticized as it does not accurately reflect educational need at the pupil level but the broad link at school level between socio-economic deprivation and educational under-achievement is accepted. Other indices of special educational need used by LEAs are measures of pupils' prior attainment on

entry to the school, the proportion of pupils from ethnic minority backgrounds, with English as a second language or who lack fluency in English.

Since the year 2000, schools have received an allocation for small capital works. The per pupil amount varies according to the primary, secondary and special schools sectors and is set nationally by the DfES.

The AWPU includes costs for teachers, support staff, supplies and services and school operational costs. The calculation of the AWPU lies at the heart of the distribution methodology. In some LEAs, the per pupil cash unit is simply based on what has been spent previously, adjusted for inflation. Other LEAs have tried to use an approach known as Activity Led Funding (ALF) based on a detailed analysis of the costs of educating pupils given the curriculum specified for their grade level. This approach was discussed in detail in an earlier IIEP publication (Abu-Duhou, 1999).

Whatever approach is used, the school receives a global amount based on the number of pupils and other indicators in the formula: The total sum is not split up for teachers or staff and non-staff resources. The essence of LMS is that the money, once received within the school, can be deployed according to the priorities of the school as judged by the head teacher and the governing body. The only restriction is that capital funding can normally only be used for capital expenditure. As mainstream funding is not earmarked, schools of the same size may employ different numbers of teachers, support staff, technicians and administrative staff and may spend differing amounts on decoration, heating and learning materials. Any budget surplus or deficit is carried forward into the next financial year.

## Formula funding in two *gminas*: Poland

Most Polish *gminas* and all *powiats* do not use a formula for the allocation of funds to individual schools. School budgets are determined on the basis of employment and utility costs. Employment is based on yearly school plans called *Arkusz organizacyjny* and approved routinely by the local government unless some major change from the previous year occurs. The *Arkusz organizacyjny* for each school defines the organization of the school's activities: which class receives what lessons, who conducts them, whether there are additional (extra-curricular) classes. All salaries and a proportion of other school costs such as materials and excursions derive from the *Arkusz organizacyjny*. As a result the actual budgets, often prepared by the schools themselves, leave the local government little room for manoeuvre as the main expenditure items are already decided. This process often results in friction, but the position of the paying agency (*gmina* or *powiat*) is not very strong.

Some *gminas* use a formula to determine the school budgets. Two examples are Kwidzyn and Swidnik, where information was obtained from interviews with local authority and school personnel. As in the Polish context, we will sometimes refer to these as voucher mechanisms.

### ***Kwidzyn***

Kwidzyn was the first town in Poland to implement a system of education vouchers, in 1994. Parents of school-age children in Kwidzyn are given a paper document in the form of a voucher which they subsequently deliver to a school of their choice. The voucher was introduced by the Kwidzyn authorities mainly for informational purposes – in order to forcefully inform the parents and schools that each student *brings* a certain amount of money to the school. This was to emphasize that the main factor on which the size of school budgets depends is the number of students. The vouchers are kept

and accounted for by the school but are not used in any practical way. In particular, the parents of each student receive only one paper voucher (before the child enters primary school at the age of seven), submit it to the school of their choice and transfer it later from primary school to lower secondary school. This is a pure formality. For instance, schools receive funds for students enrolled even if they come from outside the city and so do not bring the paper voucher with them to the school. Similarly, no funds follow Kwidzyn children if they attend a school outside the city.

The system of formula funding in Kwidzyn has gradually evolved. Initially, the basic indicator used in the formula was not the number of students but the number of classes. This was soon abandoned as it obviously motivated school principals to maximize the number of classes. Subsequently school budgets were calculated according to the number of students. However, the particular per student amount (the value of the voucher) was different for different schools. These differences were introduced to take into account the differing salaries of teaching and administrative staff employed in each school due to variations in their length of service and qualifications. Cost differences between schools also arose due to differences in infrastructure maintenance and operating costs. Consequently, these initial cost differences were perpetuated from year to year. As each school received the same paper voucher with a different value attached to it, the purely illustrative character of the vouchers at that time is obvious.

The per student amount for each school was gradually modified in order to accommodate growing expenditures on teachers' salaries resulting from the rise in their qualification levels. The mechanism which allowed the city to do this was the so called coefficient  $Z_3$ , which was set by the city for each school separately as a political decision and allowed the value of the voucher to increase. Thus not only did the actual value of the voucher vary between the schools but the city also reserved the right for political reasons to alter these values, which further undermined the use of vouchers as an objective

method of resource allocation. The value of coefficient  $Z_3$  for particular schools ranged from 1 to 1.08.

In 2000, as the proportion of teachers with higher education became uniform across Kwidzyn schools, the local government decided to abandon the use of  $Z_3$  and adopt the much simpler formula of equal value vouchers described above. This significantly reduced the degree of politically determined differences of funding between Kwidzyn schools, although some differences still occur as is explained below.

In 2003, the monthly sum per student was 235 zloty (PLN) for primary schools and 282 PLN for *gymnasiums* (lower secondary schools). Prior to 2003 there was no differential between primary and secondary schools. The current 20 per cent difference is due to differences in the number of compulsory subjects. The monthly sum is paid to the school 13 times a year (12 months of the year plus the additional yearly bonus in March). In addition, schools receive 20 PLN annually per student for minor repairs.

In the case of three schools which each have less than 500 students, the local government agreed to provide additional support by paying a larger per student amount (45 per cent more in the case of one very small peripheral primary school, 2.5 per cent and 1.2 per cent more for two *gymnasiums*), thus acknowledging the fact that smaller schools are relatively more expensive. This, however, is regarded as only a temporary solution.

Apart from this, schools receive additional funding to cover their heating costs. These expenditures are not included in the voucher mechanism due to large differences between individual schools. Another category of expenditure that is excluded from the basic formula for resource allocation is the cost of implementing integrated learning (*kształcenie integracyjne*). This is the integration of handicapped children, which requires one of the primary schools

to deploy additional resources such as a second teacher in the classroom for some lessons.

Minor capital works and equipment (such as roofs, windows, heating systems and computer laboratories) are funded separately through a long-term plan agreed with the school directors. However, from discussions with the head teachers it is clear that the rather generous value of the voucher in the last few years allowed them to make substantial investments in school equipment (such as multimedia computer projectors) thanks to the per student amount they received.

The city authorities stress that the funding mechanism is merely an element of the local education management system in which school directors are empowered to act as independent managers within their own budgets. If savings are made, school directors have the power to alter the school budget by switching funds across the budgetary lines.

It is important to add that although Kwidzyn has introduced a radically market oriented approach to school funding, it remains committed to close monitoring of the quality of teaching. Indeed, one of the few functions funded outside of the voucher, alongside capital expenditure as discussed above, are annual tests of student achievement undertaken for the city by a research group from Warsaw University.

### ***Swidnik***

When formula funding of schools was first implemented in 1994 in Swidnik, the main aim was to develop explicit and objective rules for the distribution of financial resources to schools which would be acceptable to school principals. Initially, a large number of indicators were used in the formula, including such factors as the number of students and teaching staff, the size and age of school facilities, the number of classrooms, the existence of a

swimming pool, the number of lunches served, heating costs and earning opportunities. This was a very complex and non-transparent system that was not easy to manage. Later on, the number of indicators was gradually reduced until, in 1996, only the number of students remained. It was found that using this as the only indicator did not result in serious changes in the level of financing of individual schools compared to the previous much more complicated method. Until 2003, each school received a fixed amount per student, for example 2929 PLN per year in 2002 regardless of whether it was a primary school or a *gymnasium*. However, this resulted in complaints by several school principals. They argued that *gymnasiums* are more expensive than primary schools due to a higher number of compulsory subject lessons required according to the ordinances of the Ministry of National Education. As a result, the local government introduced an increase in the per student amount for *gymnasiums* relative to primary schools by a weighting of 1.13 for the financial year 2003 (this is similar to the Kwidzyn example, although the relative weight for *gymnasiums* is lower).

This very simple system continues to be maintained and essentially covers all the recurrent expenditure of schools including salaries, utilities and materials. However, in certain cases the municipal government makes some exceptions to this general formula. First of all, there are special expenditures for which schools are provided additional funding outside the formula. These are named 'exceptions' and relate to funds destined for special purposes. In 2002 they included repairs, the salaries of educational advisors (*doradcy metodyczni*), maintenance of a swimming pool in one of the schools and a folk dance group in another. The list of exceptions and the level of additional funding varies from year to year. In 1996, when the current version of the formula was first implemented, only repairs and educational advisors were financed outside the formula. A year later, the swimming pool and busing children to one of the schools were also included (the latter was abandoned in the following year). In 2001, the dance group was added to the list. In 2003, the local government intends to provide additional funding to cover



50 per cent of the maintenance costs of an expensive sports hall located in one of the schools while the level of financing of the swimming pool will also drop to 50 per cent. We can thus view the exceptions as a political instrument used to modify the harsh effects of per student financing. Although the list of exceptions has grown, all of them can be considered legitimate for covering expenditure beyond the regular teaching activities of the schools.

Another instrument for defining and implementing education policy in Swidnik is the capital expenditure programme, also placed outside the regular per student funding mechanism. The results of this programme, however, such as the construction of a new sports hall and swimming pool, each attached to a primary school, put the per student funding system in jeopardy. Indeed, the additional operating costs of these facilities proved to be so high that the city was forced to introduce the exclusions discussed above to help the schools. The current debate as to how these functions should be financed is far from over.

If a school finds itself unable to balance its budget (that is, when for various reasons the level of financing resulting from the number of students is insufficient to cover the school's costs) the local government may provide additional funds. These come either from the budgetary reserve or by asking the more affluent schools to loan them money. The principal is then held accountable for ensuring that the number of teachers employed corresponds to that required for the number of children at the school and is expected to undertake additional measures in order to increase the number of students so as to permanently solve the school's financial problems. The main advice which the city's authorities give schools in financial difficulty is "get more students".

This policy is closely related to the system in Swidnik whereby children and their parents have the right to choose any school they want. The effect is fierce competition among schools for students. Primary school directors

go to kindergartens and try to convince the seven year-olds and their parents that their school is the best. Open days are organized for parents in order to promote the school. The same behaviour occurs when the *gymnasiums* compete for primary school graduates. *Gymnasium* representatives visit all the primary schools, invite their graduates and their parents to visit their premises and see for themselves what the *gymnasium* offers. It appears that Swidnik is the only city in Poland in which such open and fierce competition actually takes place. The city attempts to encourage school directors to be more combative and considers firing those who are not.

Of course, by law each public primary school and each public *gymnasium* in Poland has a well-defined catchment area and all resident children have the right to attend the school in the catchment area. Unlike most areas in Poland, primary schools in Swidnik admit many students from outside their catchment area (in some cases over 60 per cent of enrolment compared to the Polish average of less than 15 per cent).

This very market oriented approach of the city authorities reflects their belief that market forces and competition will improve the quality of teaching. Nevertheless, they have recently begun to take some serious action on their own initiative aimed at addressing the teaching quality in individual schools. For instance, they are using education advisors to improve teaching methods in schools.

## Rio Grande do Sul: Brazil

In Brazil, there is no nation-wide formula for allocating money to individual schools. Nor is there any legal mandate or tradition of distributing public funds directly to schools or do the state and municipal budgeting systems consider individual schools as budgetary units. Nevertheless, this is an approach gaining support together with decentralization, fiscal transparency,

social control and administrative efficiency. The most recent education legislation already points in this direction. The new National Education ruling<sup>2</sup> establishes that the state and municipal governments should provide schools with an increasing degree of financial management autonomy. The National Education Plan (2001-2010)<sup>3</sup> targets “promotion of schools’ financial management autonomy, by means of direct funding to schools according to objective criteria” and provides that “resources allocated directly to schools must cover small maintenance expenses and fulfil the curriculum requirements”.

However, policies already implemented or under discussion deal only with decentralization of money for minor direct expenses at school level. The terms and conditions of service and salaries of teachers, principals and other professional or school support staff (such as public servants) are defined by state or municipal laws. Their salaries are much affected by individual ranking and benefits and are paid directly by the state or local government. In addition, construction of school buildings and major educational facilities are subject to complicated tendering rules that would be beyond the managerial capacity of schools. As a result, whenever the issues of school autonomy and allocation of funds directly to individual schools are raised in Brazil, they are limited to current expenses that do not include regular personnel costs or major capital works. As there are 26 state educational systems as well as over 5,000 municipal educational systems and no general rule concerning decentralization of funds to school level, money allocated to individual schools depends on special and temporary federal projects or is subject to a very wide variety of state or municipal decisions.

2. The *Lei de Diretrizes e Bases da Educação Nacional* (LDB or LDBEN) is Federal Law n. 9394 of 20 December 1996.
3. Federal Law n. 19172 of 9 January 2001. It also requires that all states and municipalities bring forth corresponding State or Municipal Education Plan laws.

In 1995, the Ministry of Education established the first nation-wide programme of allocating money to schools, the *Programa Dinheiro Direto na Escola*. This is funded by the *Salário-Educação* federal quota and targets exclusively fundamental education in public (state and municipal) schools and special education institutions (both public and maintained by NGOs) with over 20 students. These schools are entitled to receive this money once a year for current or capital expenses. To do so, each school must establish a private not-for-profit organization (an 'executive unit' named PTA, school council, school credit union or similar) that is legally able to have a bank account. The school principal and the president (executive officer) of such an organization are responsible for making payments and are held accountable. Annual balance and account statements are presented to the school's public authority and after approval forwarded to the Ministry of Education in Brasília. The value distributed to each school depends on the number of students enrolled, with small variations benefiting the poorest regions. Schools are placed in one of nine categories, none of which provide substantial funds. For example, a school with 400 students in a north-eastern state of Brazil – the poorest region – may receive yearly 3,200 Brazilian reals (R\$) for current expenses and R\$700 for capital investment, i.e. R\$3,900 (circa US\$1,300) or US\$3.25 per student! For most schools this is the only direct funding or, worse, the only means to secure any goods and services besides provision of minimum personnel, equipment and basic materials. It is also important to note that since it was established 8 years ago, the monetary value of this funding has not been upgraded.

Since 1997, each state school in Rio Grande do Sul has received a monthly allowance directly from the state treasury. This funding policy, called 'school financial autonomy money', was initially established under the 1989 State Constitution but was formally objected to by the then state governor (1991-1994). However, during the next election this became an important political issue. Under teachers' union pressure and wide social support the matter was regulated by an appropriate state law in 1995 and came into

effect in 1997. This 1995 state law<sup>4</sup> established formula funding for individual state schools but does not mandate any percentages or value. Consequently, it does not fulfil the minimum 10 per cent of the total education budget (i.e. at least 35 per cent of gross state tax revenue) determined by the State Constitution as necessary for state schools to have proper ‘maintenance’ and to ensure ‘minimum quality standards’.

In conclusion, this is a comprehensive formula funding system encompassing around 3,000 state schools from early years classes to secondary education and professional education schools, including those catering for special, indigenous and open/adult basic education needs. It is also a system based on a complex and large bureaucratic apparatus of monthly cash dispensing and control at either school level and regional education state administration offices or at the central education state secretary and state treasury offices. This is the system examined for the case study.

### ***The funding formula***

Funds distributed by the state education authority of Rio Grande do Sul to the 3,000 state schools which are scattered in the 497 municipalities are not very important in terms of the state education budget as they represent only 3 per cent of all education expenditure.

The formula is composed of two basic quotas, each of which corresponds to a particular sub-formula. Both quotas use only two indicators:

- number of pupils; and
- type of programme or class level (with different weights in the formula).

4. State Law n. 19,576 of 14 November 1995; altered on 10 December 2001 by State Law n. 11,695.

**Maintenance quota** = number of pupils enrolled x type of school or programme.

There are eight types of schools/programmes:

- fundamental schools, including adult education (1.33);
- secondary schools (1.00);
- type I technical or professional education schools (2.00);
- type II technical or professional education schools (5.00);
- normal schools <teachers' education at secondary level – for grades 1-4> (1.75);
- agricultural schools with residential facilities or internships (20.00);
- agricultural schools with boarding services; open (for 'street children');
- special education schools (10.00).

If a school provides different programmes the quota is calculated proportionally, i.e. the number of pupils enrolled in each kind of programme x the specific index.

**Equipment quota** = number of pupils enrolled x type of school or programme.

For this sub-formula there are five types of schools:

- adult education at fundamental education level (1.00);
- fundamental education schools (1.50);
- secondary schools (2.00);
- special education schools (2.50);
- type I technical, professional education and agriculture schools (4.00).

Again, if a school provides several programmes the quota is calculated proportionally, i.e. the number of pupils enrolled in the shift with the larger number of pupils x its specific index. All schools, except very small rural schools, offer classes in three shifts (morning, afternoon and evening) for

different student groups (8 a.m.-12 a.m.; 1 p.m.-5 p.m.; and 7 p.m.-10.30 p.m., usually for fundamental adult education and for regular secondary education).

Each of these quotas (maintenance quota and equipment quota) is applied to the funds available in the annual state budget. Therefore, school A will draw Y per cent from the maintenance budget and Z per cent from the equipment budget and receive two separate quotas.

## Comparison of formulae

The main differences in the formulae of the four case study areas relate to:

- the proportion of school resources which they cover;
- whether the formula is compartmentalized or integrated (i.e. whether or not it is split up into different components for different types of resources); and
- the extent to which the number of pupils is the dominant determinant of the funding allocation.

Victoria and England have the most extensive coverage of resources with almost all of these allocated by the formula. Kwidzyn and Swidnik include staffing, materials costs and utilities but exclude some exceptional costs such as special educational needs which do not fit a per pupil allocation while Rio Grande do Sul is the most limited, delivering only a small proportion of total resources for non-staff expenditures. Nevertheless, this is an improvement on an inflexible centralized system that did not allocate materials and supplies reliably or equitably. All the formulae rely heavily on student numbers. In the two Polish *gminas* and in Rio Grande do Sul it is the only factor together with type of school. The English and Victorian formulae are more complex as they seek to allocate all resources by formula while also taking into account

differences in students' learning needs and in structural factors which affect school costs.

Victoria operates a compartmentalized formula in which allocations for different types of resources are set out, although schools may actually spend quite differently. Rio Grande do Sul allocates two separate quotas whereas English LEAs and the two Polish *gminas* have a single formula for all resources that are allocated by formula. The age weighted pupil unit in English formulae covers the costs of staffing, supplies and services and some proportion of operational costs. A per pupil amount in a non-compartmentalized formula must be derived from prior calculation of the costs of the various types of resource needed to educate a pupil. Whether the formula is compartmentalized or not is of no significance as long as schools are free to allocate their budgets as they choose.





## *Chapter 3*

# Transparency

Formula funding aids transparency, as an objective and consistently applied formula determines what each school is allocated and this is known by the school and can be made publicly available. The financial accounts of the school can also be published so that all can be aware of how the money was accounted for by the school's managers. However, transparency depends not only on the availability of information but also on how well it is accessed and understood by all the school's stakeholders. Differences in these aspects of transparency are shown in the case studies.

### Victoria: Australia

Details of annual school allocations are forwarded to school councils which set school policy and oversee the running of the school including the selection of the principal/head teacher. All schools are required to publish an annual report of learning outcomes, performance indicators and other relevant data. Details of the school budget are always included.

Technically, information on the allocation of resources to each and every school is available to anyone who seeks it. However, the information must be sought from each school individually rather than the system placing the information relating to all schools in the public domain. Individual school allocation details are not considered to be confidential and schools are able to provide this information to the public on their own initiative or in response to a request. In reality, this approach limits the availability of information to a considerable degree.

The Victorian school global budget is simple in outline (core + needs-based + priority programmes) but very complex in the determination of allocations. The 2002 school global budget is described in 107 pages of definitions, descriptions, formulae and data tables. Each major component is the sum of many elements. This complexity has arisen through attempting to address all the historical elements. As indicated earlier, this complexity is now being addressed for 2004.

The current complexity is a severe hindrance to transparency. Information is readily available to all but the time needed to analyze and comprehend it can be excessive. To be fair, an excellent web site has been set up to support those requiring information together with a special 'help desk' telephone support service.

### ***School managers***

Principals, business managers and other school leaders have of necessity developed a full understanding of the Victorian model. It has also been government policy to refine the school global budget from year to year. Principals in particular have been at the forefront of this work through the School Global Budget Stakeholders Consultative Group. This refinement has not been assisted by the historical emphasis of the model or by the lack of an educational rationale for formulae. Both of these issues are being addressed in the lead up to 2004.

### ***Teachers***

The complexity of the school global budget has not facilitated its comprehension by teachers at the classroom level. Victorian schools are very strong on establishing outcome targets and monitoring specific targets and indicators very closely. However, the complexity of the school global budget has not assisted teachers to closely link learning outcome targets and the use of school resources.

### ***Parents***

Information relating to learning outcome targets, school budget inputs and outputs and target/indicator monitoring is readily available to parents through annual and triennial evaluation and reporting processes. The complexity of calculating the school global budget poses considerable difficulty for parents attempting to fully comprehend the information available. The advent in 2004 of a simpler, more straightforward school allocation is greatly assisting parental understanding and overall transparency. Until now, parents have understood the totals but few fully understood the derivation.

### ***School councils***

School councils in Victoria have a critical role in setting outcome targets, major policy, future changes, resource use and accountability. This role includes approval of the annual school budget. Although schools enjoy a very high degree of flexibility in the use of resources allocated through the school global budget, the complexity of this latter does not assist the councils in relating the allocation to the school to its use in the pursuit of outcomes within the school. Complexity and related lack of transparency also do not assist councils in recommending future changes to allocative formulae in the pursuit of greater equity of student learning outcomes.

The establishment of school councils as a key element of devolution requires substantial initial training programmes, including for all council members. Once operational, school councils have a critical role in the life of schools particularly in terms of identifying learning outcome targets, monitoring performance and aligning resource allocations to learning needs and priorities. Inevitably, these processes are very empowering of local communities with considerable increases in information gained, skills acquired and, most importantly, confidence developed in solving problems and accepting responsibility for their own actions (this has been the experience not only in Victoria and other Australian states but also in other similar countries. Of

great interest has been the similar experience observed in school communities participating in devolved system trials in Indonesia and Thailand in recent years).

### ***Members of the local community***

The comments made in relation to parents equally apply to members of the community. Comprehensive information is readily available. It is a matter of time and persistence to gain full understanding.

There can be little doubt that empowered communities in education lead to reductions in corruption. It has been observed in a wide variety of instances that people (parents, teachers and the community) closely linked to learners in schools are very committed to ensuring that the greatest amount of resources possible are allocated directly to student learning in the classrooms. They can see first-hand the pitfalls for student learning emanating from resource shortfalls. With this accountability for student learning outcomes, they become strongly focused on maximizing possible resources and ensuring the most effective and efficient use of these resources.

## **England: UK**

The LEA is required to inform each school in January of its provisional budget allocation for the forthcoming April to March financial year. Details of the budget allocations for all schools are published in a section 52 statement that fully accounts for all spending by the LEA on its own functions and on schools. The statement specifies factors included in the formula. Its format is nationally prescribed so that it is possible to compare how each LEA has used the money made available. The information on funding is fully available to anyone who wishes to have access to it. The format is dauntingly complex for the general public. Some LEAs undertake a process of public information

on the budget by holding budget training sessions for governors and head teachers.

The Council's full budget is published in draft form for consultation and typically the public is invited to comment on the implications of the Council's tax-raising decisions. An LEA might, for example, say that in order to fund schools at the same level as the previous year, taxes will need to be increased by  $x$  per cent. It is not uncommon for schools, through their head teachers and governors, to lobby for significant tax rises in order to protect funding for schools. The intensity of this lobbying varies according to the LEA's position in the league table of expenditure.

Every governing body must be informed of the sums available to the school and most have a finance sub-committee which works with the head teacher to produce a detailed budget for the school. This budget is submitted to the LEA by 15 April each year, technically for approval although in practice the LEA rarely intervenes unless one of its financial advisers notices some error.

The governors are required to include a financial statement in their annual report to parents and may be questioned on their financial management at the statutory annual meeting for parents. These measures provide safeguards for public awareness of the budget process in general terms. More detailed information on the transactions, such as for example purchases made by the school or salaries paid is available to the governing body.

### ***School managers***

Until 1990 school managers had very little idea of financial management. The last decade has seen a rise in awareness and understanding. New head teachers are required to undertake training to be awarded the National Professional Qualification for Headship (NPQH), which includes financial management skills. Most schools now have a 'leadership team' comprising

the head teacher, deputy and assistant head teachers and it is usual for at least two of the team to develop a special expertise in financial management. Through consultative procedures and the new Schools Forum, head teachers have the right to demand greater clarity of explanation from the LEA if there are presentational issues.

### ***Teachers***

Most classroom teachers are too occupied with their day-to-day classroom performance, circumscribed as it currently is by challenging targets, to worry much about the minutiae of financial matters. All governing bodies must have teacher representatives who will understand the details and can report back to the rest of the staff if there are any matters of concern.

Some schools, usually the larger secondary schools, have introduced an element of 'LMS within the school' by giving managers at faculty level a budget with discretion for virement, such as allowing a head of faculty to decide how much to spend on books, resources, responsibility allowances, free periods and support staff. This approach has the merit of raising awareness of the links between funding and effectiveness, increases the sense of 'ownership' and also prepares middle managers for future greater responsibilities as members of a leadership team.

The vast majority of teachers remain uninterested in the technical details of education finance provided they have enough books with which to teach, support staff to carry out relevant functions and can have as few pupils as possible in their classes.

### ***Parents***

Very few parents other than those who are elected to be members of governing bodies have a technical grasp of the details of education finance. A few parents would be interested to read the summaries presented in the

governors' annual report to parents. Most parents do, however, have a general awareness of the need to have well-resourced schools and many are motivated to raise supplementary funds for their children's schools through Parent Teacher Association (PTA) activities.

Millions of pounds are raised annually by PTAs and these funds are traditionally used to supply 'extras', although the definition of what is extra and what is essential can be debated. Parents typically raise funds for extra books, computers, minibuses and sporting and cultural activities. PTA fund-raising is generally more effective in the primary sector than in secondary schools, largely because of the closer identification between parents and the smaller school.

### ***School council (i.e. governing body)***

Most members of governing bodies in English schools would be able to understand the information presented on school budgets. There are training sessions and a range of published materials to support them in understanding school finance. In practice, usually only a few members of the governing body take a close interest in the technical details and they usually serve on the finance or resources committee. Schools often try to recruit governors with a background in accountancy or business to help them in this aspect of their work.

### ***Members of the local community***

Very few members of the local community would be in a position to understand the details of the education budget. They may be aware of the headline issues – to maintain our schools at current levels, we need this level of council tax – but the vast majority would not become involved. For any who are interested, the information is readily available.



## Poland

The only legal requirement with respect to disseminating information on school financial allocations is that local governments publish their total education budgets but not necessarily individual school budgets. However, local governments (or the school director) would usually reveal this information to interested parties. If this information is released, the usual budgetary terminology is used which means that many technical terms and references are difficult to understand. There are no requirements to publish the budgets broken down into clear functional categories.

Of the two case studies considered here, Kwidzyn does publish the individual budgets of its schools on its Internet site although no public debate ensues and in fact the officers responsible for school finance in Kwidzyn feel rather isolated. Swidnik does not publish individual school budgets.

The school budget is readily available to teachers and interested parents. However, they very rarely read it or discuss it. In most cases the school director presents the budget to the teacher team but receives no response. In general, discussion on school budgets in a Polish *gmina* is limited to a few people: the education department of the *gmina* (sometimes the deputy mayor), school directors and *gmina* accountants. Even in places that have functioning school boards such as Kwidzyn, the boards rarely discuss the budget as such and concentrate rather on current school issues. The situation is not facilitated by the rather cumbersome and non-transparent categories used in budget allocations. For many people, even the well educated such as teachers, school budgets are not easily understood.

It is especially interesting and worrying to note that in Kwidzyn and Swidnik the very simple and transparent financing mechanism has not led to wider understanding of school budgets or to more stakeholder involvement in their determination. The local press does not publish articles on the vouchers

and specific issues, such as their monetary value or the list of exceptions, are not discussed. We see therefore an unusual example of very transparent financial formulae not leading to local transparency of school finance. Both Kwidzyn and Swidnik resemble other Polish municipalities in which school budgets are discussed only between city officials and school directors.

### ***School managers***

School directors must prepare and execute the budget, so they usually receive some on-the-job training in Polish budgetary rules. However, they always require the support of school accountants as the budgets are written in technical language.

### ***Teachers***

Most teachers are not interested in the school budget and in any case are not equipped to understand the budgetary data.

### ***Parents***

Parents can easily understand the budgets only if they are themselves accountants or have some prior experience in budgeting.

### ***School council***

School council members (in Poland this refers to representatives of parents and teachers and sometimes students in an advisory role) can only easily understand the budget if they are themselves accountants or have some prior experience in budgeting.

### ***Members of the local community***

Same as above.

## Rio Grande do Sul: Brazil

The formula of both the maintenance budget and the equipment budget – and also the annual monetary value corresponding to each state school – are published in the *Diário oficial do Estado do Rio Grande do Sul*, the official acts journal. It is available in major government offices and sold in major towns. There is also an Internet address where the publication may be accessed but currently the 2001 paper, where the last figures were published, is not available. Furthermore, many schools do not have an Internet connection.

As the values are not annually updated, there was a first publication in 1997 and another in 2001. A letter with the information corresponding to each school is also sent out by the state regional office. It is expected that the school principal will provide this information to the school board, teachers and other school personnel. Most schools post this information on wallboards; Some inform parents about values and uses. The availability of this information to the school and the community is very dependent on the school principal.

The school board is required to approve both the quarterly allocation plans (quarterly budgets) and the quarterly financial statements.

### *School managers*

Of course, school principals know the value of the money their school receives. However we have collected evidence that, in general, they do not know how this value is generated. They do not understand the formula and what determines differences between the values received by different schools.

In their evaluation and in the opinion of supervising personnel (at regional and central offices), many school principals have some difficulty both in making adequate decisions on resource use and in adequately preparing financial statements.

### ***Teachers***

Very few teachers really understand how the formula operates. The vast majority only know that the school receives some money annually and that there are some restrictions on its use. It should be noted that education financing policies and school financial administration are not a required subject in both pre-service and continuing teacher education.

### ***Parents***

Very few parents participate in school administration. Usually, there are one or two parents' representatives on the school board and probably these representatives are the only parents who are aware of the sum received by the school and its uses. It is almost impossible to find a parent who knows that there is a formula and what criteria must be applied in spending the money. As most parents have very little schooling, financial terms and processes are not part of their vocabulary and common knowledge. It seems plausible that the 'technical' jargon is another strategy for low transparency and parent control over school decisions.

### ***School council***

The school council relies on the principal to provide it with information on the budget allocation. In general, few school council members are able to learn about the school financial values and processes due to their limited education or lack of time to dedicate to these matters. As a result, the principal and staff have 'delegated' extra power or responsibility. Furthermore, few schools have put in place participative processes for determining school priorities.

### ***Members of the local community***

It is almost impossible to find someone from the local community who understands the formula or has an idea about the value received by the school.

## Comparison of case studies with respect to transparency

The countries vary in the extent to which information on school budget allocations and school expenditure from those allocations are required by law to be published. England has the most extensive legal requirements on this followed by Brazil and Victoria. In all countries, information is available to those who wish to have it although interest is not widespread. These common experiences indicate that by its very nature formula funding and financial management at school level make resource allocation information available.

All four countries report very similar degrees of differential interest and understanding on the part of school managers, teachers, parents, the school council and the community. School managers are the most well informed and interested followed by school councils in England and Victoria. Teachers are universally reported to be too busy and to have insufficient technical knowledge to be interested unless given a cost centre budget within the school to manage. Both English and Australian *rapporteurs* consider that the complexity of their funding formulae reduces transparency by hindering understanding by school stakeholders. However, similar findings are reported for Poland and Brazil where the formulae are simpler. In Poland, the accounting conventions are regarded as particularly difficult for non-accountants to understand.

These findings indicate the importance of legal requirements for publication of financial information and training in financial management for school personnel and school members if formula funding is to gain its full potential for enhanced transparency. The trade-off between the more complex

formulae required for equitable allocations between schools and simpler formula for greater understanding and hence greater transparency is not easily resolved. As the Polish example illustrates, simple per pupil formulae require differential school funding outside the formula to tackle the school based cost differentials, which does not aid transparency. On the other hand, no such funding outside the formula is needed in Victoria however the formula itself is very difficult for most education stakeholders to understand, so that transparency is also not fully achieved.

The Polish example also shows that the relationship between formula funding of schools and transparency is quite complex. Indeed, there are two sides to transparency: public availability of information and public scrutiny of school finances as well as the simplicity and transparency of the financing mechanisms themselves. The introduction of formula funding alone is not sufficient to ensure transparency and the involvement of local education stakeholders in the budgeting process. Two Polish cities that did introduce a radically simple voucher system have failed as yet fully to involve teachers and parents. One of them does not even routinely publish school budgets! While they proudly, and justly so, present their innovative budgeting procedures at the national level, for instance to the Association of Polish Cities, their message does not get through to their electorate.

A proper understanding of this can perhaps be gauged from the English experience, where LEAs have been managing schools since 1902. Over such a long period they have accumulated significant experience in good governance and local democratic procedures. This helped them to prepare for the introduction of formula funding 14 years ago. Public access to information coupled with public scrutiny of local government finances are embedded features of local public activities in UK but still need to be learned and practised in Poland.



## *Chapter 4*

### Data collection and verification

Allocation by formula requires school level data on all the indicators that are included in the formula. It is important to avoid creating perverse incentives to schools that encourage them to be inefficient. For example, funding utility costs according to past expenditure provides no incentives for more efficient use of energy, water and telephones. Rather, the formula should include variables that predict the amount that the school must spend but cannot itself easily affect – such as size and condition of the building or climatic conditions. Similarly, when indicators of students' learning needs are used in a formula these should not be from tests administered by the school itself as this gives principals an incentive to encourage low scores. Some data for formulae must be collected from the school, in particular the number and ages of the pupils and very often socio-economic background data such as poverty indicators, ethnicity and language. If such variables trigger extra funding then principals may be tempted to falsify statistical returns.

To prevent this, data must be externally checked for accuracy. Alternatively, a socio-economic index for funding purposes that is beyond the control of the school can be used if census data on the socio-economic status of the local population is collected. If the postcodes of pupils' home addresses are also available and can be linked to neighbourhood socio-economic census data then a school social deprivation index can be created. Such an index is used in Australia (Ross *et al.*, 1988). However, funding formulae are not the only resource allocation methods vulnerable to data distortion at school level. When teachers are allocated by numbers of classes, which in turn relate to the number of students, schools have an incentive to inflate the actual number of classes or misreport their number.



Each of the country case studies contributed information on how data used for measuring indicators in the funding formula were collected and verified.

## Victoria: Australia

### *Data collection*

Enrolment data are critical in resource allocation formulae in Victoria. Data are collected four times a year. Each census is comprehensive in relation to both the number and nature of students. First these data are collected to predict the indicative school global budget, second to verify data at the commencement of the school year (February), third to verify data mid-year (July) and fourth at some point during the school year. On the first three occasions data collection is the responsibility of the school while on the fourth occasion data collection is the responsibility of an external authority group. These data enable the indicators used to calculate resource allocations to be updated twice each year. The mid-year census can require recalculation of the school allocations for the latter half of the school year if changes are deemed to be 'significant'. For primary schools, a significant change is 10 students or 10 per cent (whichever is the higher) and for secondary colleges it is 40 students or 10 per cent (again whichever is the higher).

### *Misreporting of data*

Data used to generate the indicative school global budget prior to the commencement of the school year are provided by schools based on current and predicted enrolments and associated indicators. As this process involves prediction by the school, it is possible for misreporting to occur. However data must be confirmed at the beginning and middle of the school year and this enables adjustments to be made in deriving the confirmed budget. Again,

there is an opportunity for the school-supplied data to be misreported. Any misreporting is easily identified through the external audit process that applies to all schools annually and can lead to a revised budget.

### ***Data verification***

The school enrolment censuses at early and mid-year provide two opportunities to verify data. These opportunities are school-controlled. An additional opportunity is provided through the enrolment census audit process. This opportunity is externally controlled and acts as a strong check on school-provided data. The external audit of data for every school on an annual basis is an essential element of school self-management in Victoria. Other Australian education jurisdictions mostly rely on indicative and confirmed school budgets with intervention through external audits only when circumstances suggest that there may be a need for these. In Victoria, discrepancies identified through the external audit result in adjustment to the school global budget, the effects of which must be managed by the school. This approach provides schools with a strong incentive to maintain accuracy of data.

## England: UK

### ***Data collection***

A detailed annual census of all schools in England is carried out according to a tightly prescribed set of criteria on the third Thursday of January. All schools have IT management systems that enable them to complete the return in a standard format and submit it electronically to the DfES. The census accounts for every individual pupil by name, hence its title – the Pupil Level Annual School Census (PLASC). The census provides data on the number and ages of pupils at each school as well as on their gender, eligibility for free school meals, ethnicity, special educational needs, mother tongue and home

postcode. These data are combined with pupil level national test and examination results and data on the organizational and governance characteristics of the school to produce a very comprehensive data set known as the National Pupil Database. Numbers of students on the roll are always used in funding formula as in most cases is eligibility for free school meals. The other variables are also used by some LEAs.

The national census is conducted once a year but most LEAs also have a September count of pupils to guide them in planning their demographic forecasts for the subsequent year.

### ***Misreporting of data***

The Free School Meals (FSM) return is problematic: The DfES specifies that pupils should only be recorded if they have claimed free school meals and their eligibility has been confirmed. This is potentially inaccurate as not all people who are eligible for FSM claim them and in some ethnic groups eating collectively at school is discouraged and eligible pupils do not take up their FSM entitlement. Some parents also falsely claim free school meals and schools cannot verify this easily.

Head teachers have been known to try to dissuade parents from removing their children from the school roll in January.

In the past there was a loophole in relation to pupils who had been permanently excluded from school. Head teachers used to keep pupils heading for exclusion on the roll until Census day and then expel them, thereby receiving a full year's worth of funding. Revised regulations now remove funding for an excluded pupil from the day of his/her exclusion, so there is nothing to be gained by this practice.

Although it is possible for schools to invent 'ghost' pupils for PLASC day, this might be picked up when the LEA auditors come round to check the

data, which they do on a sampling basis. Auditors compare the class registers with the PLASC return and can do spot checks on classes to compare pupils present with the register.

### ***Data verification***

The accuracy of the data is verified by the LEA auditors, by inspectors visiting the school from the Office for Standards in Education (OfSTED) and by occasional verification visits from the Audit Commission.

## **Poland**

### ***Data collection***

Data on the number of pupils, including those with special education needs, are collected annually by the Main Statistical Office (GUS) using statistical forms filled in by schools. Data are collected on student numbers broken down by categories such as age, grade and gender however no data are collected on individual students. In most cases a change in the national funding formula requires appropriate changes in the GUS forms. The forms are quite extensive and cumbersome and are different for different types of school. Some progress, albeit slow, has been made towards standardizing the forms and collecting data *via* the Internet.

Swidnik relies on declarations submitted by school directors but can verify them either directly in the schools or by comparison with the GUS statistical forms. Kwidzyn uses GUS statistical forms.

A special case of data collection concerns non-public schools. While public schools have usually been established many years ago and are used to submitting their GUS forms regularly, many of the non-public schools, created in the chaotic days of the early 1990s, did not realize that they are also obliged

to submit these forms. Many of them began to submit their forms only when the municipalities made their funding conditional on official data on student numbers.

### ***Misreporting of data***

The school director signs the GUS form testifying to its accuracy and can be prosecuted if the data are incorrect, however there is no known precedent for this. Indeed, when the GUS forms became the source of data for the determination of the national education subvention it was discovered that many schools had not fully complied with their reporting requirements, leading to lower education subventions than local authorities were entitled to.

Now, however, local governments require schools to give them copies of GUS reports so the pressure on schools to report accurately has increased. In principle, using data for monitoring and funding purposes is against the Law on Public Statistics, which requires that the only use of statistical data be for statistical (aggregation) purposes. The Ministry of National Education (MEN) receives student numbers from GUS aggregated to *gmina* and *powiat* level.

In December, when MEN determines the allocation of education subvention to *gminas* and *powiats*, they check the data on which their subventions are based and in many cases submit their own 'corrected' GUS forms. This puts the Ministry in a somewhat strange situation as it must decide which data are more trustworthy: those received directly from GUS or those submitted by the local governments. Some *ad hoc* harmonization procedures are used.

A number of irregularities in reporting on student numbers were discovered in the few reports devoted to education by the National Chamber of Control, NIK (NIK, 1999, 2002, 2003). Most problematic was the reporting of students not attending any schools (thus violating constitutionally obligatory

education) and of students bused to schools, with over 50 per cent of controlled schools misreporting some of these data. The schools both under-reported and over-reported student numbers, which led in a number of cases to *gminas* receiving an excessive education grant from the central government (NIK, 2003). For non-public schools, the NIK report in 1999 found no significant misreporting of student numbers. However a number of cases of over-reported or under-reported student numbers were discovered in 2002. Interestingly, NIK reports do not indicate any systematic tendency of schools to over-report student numbers but rather generally inadequate standards of reporting. Indeed, it turned out that some schools, even some well-known Warsaw secondary schools, had not submitted their GUS forms for years!

### ***Data verification***

There is no general mechanism used by GUS to verify the data so there is significant scope for misrepresentation. GUS has no staff or policy for on-site verification of data submitted by all the diverse institutions, including schools, that are legally obliged to do so. Rather, it relies on the legal obligation and implied punitive consequences associated with the law on public statistics. Statistical verification procedures alone are applied. These identify discrepancies from one year to the next and demand clarification from the supplier of the data of such discrepancies. In particular, GUS has serious problems maintaining the current database of existing non-public and public schools.

The December discussions noted above between MEN and local governments concerning student numbers have proved to be an effective mechanism for data verification, including verification of the list of schools.

There exists an additional *ad hoc* mechanism for verification of data collection by the National Chamber of Control (NIK). NIK can conduct enquiries into any aspect of school governance and finance on its own initiative or as directed by the Polish Parliament. Three recent reports dealt with issues

of financial support to non-public schools and of compliance with the rules governing compulsory schooling. These reports revealed some misreporting of data (see above).

## Rio Grande do Sul: Brazil

### *Data collection*

Brazil has a national educational statistical system which is administered by the National Institute of Educational Research (INEP), an institution dependent on the Ministry of Education. INEP plans and co-ordinates the overall data collection processes, liaising with state and municipal authorities. The detailed annual census of all schools is carried out accordingly to a prescribed set of criteria on a set date at the end of the first month (March) of classes at the beginning of the school year. Each school is required to fill in an extensive form on students, teachers, other personnel and school facilities. All data are published widely but not at the school level.

Previous research has indicated that the Education census and the Demographic census are seldom used by state and municipal authorities to plan school demand and resources allocation.

### *Misreporting of data*

Some cases of misreporting the number of pupils enrolled have occurred since formula funding was introduced. A number of these cases became headline news in local and national newspapers. A few cases required administrative action or special investigation by competent legislative houses (state or municipal). However, most detected frauds were apparently made to further municipal or state authority interests. We were not able to identify any intentional misreporting by Rio Grande do Sul state schools.

### ***Data verification***

The national educational census has several quality control procedures that include comparison both between different sets of data and with data from previous years. Whenever any indication of misreporting is found, the school is called upon to review or justify the data.

Another level of quality control for student enrolment data should be the FUNDEF follow-up and the Control State Council (for distribution of funds between the state and municipal educational systems). However, recent evaluation research on this important funding programme has collected evidence that these functions are not properly undertaken as FUNDEF's state council did not follow up any possible data collection misreporting at either school, regional or central level (Peroni, Luce *et al.* 2002).

## **Comparison of data collection and verification practices**

In England, Poland and Brazil the funding formulae use data collected from schools by the annual national census. In Victoria data are collected at state level from schools four times a year. In all countries data verification is carried out by investigating discrepancies in the figures reported between one year and the next. Victoria has the most rigorous system of external checks of data. As a small authority Swidnik can check schools' data, as can LEAs in England. Deliberate misreporting of data is not thought to be widespread although a few incidents do occur. In Brazil misreporting is at state and municipal level rather than at school level, where the financial gain would be very small.

If funding formulae are not to be corrupted, strong data verification procedures and sanctions for deliberate misreporting must be in place.





## *Chapter 5*

### Financial control at school level

Financial management at school level increases opportunities for corruption in the form of fraudulent use of school money for private gain and graft or bribery in the awarding of contracts by the school to suppliers. To prevent this it is essential that schools operate within a comprehensive set of financial regulations and that the school's financial records and procedures be subject to regular external scrutiny. The financial regulations should include the following:

- financial recording and reporting;
- separation of ordering, payment for and receipt of goods;
- where schools have bank accounts, the requirement for more than one signature;
- monitoring of handling of cash within the school;
- monitoring of credit card payments;
- maintenance of equipment inventories;
- accurate records of equipment disposed of or written off;
- declaration of financial interests; and
- quotations from several suppliers and closed competitive tenders.

Requiring schools to have all their financial transactions administered through the public sector treasury system and not *via* bank accounts reduces the opportunities for school level personnel to embezzle money. Some countries with devolved school financial management such as Sweden, Finland and Iceland do not permit schools to have bank accounts. Schools' finances are transacted through the treasury system where school budgets are recorded

as units of account. A school sends a signed request to the treasury to pay its invoices from its formula generated income and any school generated funds that are deposited into its account at the treasury. The treasury system must operate accurately, quickly and flexibly if it is to provide efficient banking services to schools. This appears to be the case in Scandinavian countries. However, there is evidence that where treasury systems have been introduced in transition countries (e.g. Russia, Bosnia and Hungary) and are used to manage schools' transactions, these conditions for efficient treasury operations have not been met. Hence, financial controls instituted in order to prevent corruption can reduce efficiency when schools are denied flexibility in choosing how to use resources or are deterred from raising their own revenue by fear of not being able to withdraw it from the treasury.

In this section we consider several aspects of financial control at school level:

- financial regulations and procedures;
- budget scrutiny;
- audit; and
- technical support for school managers.

## Financial regulations

### *Victoria*

Within the Department of Education and Training there is a group responsible for the financial regulation of schools: the Financial Management Unit, Standards and Accountability Division. They produce policy and guidelines for the financial regulation of schools.

The publication *School level chart of accounts* (Department of Education and Training, 2002) specifies the conduct of financial record keeping

and reporting. In addition there are specifications provided on a range of financial issues such as allowable investments, leasing of equipment, etc. The publication *Internal control for schools* (Department of Education and Training, 2002) identifies the internal control measures required for the following areas: bank accounts and investments; chart of accounts; banking; purchases and expenses; assets and stores; cash payments; commitment control; accounting records; petty cash; budgeting and trading operations; camps and excursions; local level payroll; and computer information systems.

*The chart of accounts* also identifies the requirements for the compulsory use of the government supplied management information system Computerised Administrative Systems Environment for Schools (CASES). The CASES chart of accounts is structured with five levels for the entry and recording of transactions:

- Level 1 – Bank accounts
- Level 2 – Receipts
- Level 3 – Expenditure
- Level 4 – Programmes
- Level 5 – Sub-programmes

A school financial calendar is specified and reproduced in *Appendix 5*.

An extensive management information system (MIS) is provided by the Department of Education and Training which includes systems for financial and student records (CASES/CASES 21), physical assets (PRMS: Physical Resource Management System) and human resources (HRMS: Human Resource Management System) administration as well as the production of management reports (CMIS: CASES Management Information System). The MIS is also linked to the central MIS. The MIS has been described in some detail in Gurr (1999).

## ***England***

The LEA still has the statutory responsibility under section 151 of the 1972 Local Government Act to account for the proper administration of the financial affairs of schools. Each LEA is responsible for producing its own 'Scheme for financial management of schools'. The law specifies certain requirements that must be built into any Scheme. National guidance is provided by the Audit Commission and this is now regularly updated on the Internet.

Under the Schools Standards and Framework Act 1998, all schools must have a set of financial regulations, with mandatory minimum content. The regulations detail the responsibilities of head teachers and governing bodies for the management of the school's finances and assets. They cover:

- financial systems and records;
- banking and cash management;
- financial control of capital and revenue;
- private funds and trading accounts;
- purchasing, payments and debt management;
- audit;
- personnel expenses and payroll;
- income;
- cash security; and
- stocks, stores and assets.

Schools are now required to have bank accounts into which the LEA makes regular payment of revenue for all expenditures including salaries. When local management of schools was first introduced, schools' transactions were largely managed via the LEA treasury and bank accounts were reserved for schools' own revenues. Schools experienced some inaccuracies in budget coding and slowness in the payment of invoices and could not obtain discounts for fast payment of bills.

An important innovation in 2002 was the introduction by central government of consistent financial reporting (CFR) which requires all schools to use the same budget code structure (i.e. define their expenditure and revenue using the same classification system). This enables comparisons of schools' expenditure patterns to be made and the Audit Commission website enables schools to benchmark their expenditure against that of similar schools.

### ***Poland***

Execution of school budgets is governed by standard budgetary legal requirements. In most cases all expenditures are entered into accounting books using accounting documents such as invoices. Accounting can take place at the centralized institution maintained by the *gmina* or at the school itself. The mandatory budgetary reports to the Ministry of Finance treat all schools in a given jurisdiction as one entity, irrespective of how accounting is organized within the *gmina*.

There are two types of accounting arrangements. In one, typical of most Polish *gminas*, the *gmina* operates a central accounting unit often called ZEAS (*Zespół Ekonomiczno-Administracyjny Szkół* – school economic and administration unit), which undertakes the accounting for all schools. Sometimes, as in Kwidzyn, this is centralized even further and accounting for all city administration and institutions is done by one office, called the MZB (city accounting office), in Kwidzyn. The use of financial resources by schools is recorded centrally and the MZB prepares financial reports for school principals. It is not obligatory for a school's financial matters to be taken care of by the MZB. However, in practice every school principal in Kwidzyn chooses to do so as it is cheaper than financial management at school level (we were unable to discover whether the principal's freedom not to use the MZB's services is only theoretical or is an actual possibility that would be permitted, but we suspect the former).

The other type is so-called ‘decentralized accounting’ in which the school employs its own accountant. Discussions with local government officials and school directors show that the two systems lead to different types of problems. In centralized accounting the school director has only minimal control of what in fact goes on in his school accounts and has limited access to the data. For instance, a number of school directors told us that they had found some odd, unexpected accounting entries probably related to other schools in the jurisdiction and had to investigate this. In practice, such entries may be due to another school being temporarily out of funds and ‘taking a loan’ from the given school (the school directors refused to tell us what actually happened and how they dealt with the situation). More serious cases of abuse cannot be excluded either.

On the other hand, with decentralized accounting the city may lose control over the money flows. In one small town, the director of the local education department told us of some very suspect accounting in one of the schools. When he tried to investigate this he was stopped by the city mayor, a close relative of the school director (the education department director refused to tell us what actually happened and how he dealt with the situation). It thus seems that some deeper problems are associated with the accounting practices of the schools and the *gminas*.

However their precise nature and scope is not clear. Elucidation of these issues requires a more subtle and sustained analysis.

### ***Rio Grande do Sul***

A national budgetary law provides rules for federal, state and municipal financial management including the definition of each heading. State financial regulations on ‘school autonomy’ resources are subject to national laws. These regulations include:

- separation of duties (e.g. the school principal is liable for the bank account and the financial statement; the school council president and members must approve the budget allocation plan and the financial statement; and the Education Regional Office has additional duties);
- strict limits on expenditure authorization set out in terms of monetary value (above which additional procedures are required) and of headings; for all expenses, three quotations are required for purchases;
- emergencies, for which there is a justification form as well as a very strict limit on the value to be justified.

The resources allocated to each school are deposited in a specific bank account at the Rio Grande do Sul State Bank under the principal's name. This account may receive additional deposits from either funds directly collected by the school (revenue from community events, donations, cafeteria rental, copies sold, etc.) or from other state government funds provided to the school, usually for a specific reason such as building or equipment repairs. This procedure and the lack of experience of many principals in dealing with accounting and banking procedures and instruments is a potential source of errors and problems. Many principals report that this is the most difficult and disliked task of principalship.

It may be noted that there is a national budgetary law that provides rules for federal, state and municipal financial management such as bidding values and procedures and the definition of each heading.

## Budget scrutiny at school level

Within the framework of financial regulations, the exercise of budget scrutiny at school level is important for minimizing opportunities for corruption. All financial transactions must be recorded within the budget accounts and regular financial statements produced which are monitored by the head



teacher and school finance officer as well as by other persons such as members of the school council. This has an important role to play in monitoring the budget and holding the head teacher to account.

### ***Victoria***

Victoria has a standard format for reporting receipts and expenditure that is generated through a Department of Education supplied MIS. For example, in the triennial school self-assessment (an independent three-yearly review of school performance) schools are required to publish a combined comparative receipts and payments report which includes summary data for the last three years.

Schools provide their school council with detailed monthly reports of expenditure and income. School councillors have a similar status to that of company directors and are expected to peruse the financial records, question any areas of uncertainty and act in a fiscally responsible manner. Annual financial statements are included in the school annual report that is sent to the Department of Education and Training (a publicly available document).

The financial reporting requirements are not negotiable and all schools are expected to fully co-operate with the annual financial audit and supply the required information in the school annual report and triennial school self-assessment. Schools can run deficit budgets as long as there are sufficient school reserves to cover this. Schools are not allowed to have an overall debt. If a school does get into debt, the annual report and financial audits will uncover this and the administration of the school will be supported by the Department of Education and Training until the deficit is addressed.

### ***England***

Schools record their financial transactions in double entry accounting systems, using dedicated computer software. Annually at budget setting time,

the head teacher or finance secretary publishes the school's budget, usually showing the previous year's expenditure, current year's budget, current year's over or under-spending and the proposed budget for the following year. This information is received by the governing body's finance committee who discuss the head teacher's proposed budget plan and agree on a final plan which must be approved by the governing body. The governors publish an annual financial statement for the school in their annual report to parents. LEAs also employ financial advisers to whom a copy of budget statements must be forwarded but they have limited powers of intervention. If they have misgivings about budget proposals or management information, they may draw the attention of governors to these concerns. Many schools, particularly primary schools, still rely heavily on LEA financial advisers for support and guidance. Under extreme circumstances, the LEA can withdraw budget delegation from the governing body.

The head teacher is expected to make regular financial reports to the governing body or its finance committee, who are responsible for managing the school's finances. The financial regulations specify the extent to which expenditure on any given heading can vary from the original proposal. Normal practice is for the head teacher to have discretion up to a certain amount then to have to seek the approval of the chair of the governors' finance committee for higher sums and that of the governors' finance committee for any major change from the budget plan. The head is required to report on any changes to the next finance committee meeting. An Audit Commission (2000:17) study found that most schools monitor their budgets successfully but some lacked the expertise to extract clear financial reports from their computer systems, leading to governors being improperly informed of the school's financial situation. The study also found that basic controls for procedures such as purchasing, income and banking were sound in most schools but that 7-15 per cent of schools had weak controls with respect to asset registers, corporate governance, separation of duties and voluntary funds.

The school's financial health is also part of the 'Framework for the inspection of schools' and at the end of the inspection the inspectors will pass judgement on the school's 'value for money'. Given that the inspectors' first priority is the curriculum and standards of teaching and learning and given their own limited knowledge of school finance, the judgments made on 'value for money' are not widely regarded by schools as being of great significance.

In principle, schools are not allowed to plan for a deficit on current revenue budgets. Some LEAs permit schools to plan a deficit if this has been agreed in advance and a planned route to solvency is agreed. In 2000/2001, 25 per cent of secondary schools were in deficit.

### ***Poland***

Schools must conform to the strict budgetary rules valid for all public institutions in Poland. These include the level of detail of information to be recorded in the books, the dates by which this must be done and the breakdown of expenditure items by category. These rules also govern the separation of duties, limits of expenditures, expenditure thresholds and declarations of financial interest.

The school's financial statement on how the budget has been spent is generally reported to the local government. The combined expenditures of the schools are then reported higher up by the jurisdiction (through regional accounting offices to the Ministry of Finance).

We must be clear, however, on how accounting information flows in the system. In centralized accounting where schools use the treasury system and rely on the local authority's accountants (in ZEAS or MZB type institutions), information flows down to the school. Each school is assigned an accountant whom the principal may consult at any time, mostly on current matters concerning salaries.

An example of how a centralized system functions is provided by Kwidzyn. The head accountant at MZB offers technical assistance to all school principals in preparing the school's annual budget. She is also responsible for providing detailed information on schools' financial situation to local government officials. Based on the data they collect, MZB prepares comparative analyses of the level of per student expenditures in different schools, which are then given to principals in order to help them manage their schools more effectively, for example by cutting the costs of building maintenance. Consequently, in the centralized system the school may be the recipient of the financial records rather than generate them. School directors complain that they do not receive sufficient budgetary information about their own schools in time and in sufficient detail (meaning in sufficiently meaningful expenditure categories). In decentralized systems the problem is reversed. The budgetary reporting obligations are rather rudimentary, so the *gmina* and RIO receive only summary data.

This continuous analysis and monitoring shows that school directors in Kwidzyn are controlled much more strictly than the policy statements describing them as independent managers imply. For instance, the city was very proud to have discovered through this monitoring some strange situations contributing to unequal per student expenditure in various areas of school operation. For instance, it was discovered that (due to an arrangement made far in the past and already forgotten) one school was paying part of the electricity costs of another school. As only relatively modest sums of money were involved, this could have only been discovered through close continuing monitoring of expenditures. This example testifies that the city is not distancing itself from the school directors as managers and allowing them to take their own decisions and suffer the consequences, but rather is very actively involved in the actual management of the school's facilities.

Budgetary discipline is one of the key duties of the school director and failure to maintain this is, in fact, one of the few legal grounds for dismissing

a school director. This is of course extremely rare. Here, budgetary discipline refers to the overall level of expenditure and to the levels imposed by the school budget on different budgetary lines (headings). The usual reaction to overspending is to demand that the school reduce its spending to compensate for the deficit. The director must file a report describing the situation and explaining why he/she overspent. If the explanation is found acceptable, the authority will amend the budget of the school to take into account the current situation. If not, corrective action may be required of the school director. If he/she cannot do this, the authority will usually force a reduction in some of the other expenditure items such as travel or extra-curricular student activities.

In most cases the discrepancy will be noticed when the school director tries to enter the given expenditure item into the books and the accountant (at the school or at *gmina* level) announces that this is illegal or excessive. If this happens within the school the accountant and school director will usually find a way to keep the accounts correct. The situation may be more difficult if the school does not have its own accountant.

The financial protocols allow for no tolerance, meaning that any spending above the approved budget is deemed to break budgetary discipline. Under-spending will also be queried by the *gmina*. However, the usual approach is to modify the approved budget during the budget year whenever either the school director makes a reasonable request or the actual discrepancy cannot be corrected. It is extremely unlikely that a *gmina* would allow a school to operate a deficit budget (spend more than it is allocated) for a number of consecutive years.

### ***Rio Grande do Sul***

School finances for maintenance and equipment quotas are operated through each school's bank account. Officially, resources from one budget heading cannot be spent in the other. All funds are withdrawn from the bank

account by cheques signed by the school principal. There are no restrictions concerning the period of expenditure: Resources from any quarter may be reserved for a larger expenditure in the future. However, all expenses drawn from the account must be properly reported. Each individual purchase and payment must be checked. Thus the bank account statement is the basic document for the quarterly financial statement, which is required to include:

- a letter from the school principal to the regional authority presenting the quarterly financial statement;
- the quarterly allocation plan;
- minutes of the school council meeting in which the quarterly allocation plan was approved (signed by the school council president and five other members);
- the bank account statement;
- a list of pending checks;
- two separate financial statements accompanied by all receipts: one for expenses made under the maintenance budget and another for the equipment budget. All receipts/store tickets must be accompanied by two other price quotations;
- a formal declaration signed by the school council president and five other members certifying that the school council has approved that specific financial statement;
- a formal declaration that none of the expenses of that quarterly financial statement exceeded the value legally established (i.e. that there were no expenses requiring public bidding procedures);
- a list of new equipment (capital expenses) acquired in that specific quarter; and
- complementary forms provided by the central authority for recording additional (specific) funds received/expended by the school, such as for equipment acquisition and maintenance, books or the State participative budget (distributed through the Regional Councils for Development).

The quarterly report is sent to the Regional Education Office, which has a specific department in charge of handling this matter and of providing any assistance needed. The school must send this report up to 15 days after the end of each quarter.

If the school is in deficit, the Regional Education Office informs the school and demands proper action. If the deficit is acknowledged by the school, additional funds must be deposited in that account in order to fill the gap. The quarterly financial statement must be approved by the Education Regional Office within the following quarter. If not, the next quarterly fund will not be deposited and the school principal's name will be registered in the nation-wide list of debtors.

### ***Comparison of budget scrutiny practices***

Victoria and England have similar budget scrutiny processes. These rely on the accurate recording and reporting of financial information through computerized accounting software. A crucial role is played by the school council in holding the head teacher to account for his/her management of the budget. In Rio Grande do Sul, although computerized systems are rarely used the school council has a key role in approving and verifying the principal's use of funds. The school council does not have this role in Poland, where scrutiny is between the director and the school accountant (if there is one).

In all four countries the education authority also monitors school accounts and intervenes if schools move into deficit. In Kwidzyn and Swidnik, the *gmina* has a more direct and dominant role as it manages schools' accounts centrally. It intervenes to assist schools in financial difficulties and to impose financial discipline.

To minimize opportunities for corruption, regular and active scrutiny by both the school council and backup scrutiny by the education authority of school budgets is required.

## Assistance and training for school managers

In order for schools to implement and comply satisfactorily with financial regulations, head teachers, school council members and finance support staff require training and – for school staff – technical assistance with computerized management information systems. Incompetence or ignorance of correct procedures by school personnel and council members increases opportunities for corruption.

### ***Victoria***

The Department of Education and Training (DET) produces publications to help schools such as *School level chart of accounts* (Department of Education and Training, 2002) which specifies the conduct of financial record keeping and reporting. The DET requires schools to use the government supplied management information system CASES and provides both central office and regional support personnel. Professional development training is available.

### ***England***

When local management of schools was implemented in the early 1990s, head teachers, governors and school administrative staff were trained in financial management and the operation of computerized management information systems, which were provided by the LEA. Schools are free to choose their own management information system software but in practice there is one which dominates the market and two or three others which have a much smaller share. The LEA normally recommends a system and encourages schools to use that system. Over time these systems have been improved and training is provided by software suppliers and LEAs. Since 2000, when financial delegation was extended further, schools must purchase technical support and training out of their own budgets from either LEAs or private sector suppliers. LEAs provide on-going training programmes for



governors and administrative staff. Since 1999, teachers hoping to become head teachers study for the National Professional Qualification in Headship, which includes financial management.

### ***Poland***

Most Polish school directors are teachers (or former teachers) and their mastery of budgetary procedures is limited. As a result, upon taking up office they are often given some short training. Nevertheless, they are usually not able to prepare their budgets on their own (the budgetary rules change very often and it is not easy to comply with all of them). Thus the person very closely involved in this process is always an accountant, either a school accountant or one employed by a local authority institution (usually a ZEAS or MZB type institution). In the former case, the school prepares and executes its budget largely on its own as is only monitored by the authority's accounting office. In the latter case, the help received by the school can be quite substantial. In the case of small rural schools, virtually all financial management is taken over by the *gmina*.

Technical support for budgeting is often not required as there is no obligation to use a computerized accounting or management information system in the school. Most schools have none and conduct their accounting and their internal management on paper. There is commercially produced accounting software for schools but none is mandated by the ministry. There are a few suppliers of such software in Poland however the emerging market is dominated by one company. Although the use of computerized accounting systems is growing, the use of computerized information management systems is still very rare in Polish schools. In some cities (such as Warsaw) the computerization of schools' administration underwent rather spontaneous and unmanaged growth, resulting today in different schools using different accounting systems so that it is difficult for the authority to integrate data. In some poorer areas, *gminas* purchased computer software for all their schools

only to realize that the computers available in many schools were not powerful enough for this software.

### ***Rio Grande do Sul***

The Education Regional Authority provides basic information to school principals through meetings which it organizes. The central State Education Authority produces and distributes a Manual on ‘financial autonomy’ that includes specific legislation, general information on the funding formula and several guidelines for managerial action. Examples are given of expenses under each budget heading.

There is no single information system for state schools’ financial management. In fact, some schools still produce their financial statements by hand as they have no computers or typewriters. Larger schools (over 1,000 pupils) have internal technical support provided by an administrative assistant in charge of accounting and other functions.

### ***Comparison of the four countries***

Victoria insists on common management information software whereas in England, with its 150 LEAs, this is not the case, although one commercial system has the dominant market share. Technical assistance and training is provided in Victoria while in England, now that financial management is fully decentralized, schools must purchase their own training and support although the professional development of aspiring head teachers is state subsidized. In countries where computerized accounting is not widely used there is less need for technical support. In Poland there is some basic training for principals in finance but most rely heavily on the school accountant or those who manage the schools’ accounts centrally. In Victoria, England and Rio Grande do Sul the state or national government organizations provide manuals and guidance.



## *Chapter 6*

### Audit of schools' accounts and procedures

Budget scrutiny is not sufficient to prevent fraud or incompetence in the management of school finances as these activities are not in themselves sufficient to ensure the accuracy of financial reports or that financial regulations are being fully complied with. This is the function of audit. Schools must conduct internal audits, in particular of equipment and other assets as well as checking the audit trail from raising an order, receiving the invoice, making a payment, obtaining a receipt and verifying the delivery of goods. Bank account statements must be regularly reconciled with the school's own financial records. Clearly internal audit is not itself sufficient to prevent fraud by school personnel intent on such deception. Regular external auditing, either by the education authority or private auditors who are not employed by the school, is also necessary. A further check is provided by auditing at a higher level by a central body with responsibility for public sector probity and efficiency. Given the costs of such audits, they can only be irregular and random but they serve a vital purpose in providing information to improve financial controls as well as detecting or deterring corrupt practices.

#### Victoria: Australia

Financial auditing of schools must comply with the *Financial Management Act 1994* and the Directions of the Minister of Finance (Department of Education and Training, 2002: 167). The financial regulation of schools is the responsibility of the Financial Management Unit, Standards and Accountability Division within the Department of Education and Training.

The publication *Internal control for schools* (Department of Education and Training, 2002) identifies the internal control measures required for the following areas: bank accounts and investments; chart of accounts; banking; purchases and expenses; assets and stores; cash payments; commitment control; accounting records; petty cash; budgeting; trading operations; camps and excursions; local level payroll; and computer information systems.

Schools are required to implement a range of appropriate internal controls. Financial accounts are scrutinized and approved on a monthly basis by the school council. Annual financial audits of all schools are conducted by registered private chartered accounting firms contracted by the Financial Management Unit. The purpose of these audits is to certify that school accounts are accurate and that there are appropriate internal controls in place. Recommendations arising from a school audit must be acted upon by the school and compliance with this is checked by the Financial Management Unit.

Department of Education and Training finances are publicly reported in annual reports.

The Standards and Accountability Division also conducts annual enrolment audits (School census) to ensure that schools have listed student enrolments accurately and discrepancies can lead to the school global budget being adjusted.

If fraud or corruption is detected and is of a nature that warrants police intervention (e.g. embezzlement of funds), the Department will leave this to the police service and typically stand-down the employees involved until the matter is resolved. Other matters can be handled internally by the Department. Often these matters will involve extreme interpretations of rules. For example, a principal and an assistant principal were recently removed from their school positions as they had leased vehicles that were not suitable for school purposes

and seemed to be more suited to personal use. While the leasing of vehicles is not illegal, these vehicles were purported to be leased for school purposes but were not suitable or cost-effective vehicles for this purpose. Matters such as these typically emerge in one of three ways: through the annual independent financial audit; through school council scrutiny; or through departmental inspection of school records such as the school annual report. The Department, either through central or regional personnel, will work with a school directly to provide a satisfactory resolution.

An impressive effort is being made in Victoria in relation to monitoring, control and audit. However, resources devoted to these tasks are not excessive due to the use of computer technologies for monitoring and audit. As described earlier in the questionnaire, monitoring occurs at several times throughout the year for formula adjustment purposes. Enrolment audits are also assisted through information technologies. In a recent instance in another Australian state, the computerized crosschecking of enrolments identified conflicting claims for enrolled students by different schools. As an illustration of the Department's desire to minimize costs a previous report (Gurr, 1999:109) noted that in regard to the three-year reviews of schools, Department and school compliance costs ranged between 5,000 and 6,000 Australian dollars (AUD\$) per school, which is considerably less than the cost of many other school supervision systems.

The Victorian approach is strongly based on information technology linked management information systems at the school and department levels. On-site visits to conduct all monitoring control and auditing would be cost prohibitive.

Reports from the Victorian Auditor General's Office provide an independent review of government programmes. This Office is a government-instituted body designed to provide evaluations of government programmes.

The Auditor-General under the authority of the *Audit Act 1994* has responsibility for the conduct of financial statement audits of public sector agencies. The most recent report of this process included a special review of cash management in schools and examined “the adequacy of financial management practices of schools in the use of their SGB and other cash resources” (Victorian Auditor-General, 2003: 43).

The report included an examination of information held by DET both on a statewide and individual schools basis as well as financial data gathered by DET’s Audit and Evaluation Division in performing its role of monitoring, controlling and reporting on the audit of 1,634 Victorian government schools. In addition, an analysis and evaluation of the financial management processes of 20 government secondary schools was undertaken.

The report found clear links between school charters and budgets, with schools tending to operate balanced budgets. However, it was felt that school councils could be given more information on available funds and budget items and that they should have greater involvement in budget considerations. Importantly, the report identified a lack of long-term planning evident in budget documents. It was suggested that the “above deficiencies and variability in the quality of school budgeting support the need for DET to issue appropriate guidance to schools to assist in establishing budget management arrangements which facilitate effective decision-making at the school level in relation to their total operations” (Victorian Auditor-General, 2003: 51).

Inspection of the audit reports of the 20 sample schools suggested that internal control and financial management practices of schools were responsive to deficiencies identified in the annual financial audit process. Nevertheless, the report recommended improvements in cash management practices, increased accuracy in financial records, improved recording of financial discussion at school council meetings and increased compliance with DET requirements. It was suggested that further training for principals,

school support officers and business managers was needed to further enhance financial management skills.

In the data analyzed there was no evidence of fraud and corruption. While the report was critical of some aspects, these criticisms in the main appear more like fine tuning of the basically sound financial management systems used by DET and schools rather than major shortcomings.

## England: UK

Three levels of audit exist: school level, internal (to the local authority) and external (by the District Auditor).

For school level audit, some larger schools appoint one of the governors who is not a member of the Finance Committee to be the 'Responsible Officer' and give an initial view on the correct application of procedures. Most schools do not do this.

The Governing Body is responsible for having the school's non-public funds (e.g. parents' voluntary contributions and donations) audited annually and is required to provide certification of that audit to the LEA. The Governing Body is also required to bring to the notice of the local authority any suspected or apparent financial irregularity affecting the school or the Council. If the irregularity is confirmed, the Council's Chief Executive is advised.

The next level is internal audit, which is the responsibility of the Local Authority's internal auditors. This is a department of the council which is separate from the Education department. A LEA's Financial Management Scheme typically specifies that the Head of Audit shall:

- maintain an adequate and effective internal audit of all the activities of the council;



- have authority to visit all schools and have right of access at all times to such documents, other records, computer systems and council property as appear necessary to him/her for the purpose of the audit;
- be entitled to require from any governor or school employee such information and explanation as he/she believes necessary to satisfy himself/herself on any matter.

Internal audit is undertaken in accordance with a cyclical audit plan. On average primary schools are audited every four years and secondary schools every two years. However, LEA practice varies, as an Audit Commission (2000) study found, with some secondary schools being audited only once every four years. The school receives an audit report which covers not only financial accounts but also the efficiency and probity of the financial administration procedures. Great importance is attached to ensuring separation of duties so that at least three different members of staff are responsible for ordering, invoicing, making payments and checking goods on receipt. Achieving this degree of separation of duties is difficult for small schools. The governing body must respond to the Audit Report within four weeks of its receipt, stating the recommendations which are accepted and the timetable for implementation and giving reasons for any recommendations that are not accepted.

Repeated flouting of recommendations could lead to disciplinary sanctions against the head or staff concerned. In extreme cases where the LEA is not satisfied that the necessary steps have been taken, it has the power to withdraw delegation.

The third stage is an external audit carried out by the 'District Auditor' who will be working to guidelines specified by the national watchdog for probity in public life, the Audit Commission. External audit is carried out on a sampling basis and so few schools are subject to it.

Thus internal LEA audit of school accounts is the main defence against fraudulent use of school public funds. A fraudulent head teacher or finance secretary/bursar can escape detection if there is both a weak governing body and a LEA that is not monitoring the school's finances closely or carrying out annual internal audits.

## Poland

There are two levels of auditing of school accounts. The first level is performed by the *gmina* (or *powiat* for upper secondary schools) on a routine basis, with special audit programmes planned for schools with decentralized accounting that have their own accountant. If it is found that a school's financial procedures (short of criminal corruption) are weak, the school director is required to bring them up to standard. In Swidnik, in order to ensure compliance with financial regulations the local government audits all schools on a regular basis. An accountant from the City Hall visits each school once or twice a year and examines its financial records. Failure to achieve satisfactory compliance with financial procedures could, in serious cases, lead to dismissal of the school principal. However, the audits have not revealed any serious violations.

The second level is undertaken irregularly by Regional Accounting Offices (*Regionalna Izba Obrachunkowa* RIO) that audit many other types of public sector institutions. The audit performed by RIO will usually be addressed to the jurisdiction and not the individual school as it is the jurisdiction that files the budgetary reports.

Although since 1991 the law on the education system allows the formation of school councils, not many have been created. The main obstacle appears to be their purely advisory role. They have no statutory access to school data, including school finances and therefore do not meet the criteria of "front

line responsibility for ensuring public accountability for the use of school revenues”. Their existence and role depend to a large extent on the good will of local governments in that it is often the local government that initiates the setting up of a school board. However, such good will alone is not enough and the functioning of a school board may be very deficient or short-lived. The city of Kraków mandated the creation of school councils at all Kraków schools but after a year was forced to close them as the programme had been a failure. Kwidzyn has a system of school boards operating at each of its primary schools and *gymnasiums*. Discussions with some of their representatives made it clear that the board cannot hold the school director to account for the budget.

Moreover, the National Chamber of Control conducts independent enquiries into specific areas of public finance and public governance, as dictated by the Parliament or by its own reports of possible irregularities. NIK has published a number of reports on the education sector. Among them are two reports on the financing of non-public schools (we must recall that non-public schools in Poland were entitled to 50 per cent and are now entitled to 100 per cent of per student allocation in analogous public schools in the municipality) published in 1999 and 2002. The reports found many problems with the reporting of student data by the schools (both over-reporting and sometimes, surprisingly, under-reporting). Many municipalities wrongly calculated grants to non-public schools or provided them with considerable delays (up to six months), probably reflecting certain negative attitudes towards non-public schools on the part of *gmina* officials. There is no NIK report concerning the finances of public schools. However, this represents the additional, highest level of independent enquiry and *ad hoc* audit into school finances that Poland may employ.

## Rio Grande do Sul: Brazil

The school council is the primary body responsible for public accountability of the school. Regulations require that members be directly elected by teachers, staff, parents and pupils. However it is widely known that it is often difficult to fill all the places on the school council. Internal auditing is undertaken by school councils but their methods are seldom professional and in some cases there is little interest in such auditing.

The Regional Education Office verifies all financial statements and takes appropriate action. However, these offices seldom have professional accountants and auditors; Most of the work is done by experienced teachers (and also by not-so-experienced teachers who are 'friends' of the regional authority).

The central State Education Authority has a department in charge of financial supervision and auditing where irregular situations are handled. Official state auditing is the responsibility of the State Accounts Court, which has regular auditing practices and carries out a very few specific audits in schools, when problems are brought to its attention.

If unsatisfactory financial procedures are discovered, the school principal can be asked to revise the particular procedure or financial statement. Until 2001, when the measure was revoked, a school principal could be fined 1 per cent of the quarterly school allocation if no quarterly financial statement had been presented. If any irregularity is found in the financial statement, the school principal must deposit the overdrawn value. If no deposit is made in the time specified the amount is taken from the principal's next paycheque. Several cases of this occurring have been reported. Furthermore, failure to produce financial statements and irregular use of public funds may lead to the principal's dismissal.

## Comparison of audit procedures

Only in Victoria and England do school councils regularly monitor financial reports from the head teacher. In Rio Grande do Sul and Poland school councils, if they exist, are mostly unable to hold head teachers to account for financial management of the school. In all four systems the local authority is crucial for the quality and regularity of auditing that takes place. Victoria has the most rigorous system of audit by the Department of Education and Training whereas in England the frequency of audit varies according to the LEA. In Poland there is a lack of regular external audit of local authorities, which mostly manage schools' finances centrally thus leaving some scope for undetected fraud. In Brazil, regular auditing of schools' accounts depends on clerical monitoring at regional level. Given the small amounts involved, a more costly auditing process may not be justified. In England, Poland and Brazil, external auditing by a higher-level body exists but is rarely experienced by schools.

## *Chapter 7*

### The detection of fraud and corruption

Country *rapporteurs* were asked about evidence on or policies towards the detection of fraud and corruption.

#### Victoria: Australia

Victoria has no policy that directly addresses fraud or corruption. In addition there is no public reporting of fraud or corruption detected in education. Information could be collected through searches of court records for those instances where criminal prosecution has occurred, but there is no departmental reporting on this.

However, there are some worthwhile developments that herald a change in the approach to risk management. In Victoria the Department of Education and Training has recently established an Audit Committee, the purpose of which is to assist “the Secretary and Ministers to discharge their responsibilities for financial reporting, maintaining a system of internal controls and fostering the Department’s ethical environment” (Department of Education and Training, 2002: 13). In addition, over the last 2 years the Department has developed a risk management framework overseen by a Risk Management Implementation Committee (RMIC). During 2002/2003 the Audit Committee plans to conduct an independent analysis of financial risk relating to the critical operations of the Department. If this analysis is made public it may meet some of the need for or indicate ways to document the detection of fraud or corruption.

During the initial implementation of the school global budget, some schools sought advantage through inflation of enrolment figures (e.g. including as students people who were not technically eligible to attend a government school such as adults). In 2002 there were AUD\$7,700,000 worth of enrolment errors detected through the audit process. While this figure is large in dollar costs, it represents approximately 0.2 per cent of all enrolments in government schools with the majority of these errors being concerned with differences in the interpretation of enrolment eligibility rather than deliberate fraud.

The funding formula used in Victoria is complex. One of the possible disadvantages of this is that along with complexity there is increased risk of errors occurring. Some of this will be associated with data collection mechanisms that either are not responsive enough (e.g. ensuring that there are accurate data on school buildings and grounds) or which collect data that are open to interpretation (such as placing of students in ethnic categories). This complexity could lead to increased opportunities for fraud or corruption if appropriate monitoring mechanisms are not in place.

The main mechanism is to ensure that there is appropriate monitoring of the key funding indicators. For example, the school census procedure clarifies student eligibility and provides schools with an independent audit of their enrolment. Monitoring mechanisms are reviewed on a regular basis and are improved as other parts of the education system are improved (such as the continual development of the accountability framework for schools).

The general view is that there has been no change in the extent of corruption detected since formula funding was introduced. However, as there is currently no data collected it is difficult to make an informed judgment on this. The developments mentioned above may provide data for future reviews.

An essential measure is use of appropriate compliance and monitoring mechanisms. For example, to provide differential funding to schools based

upon student characteristics, there needs to be some mechanism to ensure that schools are accurately recording these characteristics. These mechanisms require resources and without them the potential for fraud and corruption is greatly increased.

Reducing complexity in the funding formulae means fewer opportunities for abuse and decreased compliance costs.

## England: UK

There does not appear to be much national evidence of fraud and corruption within the public funds element of the schools' part of the education system.<sup>5</sup> Any cases of fraud in excess of 500 British pounds (£) detected by local auditors are reported to the Audit Commission which publicizes these to auditors so that they can be on the lookout for similar cases. There is some reluctance to publish details more widely for fear of giving would-be fraudsters good ideas.

The Audit Commission's view is that there is little scope for major fraud in a system based on formula funding. The pressures of public awareness and the numerous checks and balances in the system make it extremely difficult to cover up major misappropriation of funds. Minor dishonesty such as stealing small items of school stationery has always been possible and is not affected by the formula funding issue.

There has been evidence of misreporting of pupil data in order to increase the school's income under formula funding. The recent introduction of PLASC (see above) now makes it more difficult to invent phantom pupils.

5. An officer at the Audit Commission was interviewed on this issue.



There appear to be very few loopholes in the way schools are funded and financially administered which would permit fraud or corruption, provided the detailed regulations listed above are followed to the letter. The essential features of a sound system are separation of duties, systematic audit and efficient maintenance of inventories. In the past some LEAs failed to exercise tight control however the regime of greater inspection of public bodies has closed off the main loopholes.

The greatest scope for fraud lies in the non-official funds where cash is handled. School trips, dinner-money collection and fund-raising events, for example, all involve a wide range of teaching and non-teaching staff in handling cash. Schools have become increasingly demanding in insisting that all staff handling cash give out receipts, keep careful records and have a separate member of staff present to witness cash transactions. The Audit Commission (2000: 31) study noted that “a large proportion of frauds uncovered in schools relate to voluntary funds” which, as they are private funds, are not subject to LEA audit. By law these funds must have an independent audit and the LEA can require sighting of the audit certificate. However, some LEAs do not question governors acting as auditors of voluntary funds which could result in fraud being undetected. There was a high-profile case in England where a head teacher was sent to prison for two years for financial corruption. Over a four-year period he misappropriated over £80,000 from private and non-official funds (money paid in cash by pupils for trips, money raised by parents, money from sales of school uniform and from vending machines). Although these do not all fall within the remit of the LEA auditors, school governors are nevertheless responsible. In the recent case, the governors used an external auditor who appears to have made sure that the accounts added up but did not do a thorough audit trail to see how the money had been used. Only a system of handling money without a second witness and cheque co-signatory could have allowed the head to escape detection. Collusion from other members of staff could make this possible. In the recent case the fraud came to light due to whistle blowing: The business manager raised concerns with the LEA auditors who carried out a thorough enquiry.

A case of embezzlement by a head teacher, sentenced in 2003 for having stolen £500,000 from the school budget, well illustrates the importance of good internal monitoring in the school and independent audit. The head teacher expropriated school funds for personal use over several years without anyone raising questions, even though teachers were given no money for textbooks and had to clean their own classrooms. As the school was at that time grant maintained (and so outside LEA control) it was audited by a private firm that did not discover the fraud. When grant maintained status was abolished in 1998 and the school was returned to local authority control, the fraud was detected by the local authorities' auditors in a day.

The main measures for reducing corruption lie in the procedures for audit and surveillance. In a centralized system, opportunities for corruption came through the opportunities for an employee at LEA level to place orders with companies in which he/she had an involvement, usually family connections. There was little of a major nature that could go wrong at school level other than the misappropriation of small purchases (pencils, paper, etc.). In the days when inventories were less rigorously kept, it was possible for members of staff to buy items of equipment for personal use and obtain special educational discounts. This loophole has been closed off, provided inventories are kept up to date and items no longer in use by the school are properly written off.

The move to decentralized funding should, in theory, have given more scope for corruption at school level but it has been accompanied by more rigorous procedures for oversight, audit and public reporting so that public funds cannot easily be misused for personal benefit.

Major building works in a school are still usually managed by the LEA Buildings Department but schools have been given an increasing share of the capital budget and do carry out some minor improvements from their own budget. There are protocols for tendering and ordering specified in standing

orders but even in small building projects there is potential for dishonesty: the over-ordering of materials or inadequate stock control compounded by slack surveillance.

Essentially, decentralized funding does not of itself open more doors for corruption. The main scope for fraud lies with the non-official cash funds that flow through the school for extra-curricular activities. The challenge for the authorities is to bring in levels of audit such that the prospect of being caught will be a deterrent to anyone tempted to commit theft. The custodial sentences and publicity given to the occasional case of theft also serve as a deterrent to others. The professional cost of being caught in a case of corruption is very high.

## Poland

No records of fraud or corruption in education are kept at the national and regional levels. No national or regional investigation into school fraud or corruption in the financial sphere has taken place. Actual examples of corruption in education discussed in the public media in Poland include:

- ordering school supplies from ‘friendly’ companies (usually at *gmina* level);
- bribes accepted for better grades or forcing the student to take up private lessons with the teacher (usually at the level of individual teachers);
- bribes accepted for enrolling a child in the school (usually at school director level);
- paying teachers for classes which were not conducted (usually at school director level); and
- appropriation of school equipment (usually at school director or individual teacher level).

However, very few cases have been fully investigated and no countrywide data are known. Moreover, neither the national formula for allocation of funds to jurisdictions nor possible formula to allocate the funds to separate schools seem to have any impact on the types of corruption listed.

Larger scale opportunities for corruption arise not from regular functioning of the schools but with regard to school capital projects that involve contracts with suppliers and construction companies.

Since formula funding was introduced, no changes in the extent of corruption have been officially recorded or detected. It appears that the main influence of the formula-based allocation of education funds to local governments was to make all schools submit their statistical forms. No case of fraudulent submission of GUS forms has been openly discussed, in part because the possible gains of money would accrue not to the school director (who may misreport the data at some personal risk) but to the *gmina* as a whole. Moreover, if all the schools in a *gmina* reported excess students at the level of 10 per cent each, these numbers would immediately be seen to contradict reliable data on inhabitants by age (available through other, much better organized and controlled systems) and would therefore be immediately queried.

The three recent reports by the National Chamber of Control (see NIK, 1999; NIK, 2002 and NIK, 2003) found many irregularities but no fraud in student finances. NIK investigated the financing of non-public schools and found that most irregularities concerned improper calculation and delayed provision of financial support to non-public schools. The calculation problems usually led to reduced and delayed financial support to non-public schools and were due to very imprecise formulations in the national legislation governing this area. However, the NIK has not yet conducted any comprehensive investigation of the allocation of public funds to public schools by local governments.

The main worry is the non-transparent nature of individual school finances. Even where *gminas* have introduced a voucher type system, they have not used it to provide full information on the finances of the schools. Transparency would be improved if:

- there were a legal obligation to publish the budgets of individual schools;
- jurisdictions were forced to explain how and why they set school budgets at the levels they are; and
- the annual execution of those budgets was also made public.

## Rio Grande do Sul: Brazil

All cases legally and administratively framed as corruption or fraudulent are properly documented. All cases formally framed as corruption or fraudulent procedures in state school management may be accessed for research purposes and for administrative reporting, depending only on formal requirements. Bureaucratic procedures are well developed throughout the state central and regional education offices. Sometimes these procedures are not very efficient; Some cases take a long time to be investigated, depending on the regional office. However, it must be stressed that the definitions used for corruption in administrative and legal processes are much stricter than that the degrees of corruption defined for purposes of the present study.

Growing experience has reduced the opportunities for corruption. In the past six years, regional offices and manuals have also improved their administrative and control procedures and are better able to support school decisions and purchasing operations. It is generally acknowledged that school principals, teachers and school communities are now much more prepared and knowledgeable about the financial management procedures and about how to make the most of the school money.

Opportunities of corruption detected are:

- enrolment statistics (e.g. some students on the roll have dropped out or are frequently absent);
- excessively strict requirements concerning purchase tickets or receipts prevents schools from contracting services from local people (carpentry, welding, painting, special cleaning, transportation for curricular events, etc.) or buying from nearby small producers and businesses, so that schools have to pay higher prices to more formalized stores or arrange for fake receipts;
- when several quotations are required, some salespersons specializing in school goods, equipment and services offer their products together with the forged proof of other price quotations.

However, the development of new business opportunities involving schools could help local and small business development if some of the formalities could be waived. It is clear that some of these were created to get rid of past corrupt practices in general public administration. School principals are not ‘saints’ but present rules impede some daily management tasks so that schools have to pay more than they would if there was less bureaucracy.

Certainly, decentralizing money for direct school management is an important measure, both for sound administration and also as an educative policy (the whole school community learns about financial management and about social control of public administration). When schools did not have cash allowances for everyday needs and for special projects, there were many more embarrassing and illegal actions reported (e.g. asking parents for contributions – something that threatened the principle of free education and also was said to be the motive for dropping out).

Adequate training in financial management and accountability is necessary to avoid problems and promote proper financial management practices. This is particularly the case in educational systems such as Brazil and the State of Rio Grande do Sul, where school principals are teachers elected by teachers, staff, parents and student representatives for a three-year appointment. This means a high turn over, requiring regular training for the newcomers to school principalship.

For this training and updated information, it is important that good manuals be produced and widely distributed. The Rio Grande do Sul manual offers correct information, detailed procedures and some examples of correspondence and filled-in forms. They are well appreciated by school principals and school council members.

A major problem in the Rio Grande do Sul state school funding system has been irregularity in the cash flow. That is, there are frequent and long delays in the expected monthly payments. As a result, many school principals run into debt on their personal accounts or have lost credit with local businesses (suppliers). This is stressful, not only for the school principals but also for teachers, students and the community who cannot count on the money intended for planned activities.

Caution with the amount allocated to schools is also important. The allocation should not be too high, to prevent unnecessary and improper use, or too little as is often the case in the Rio Grande do Sul state schools. If an accurate cost accounting study is made, it would probably point out the high costs of financial management at school and regional offices. The system is still a highly bureaucratized one that is liable to create more inefficiencies than prevention of fraud and corruption.

## Comparison of fraud and corruption detection

Only Brazil has records of corruption and fraud cases which researchers can access for information. None of the countries reported serious concerns about fraud and corruption with respect to funds and resources at school level. However, all countries have some examples of fraudulent or corrupt practice at school level. Poland has the most extensive range of examples but most are not related to financial delegation at school level. All the country case studies point to the vital importance of strong audit procedures and sanctions against corrupt practices for detecting corruption and deterring it in the first place.





## *Chapter 8*

### Summary of key issues emerging

#### Overall context

The purpose of this report is not to provide a detailed comparative study of education funding in general but rather an investigation into the opportunities for corruption and the measures taken to avoid fraud. Nevertheless, the detail of how the different countries approach this particular issue cannot be divorced from a wider understanding of the background. It is clear that the different geographical and historical contexts of the four countries largely account for the differences in the way schools are funded. There are different combinations of financial input from different levels of government with comments on the tensions that arise between the different tiers of local and national government. We do not wish to imply that any one of the four countries is ‘better’ or ‘worse’ than the others, as the relative poverty levels of the countries make such judgments invalid and invidious.

For historical reasons, England and Victoria have the systems with the greatest level of delegation and of these, Victoria offers the clearer and more stable needs-led funding methodology. The recent (2003) reform of funding in England failed to achieve the full version of needs-led funding that many had hoped for. The Polish case study refers to two local authorities, Swidnik and Kwidzyn, where funds are allocated directly to individual schools. It is interesting to note that in the Polish national allocation method there is only a very small differential between primary and secondary pupils, a matter of some contention in England. The respondent from Brazil concentrates on the

funding system in Rio Grande do Sul where the schools receive money directly from the State Treasury, but this amounts to only 3 per cent of education expenses.

One of the tensions arising when schools are given substantial funding on a formulaic basis and then left to manage it at their own discretion is that the government cannot be sure that money is being used to raise standards or achieve the goals that they have determined to be politically desirable. In various ways, governments find mechanisms to make direct grants linked to desirable outcomes. In England a multiplicity of funding streams has been devised in the hope of quickly achieving the high profile targets of different Ministers of Education. Consequently the proportion of schools' budgets emanating from direct central government funding rose to 14 per cent in 2002. Similarly, in Poland the Ministry of Education through its regional offices directs investment grants to schools (usually for computer laboratories) and to municipalities (school buses) and funds some limited recurrent functions (support to poor students). It is interesting to note that the Brazilian government also makes a small direct grant to schools although the figure has not been increased for inflation for 8 years. The studies reveal consistent use of specific targeted grants by central governments even in highly decentralized education systems (with the exception of Victoria, where the extremely complicated formula itself leaves room for such grants). The formulaic approach to finances, either through formula funding of schools or through formula-based allocation of education funds to local governments, is not sufficient for central authorities wishing to engage in the strategic management of school education.

## School funding formulae

As for the indicators used in distributing money, as one would expect the number of pupils constitutes the main factor. In all the systems there are signs of an increasing attempt to quantify and meet the cost of special needs

provision (disabled children, children with learning difficulties) and rural isolation. The two English-speaking countries both make allocations to support children who do not have English as their first language and in Poland there are weightings for minority language speakers. Students of educational funding systems will not be surprised to see that, all over the world, certain aspects of school are not amenable to neat formulae, most notably swimming-pools!

In commenting on the difference between formula funding and previous methods, Victoria makes particular reference to the fact that schools are now charged the actual salaries of the teachers they employ rather than the average. English local management introduced this as a feature from the very beginning in 1990, although this does not currently apply to the additional salary costs of teachers promoted to the upper salary scale. Conversely, Victoria appears to have achieved a predictable and transparent funding process, which still eludes the English system. This is much easier in Victoria where the government allocates funding directly to schools and there are no intervening local authorities as in England, where local governments receive an unhypothecated grant for all local services including education. It is salutary for the English and Australians to read in the Brazilian submission that “it was not uncommon for a state school not to receive any supplies, equipment and maintenance from the state authority during a whole year”.

None of the four areas studied appears to have a full version of a needs-led budget generation model, that is to say a detailed analysis of what it costs to fund a given level of educational provision. In general the process is driven by the number of pupils, adjusted for the age of the pupils and the nature of the courses. The Victorian example has specific elements for teaching staff and premises. In England the 2003 education formula spending share includes needs-led components for additional educational needs, scarcity and area cost adjustment but the so-called ‘basic entitlement’ is a lump sum per pupil based on age.

If a needs-led budget generation model were to be used by central government, it would distribute funds to lower tier authorities on that basis. An important issue which arises is: Must that lower tier follow the generation model in distributing to school level or should it exercise local discretion and devise its own distribution formula? Some English local authorities, typically covering an area with 30 secondary schools, 250 primary schools and 10 special schools have devised their own activity led formula for distributing resources, after detailed negotiation with local heads and governors.

## Transparency

Transparency of education finance, which is crucial to identifying and preventing corruption, is difficult to achieve. Despite some important differences of detail in the way budgets are made public, in all four cases it is possible to gain access to the information about schools' budgets. However, all respondents draw attention to the technical complexity of the process and the difficulty of presenting information in such a way as to enable people to understand how a school's allocation has been reached. This is a consistent finding. School managers appear to be learning how decentralized finance works but among classroom teachers within schools there seems to be neither understanding nor interest in the details of educational funding. Members of school councils or boards are expected to grasp the issues but few appear to do so. England appears to place the greatest emphasis on training governors on school boards. The Polish respondent makes a useful point about the potential role of the media in presenting financial information on public expenditure issues in an accessible format.

A useful comparison is provided by well-established LEAs in England and the Polish cities that have taken over responsibility for education in the last 10 years. In England, where there is extensive experience of local democracy and local control of schools, legislation at national level forced

greater openness and transparency at the local level. It also strengthened the role of school governing bodies, enabling more people from the community to participate in school governance including the management of finance. In both England and Victoria school councils have decision-making powers and are not merely advisory. In contrast, Polish cities re-emerged as democratically elected governments only in 1991 and are still in the learning phase. They were very successful as managers of schools (Levitas and Herczyński 2002) but to a large extent have not been able to involve the public in local education policy-making or create strong school councils. In this respect, the situation in the two cases studies presented here, where radically simple and transparent rules for financing schools were adopted, is not very different from the rest of Poland.

It seems therefore that transparency and local public involvement in the education process depend more on the prevailing culture and political tradition than on the technical details of school finances. Key emphasis must be put on easy public access to intelligible data and to detailed information on how the allocation of funds to schools proceeds and why. Without real decision-making powers, members of school councils lack the incentives or the information needed to open up decision-making to a wider public. To render corruption of school councils less likely, members need to be elected and represent community interests, not just those of school employees or local authority politicians. The formula funding of schools will make transparency easier of course and may be desirable in the long term, but as the four studies testify its introduction is a slow process depending on the political traditions of each country.

## Data collection and verification

In a system driven by numbers, the correct collection of data is essential. The four examples studied show that, in different ways, all the jurisdictions

take the audit and verification role seriously. In Victoria there are four data collection dates, one of which is the responsibility of a group external to the school. The other three countries manage an annual data day, sometimes with subsidiary adjustments mid-year. There are different approaches to adjusting financial allocations according to changing pupil numbers. Sometimes the annual census is used to distribute the entire amount for the year and that remains unchanged (in which case there might be an incentive to invent ghost pupils). In other cases the budget is derived from the actual number of pupils on the roll and an estimate of those expected in the coming academic year, with a retrospective adjustment where the estimates are wrong. In some countries this is made more complicated by the fact that the school year, calendar year and fiscal year are not aligned.

All the countries report rigorous verification techniques and the overall finding is that there is little, if any, deliberate misreporting. More often, there are errors due to the complexity of the forms to be completed. Audit bodies follow pupil number trends over time and a sudden distortion of numbers would be quickly apparent. Fraudulently increasing the income received by the school would not of itself lead to personal misappropriation of funds without some further corrupt activity.

Where the system includes some funding of the private sector from public funds, the need for rigorous verification is greater as the extra and unjustified income could easily be 'lost' in the accounts of an unregulated provider.

## Financial control at school level

The accurate recording of financial transactions at school level is at the heart of measures to avoid fraud. Practices across the four areas studied varied. At one end of the scale of efficiency and oversight we have the

system in Victoria where all transactions are logged onto a standardized information system and reported monthly to the school council who have the status of ‘company directors’ and peruse the records in a fiscally responsible manner. England has a broadly similar approach but the frequency of reporting and the rigour of the in-year checking is less formalized. Larger schools, mainly secondary, employ specialized staff to handle the detail but the responsibility lies with the head reporting to the governors. In Brazil the checking process is carried out quarterly by the Education Regional Office confirming a statement made by the principal, counter-signed by the president of the school council and five other members. In the Rio Grande do Sul the bank account is in the name of the principal and receives income not only from the state but also from funds collected directly by the school. The principal is also the signatory of cheques. Given that some schools still produce their financial statements in hand-written form as they have no computers or typewriters, the potential for abuse seems greater than in the other cases studied. Most Polish schools have centralized accounting. For them the problem is that central accountants miscode expenditure with the result that schools find they have paid for items used by a different school. Where there is decentralized accounting, the danger of the city losing control is referred to and the *rapporteur* recognizes that this is a sensitive issue on which it has not been possible to obtain complete information.

All four countries have financial regulations that set out the procedures that must be followed to ensure probity and accurate financial records. Particularly important are separation of duties, the requirement of more than one signature on cheques, maintenance of accurate inventories and formal and transparent procedures for making contracts and disposing of or writing down assets.

A question was asked specifically about what happens when discrepancies are discovered within school accounts, for example by overspending on particular headings. Persistent failure to maintain budgetary



discipline is reported by Poland as being one of the few legal grounds for dismissing a school director, but it rarely happens. Overexpenditure is identified monthly and appropriate adjustment required in the subsequent month. In the Brazilian example, money is transferred to the school on a quarterly basis and is only carried out when satisfactory statements are produced. If the school overspends, the principal's name is registered in the nationwide list of debtors. The responsibility for action in Victoria lies firmly with the school council. In English schools the governors have similar responsibilities for taking corrective action, usually within an agreed protocol that allows the head some flexibility to adjust expenditure between headings as the year unfolds. The local authority produces a model code of practice and one can be found in *Appendix 6*.

The four countries studied take different approaches to the question of end-of-year debt. In Victoria schools may have a debt on the current year's budget but must be able to cover it from reserves. Overall debt is not allowed and the Department of Education and Training, that is to say the government, will intervene to address the deficit. Poland takes a similarly decisive line and would not allow a school to operate a deficit budget over a number of years. Brazil has the discipline of withholding funds on a quarterly basis. England appears to have the most permissive regime in relation to overall deficit budgets. In theory a school should not overspend and any deficit is carried forward to the subsequent year and corrective measures taken. If a school cannot recover the position in the subsequent year, it is allowed to apply to the LEA for a 'licensed deficit' with a schedule of how it proposes to come back into balance within a specified time. At the end of 2002, 25 per cent of English secondary schools were carrying forward a deficit and the situation has got worse since. In some LEAs in 2003/2004, over half the secondary schools have deficits, mainly in the order of 1 per cent to 2 per cent but in some cases amounting to 20 per cent of annual income.

## Assistance and training for school managers

It is clear from all four submissions that training of heads and school managers in financial management is essential as this is a skill they do not normally have as a result of their background and training for the teaching profession. The four areas studied differ in the extent of central direction: Poland and Brazil have a long-standing tradition of central control and the format for financial reporting is laid down centrally but both countries appear not to have progressed far down the route of computerization. The State of Victoria, drawing on its longer experience of self-managing schools, has sophisticated computer systems and manuals of guidance. In England, for many years schools either devised their own systems or used systems set up by the local authority. Recent developments, which are reported fully in *Appendix 7*, are the introduction of a common national financial reporting framework known as 'Consistent financial reporting'. Schools are required to use the same broad set of budget headings and so use a consistent classification of types of expenditure and income. The purpose of this is to enable school managers to benchmark their expenditure against schools of a similar size and in similar circumstances while remaining free in their decision-making at school level.

The importance of training so that financial administrators and managers in schools are competent and knowledgeable about proper procedures is emphasized in recent guidance on school financial management prepared in England by the Institute of Public Finance (2003). This notes that most fraud is discovered not by auditors but by alert line managers, hence the importance of properly trained staff.

## Internal and external audit

All four *rapporteurs* referred to several layers of audit in their school funding systems and this is clearly essential if fraud is to be prevented. In most cases the first layer is at school level and performed by a competent member of the school council, except where this council is relatively inexperienced or powerless as in the Brazilian and Polish examples. Further audits are provided by the next highest regulating authority which is itself audited by a higher authority, which may be an arm of central government. Central government is mainly responsible for ensuring that audits by intermediate authorities are carried out thoroughly and its own audit of individual schools can only be on an occasional ‘dipstick’ basis.

It is important that audit not only checks on the accuracy of financial records and that money has been spent for approved purposes but also ensures that the financial regulations are properly complied with. It is when audit fails that the financial system is exposed to the possibility of accidental error or deliberate fraud and that head teachers can find themselves exposed to temptation and able to exploit loopholes for personal gain.

## The detection of fraud or corruption

The extent to which fraud can be detected varies from country to country. In some cases the borderline between incompetence and petty fraud is difficult to define and all the respondents note the need for good manuals of procedures and for the provision of training for principals. This is a particular problem in Brazil where school principals are elected by teachers, other staff, parents and student representatives for a three-year period only. In Brazil the irregularity of payments to schools is also a major problem, not only making the life of the principal extremely difficult but also undermining teachers’ forward planning.

There appears to be little collective recording of school-based fraud so it is very difficult to know whether or not fraud has increased in those countries where devolved funding has been introduced. The responses from the different countries give examples of the cases which have come to light and show clearly that it is a high level of audit and monitoring that is the greatest deterrent to fraud. The transparency of formula funding ought to contribute to the avoidance of fraud but in some cases the formula itself is so complex that it discourages people from trying to understand it.

Failure to comply with financial procedures attracts sanctions of differing severity in the four areas studied. In Victoria the matter is dealt with as a case of 'the principal needing support' prior to becoming a disciplinary issue by the government department. If deliberate embezzlement is suspected, the case is referred to the police and the principal suspended. In England the first level of action is through the governors of the school advised by the Local Authority. Repeated flouting of recommendations can lead to disciplinary action. In the case of complete breakdown at school level, the LEA has the ultimate sanction of withdrawing delegation and directly running the school's finances itself. Cases of criminal fraud are referred to the police and have been known to result in prison sentences, the most recent being for five years.

In Brazil the regime appears to be more draconian at a personal level. Until 2001 failure to produce a quarterly statement resulted in a daily fine on the principal himself of 1 per cent of the quarterly allowance, however this has since been revoked. If the quarterly account is overdrawn the school principal must deposit the overdrawn amount or have it withdrawn from his next paycheque. Here as elsewhere, the lack of statements or irregular use leads to dismissal from the post of headship. In Poland, while fraud and misreporting of official data are punishable by dismissal and imprisonment no cases of such occurrences were known despite hearsay evidence of corrupt practices at local authority level with respect to misusing funds.

The publication of accounts and their accessibility in the public domain at school, locality and national level is a major factor in reducing the likelihood of fraud. For this to be successful, the format must be standardized so that comparisons can be soundly based. In England, for example, it has taken over a decade since the introduction of local management for all schools to log their expenditure and income in a consistent format.

Some countries with devolved school financial management such as Sweden, Finland and Iceland do not permit schools to have bank accounts in order to limit the possibilities of corruption and reduce the need for auditing multiple bank accounts. Schools' finances are transacted through the treasury system set up for the whole public sector. Indeed, schools' budgets are recorded as units of account in the treasury system. A school sends a signed request to the treasury to pay its invoices from its formula generated income and any school generated funds that are deposited into its account at the treasury. The treasury system must operate accurately, quickly and flexibly if it is to provide efficient banking services to schools. This appears to be the case in Scandinavian countries. However, there is evidence that where treasury systems have been introduced in transition countries (e.g. Russia, Bosnia and Hungary) and are used to manage schools' transactions, these conditions for efficient treasury operations have not been met. Hence, financial controls instituted in order to prevent corruption can reduce efficiency when schools are denied flexibility in choosing how to use resources or are deterred from raising their own revenues for fear of not being able to withdraw them from the treasury.

## Conclusions and recommendations

The introduction of formula funding for schools and the delegation of spending decisions to them can *prima facie* increase the possibility for fraud as many more people have direct access to funds. The extent to which the possibility of corruption is increased by delegated financial management depends on whether schools' financial transactions are conducted *via* a treasury system or through school bank accounts. Unless the treasury system is timely, accurate and flexible a trade-off exists between reduced corruption opportunities due to greater financial control under a treasury system and greater efficiency when schools can manage their own bank accounts. The same trade-off can exist with excessively strict regulations on schools' financial transactions, as is reported to have occurred in Rio Grande do Sul.

Conversely, formula funding acts to reduce the likelihood of fraud as one of its essential elements is public access to information. Transparency puts pressure on people in positions of responsibility to act in conformity with regulations as the likelihood of detection is far higher and the personal and professional consequences of misappropriation greater. Simpler formulae are easier to understand and therefore more transparent. However, too simple a formula may be inequitable as it does not differentiate sufficiently between schools with different structural cost factors.

The replies from four countries only indicate that the range of traditions and practices within a country influence the detail of the way formula funding and school financial management operate. Although it is possible to list the *desiderata* for a fair and fraud-free funding system, realism suggests that local factors must be taken into consideration.

Nevertheless, the following recommendations can be summarized from the range of evidence provided.

1. The training of principals and administrative staff in financial procedures must be thorough and constantly refreshed.
2. Great care must be taken in the preparation of the manual of financial procedures. These must be quite specific about matters such as:
  - the ordering of goods (tendering process);
  - the separation of ordering and receiving goods;
  - the need for multiple signatures on cheques or credit notes;
  - the authorization for credit card expenditure;
  - the maintenance of equipment inventories including writing-off; and
  - the handling of any cash transactions within school.
3. Those closest to the point of delivery (i.e. the school council or board of governors) must be sufficiently well informed of the funding process so as to be able to detect either incompetence or fraud.
4. Particular care must be taken to ensure that collusion for fraud does not occur within a school, i.e. governors must be sufficiently involved in the life of the school so that they can detect improper actions.
5. There must be a nationally agreed format for the production of financial reports at school and intermediate authority level.
6. Local monitoring, i.e. within the school under the responsibility of an appropriately experienced and trained lay person on the governing body must be frequent and independent of the head and administrative staff.
7. Intermediate tier audit must be thorough and regular so that any deficiencies can be detected early and remedial action taken. Auditors must be independent of the school and, if private, not appointed by the

school but rather by the education authority. Auditors must report clearly and fully to the education authority and to school managers and governors. The potential fraudster thrives on lack of immediate detection.

8. Statistics reported by schools that are used in the funding formula must be subject to external checks.
9. The details of how distribution formulae operate must be presented with sufficient clarity to enable greater understanding at all levels, including both professional and lay, within the education system.

In summary, formula funding of schools reduces the potential for corruption by increasing transparency as the amount each school should receive and the basis for this is public knowledge. Decentralized financial management replaces the opportunity for large scale fraud by the few which characterizes a central system by wider opportunities for smaller scale fraud by employees at school level, especially if schools have bank accounts and are allowed or even encouraged to collect money directly from parents and the community. The potential for fraud in decentralized systems can be contained by well designed financial regulations that are adhered to, monitoring of schools' finances by a school council and the education authority and independent and thorough audit of schools' accounts. It is also important to have trained staff in schools who know the correct financial procedures and are prepared to be alert to indications of fraudulent practices.

When contemplating a move to decentralized school financial management, the ability of an education system to implement the changes in administrative and management practices that are necessary for minimizing opportunities for corruption at local and school level must be an important consideration.





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## *Appendix 1*

### Background to the case study countries

#### Basic statistics for the case study countries

	<b>Population</b>	<b>Area 1,000 km</b>	<b>Population density (persons per square km)</b>	<b>GDP per capita (US\$ purchasing power parity)</b>
<b>Victoria (Australia)</b>	4.9 million	237.6	21.5	27,111
<b>England (UK)</b>	49.1 million	130.4	377	22,800
<b>Poland</b>	38.6 million	312.7	123	9,700
<b>Rio Grande do Sul (Brazil)</b>	10.4 million	281.7	36.9	4,022

#### *Victoria: Australia*

Australia has a federal political and legislative structure with a government at the national level (referred to as the Federal or Commonwealth or Australian Government) as well as governments in each of the six States and two Territories. Under Australia's Constitution, primary responsibility for school education and vocational education and training (VET) lies with the State and Territory governments. In the higher education sector, universities are autonomous self-accrediting institutions established by State or Territory legislation but reliant on Commonwealth government funding. The Commonwealth Department of Education, Science and Training (DEST), previously the Department of Education, Training and Youth Affairs (DETYA) is responsible for national education, training and science policy. DEST is

also responsible for higher education funding, policies in the area of international/overseas students and indigenous education. In addition, DEST oversees and approves arrangements for financial assistance to eligible indigenous and isolated students.

Despite Australia's legal framework in relation to education having remained unchanged in the past 10 years, the involvement of the Commonwealth government in this area has increased as a result of evolving and renegotiated Commonwealth-State funding arrangements and a desire for a national approach on education issues. The monitoring of student academic performance is an example of the Commonwealth government's expanded interest in school education.

In each Australian State and Territory, education consists of four main stages: pre-school, primary school, secondary school and tertiary education. While State or Territory Departments of Education ultimately legislate and regulate in the area of school and vocational education, a formal co-ordinating body called the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA) has been in operation since 1994. MCEETYA's aim is to facilitate closer co-operation and communication between State, Territory and Commonwealth governments on issues of common or national interest. The Council is comprised of State, Territory and Commonwealth ministers with responsibility for education, employment, training and youth affairs as well as their New Zealand counterpart. The Council's main areas of responsibility centre on the co-ordination of strategic policy and the negotiation and development of national agreements, shared objectives and formats for reporting in relation to:

- pre-primary education;
- school (primary and secondary) education;
- vocational education and training;
- employment and linkages between employment and/or labour market programmes and education and training;

- adult and community education;
- youth policy and programmes; and
- cross-sectoral matters.

Schools in Australia are classified as either government or non-government schools. Government schools are owned and operated by a State or Territory government and are organized into systems of education administered by an education department. The non-government schools' sector in Australia comprises two main groups: 'systemic' schools which are groups of schools administered by a central organization (for example, Catholic parish schools) and 'independent' schools, each of which is a separate legal entity. Independent schools involve a range of religious (for example, Anglican, Coptic Orthodox, Greek Orthodox, Islamic, Jewish, Lutheran and Seventh Day Adventist) and non-religious schools (for example, Montessori and Steiner). The Australian Bureau of Statistics reported that 68.4 per cent of students attended government schools in 2002. However, a strong trend towards the non-government school sector is indicated by the following changes between 1992 and 2002:

- The total number of schools fell by 3.3 per cent, with the number of government schools declining by 6.4 per cent and the number of non-government schools increasing by 6.1 per cent.
- The number of students attending government schools increased by 1.0 per cent while the number attending non-government schools grew by 20.8 per cent.

This trend towards increased non-government school enrolment is expected to continue over the next decade and, by the year 2010, it is projected that total non-government school attendance will have increased by 60.3 per cent in a 30-year period (to a total of 1,103,000 students). By contrast over the same period, 1981-2010, it is projected that the total government school population will have declined by 3.8 per cent (to a total of 2,211,000 students).



State and Territory governments provide around 90 per cent of government schools' operating costs, with the Commonwealth government contributing the remaining 10 per cent. While State and Territory governments also contribute funding to non-government schools, the Commonwealth government's contribution to non-government schools' funding is significant at almost 35 per cent of these schools' funding.

The power to make curriculum decisions lies with the chief executive of the education department in some States and Territories, while in others that responsibility resides with the Minister through statutory bodies such as a Board of Studies or Curriculum Council. Across the country, curriculum is based upon the eight key learning areas set out in the *National goals for schooling in the twenty-first century*. The degree of latitude schools and teachers have in the areas of curriculum planning and delivery vary across the States and Territories, although expectations that certain mandated requirements relating to learning outcomes and commitment to the individual and group needs of learners will be adhered to is universal.

An outcomes-based framework characterizes curriculum implementation and evaluation across the country. However, approaches to choice of curriculum content vary. In some states, teachers plan curriculum using both commercially produced guides and government generated course advice material, while elsewhere the process is more prescriptive and pre-determined in the form of mandated courses of study and syllabus guides. Within each State and Territory, the senior secondary curriculum leading up to the Year 12 certificate is highly centralized under boards of studies responsible for curriculum and assessment. In most cases, a mixture of central and school-based assessments is required based on prescribed courses.

The introduction in several states of self-managing schools was initially aimed at improving schools' capacity to respond to local community and individual student needs, for example through improved budget and staffing flexibility. Increasingly the focus has come to be on the learner and learning

outcomes as well as on accountability to parents and the local community. Across the country, the decentralization of authority and responsibility to the school level has taken place within agreed system-wide standards and accountability frameworks. These trends and features are most evident in the State of Victoria. As part of a focus on recognizing and responding to diverse student needs, improving the skills of teachers to enhance the teaching-learning relationship and continuously improving schools, the current Victorian government has set ambitious student outcomes targets:

- By 2005, Victoria will be at or above national benchmark levels for reading, writing and numeracy as they apply to primary students.
- By 2010, 90 per cent of young people in Victoria will complete Year 12 or its equivalent.
- By 2005, the percentage of young people aged 15 to 19 in rural and regional Victoria engaged in education and training will increase by 6 per cent.

To achieve these it is implementing a reform programme that is focused on:

- enhancing student learning through new curriculum frameworks, improved assessment and reporting and improved sharing of best practice in teaching and learning;
- developing a new resource allocation model;
- building leadership capacity through improved principal selection, mentoring and coaching programmes as well as leadership development programmes for new and experienced school leaders;
- creating and supporting a performance and development culture;
- supporting teachers through focused professional leave and induction and mentoring programmes;
- school improvement through differential school reviews and enhanced school performance data; and
- enhancing school networks.

### ***England: UK***

The four countries that make up the UK – England, Scotland, Wales and Northern Ireland – have separate education systems, those in England and Wales most resembling each other. The largest country, England, has 8.4 million pupils and 25,500 state and independent schools. State schools are maintained by 150 Local Education Authorities (LEAs) and are not allowed to charge fees. About 7 per cent of children attend private fee paying schools. In 2003 there were 17,860 state primary schools with 4 million pupils and 3,436 secondary schools with 3.3 million pupils. There are 378,500 qualified teachers employed in the state system. Total recurrent public spending on school education in 2002/2003 was £27 billion or about 3.5 per cent of GDP and 8 per cent of government spending.

Pre-school education is from 3 to 5 years of age. An increasing number of state funded places are being provided as the government is committed to enabling all parents of 3-5 year olds to have access to provision. Schooling is compulsory between 5 and 16 years of age. The primary stage is from 5 to 11 and secondary from 11 to 16. Some children complete 2 further years in school and others in further education colleges. Education from 3-16 is financed by local education authorities, with around three-quarters of the funding coming from central government grants to local authorities and the rest from local residential property tax.

All educational institutions have a governing body drawn from a wide range of stakeholders, including parents. The governing body is responsible for the educational direction of the school or college, which has a high degree of autonomy. Primary and secondary schools are legally divided into community, foundation and voluntary schools. The majority of schools are community schools, established and fully funded by local education authorities. Foundation schools are also funded by the local authority but owned by the governing body or by a charitable foundation. Voluntary schools are largely established by religious foundations and funded by LEAs.

The national curriculum for compulsory education is divided into four key stages: KS1 from 5-7, KS2 7-11, KS3 11-14 and KS4 14-16. Each stage has tests, culminating in the General Certificate of Secondary Education at the end of Year 11 (age 16).

It is important to appreciate that the UK does not have a written constitution and that government in England is highly centralized. Local government powers and responsibilities are defined by legislation passed by Parliament and have no constitutional guarantee. This means that ultimately the will of central government prevails. In the last 15 years, while the management of schools has become more decentralized the curriculum and standards framework within which schools operate has become more clearly defined and more subject to central government control.

### ***Poland***

Poland is divided into 17 regions (*województwa*), county level local governments (*powiats*) and the lowest tier of local government, known as *gminas*. There are 380 *powiats* and 2,500 *gminas* in Poland. This system of elected local government was reintroduced from the pre-Second World War period after the collapse of communism in 1989. It was also at that time that the radical decentralization of Polish schools began.

The school system includes primary schools (grades 1 to 6), lower secondary schools (*gymnasiums* for grades 7 to 9) as well as upper secondary schools. The latter include general academic schools, called *lyceums* and vocational schools. Primary schools include a preparatory year for 6 year-olds (representing approximately 413,000 pupils). *Lyceums* offer 3 years of study and conclude with the *matura* examination that grants access to universities. Vocational schools are of two types: basic vocational schools (2 years of study) and technical schools ending with the *matura* exam (3 years of study). Graduates of *lyceums* can also enrol in post-*matura* schools to study for 1 or 2 years for professional qualifications. Poland also has some

schools for adults, mostly *lyceums*. The following table provides the basic structure of the Polish education system in the school year 2002/2003. (Note that the actual number of schools is in fact much lower than 47,000 as many vocational schools operate in clusters under a single director.)

	Schools	Students ('000)	School size
Preschools	7,941	668.2	84
Primary	15,593	3 395.9	218
<i>Gymnasiums</i>	6,609	1 709.0	259
<i>Lyceums</i>	2,548	745.5	293
Vocational	8,622	909.2	105
Post- <i>matura</i>	2,857	236.5	83
For adults	3,431	369.5	129
Total	47,601	8,034	169

Previously, under the communist system, all school administrations were political appointments. Schools were divided among a number of different ministries, including agriculture, education (responsible for primary schools and *lyceums*) and various industry ministries and were funded centrally *via* their respective ministries. Some ministries (such as agriculture and mining) were strong and could obtain more funds for their schools. Other ministries (education) were very weak and could not protect the funding levels of their schools (in the case of the education ministry this resulted in a major decline of funding for the most important general education *lyceums*.) Budgeting was based on incremental changes to the previous year's budgets. Such incremental changes had to be discussed for each school separately, allowing much scope for political influence. With each new politically generated investment drive in the communist economy, appropriate funds were allocated to vocational schools serving that investment: Funding levels did not reflect overall education policy priorities but rather the political significance of the investment itself.

After 1989, Poland successively devolved responsibility for the education system to newly established, democratic local governments. This process was completed in 1998. Preschools, primary schools and *gymnasiums* were taken over by *gminas* first on a voluntary basis and since 1996 obligatorily. The *powiats* in 1998 took over upper secondary schools (*lyceums* and vocational schools) as well as post-*matura* schools and schools for adults. *Powiats* are also responsible for both primary and secondary special schools (schools for handicapped students). At that time a role in the education sector was also foreseen for the *województwa*, which took responsibility for schools of regional significance (some special vocational schools, artistic schools and similar). However, since then most of these schools have been taken over by major cities, where they are usually situated.

The experience of management of school by Polish local governments is rather complex (Levitas and Herczyński, 2002). The schools *gminas* inherited were in rather poor condition and inefficiently located relative to their size. The *gminas* have been able to invest generously but had less success in rationalizing school networks and in raising quality. A big test of *gminas* as school managers came in 1998 when reforms introduced a new lower secondary school – the *gymnasium* - by cutting down 2 years of teaching in the primary school (from 8 to 6 grades) and 1 year of teaching of *lyceums* (from 4 to 3 grades). The networks of *gymnasiums*, which *gminas* had much more freedom to form, are more rational and the chronic structural differences between the urban and rural schools disappeared for newly formed *gymnasiums*. This success makes it hopeful that in the long run, through resolving many local disputes and proceeding by small steps, local governments will be able to successfully restructure and manage their school systems.

An important role in Polish education is played by the non-public sector, which includes three basic types of schools: religious schools, so-called ‘citizen’s schools’ (*szkoły społeczne*) run by non-profit parental organizations and profit-making schools (mainly at post-*matura* level). Poland uses a specific definition of a public school as a school that has no specific limitations on

enrolment (such as religious or national), adheres to a generally established curriculum and requirements for teacher qualifications and charges no fees (a number of schools run by religious institutions and parent associations are considered public according to this definition).

The first non-public schools appeared in Poland in 1989 when the communist system collapsed. After dramatic initial growth, the numbers of non-public schools stabilized. Initially most of the non-public schools were the primary schools and *lyceums*; slowly vocational and especially post-*matura* schools have also developed. Non-public schools are generally much smaller than corresponding public schools and are almost always located in larger cities. Post-*matura* schools now comprise about half of the non-public sector and are almost exclusively profit-making organizations. The basic structure of the non-public education sector for the school year 2000/2001 is given below.

	Schools	Students (thousand)	School size
Primary	420	30.6	73
<i>Gymnasiums</i>	451	22.2	49
<i>Lyceums</i>	463	35.0	76
Vocational	370	20.9	57
Post- <i>matura</i>	1,639	115.9	71
Total	3,343	224.6	67

### ***Brazil***

Brazil is the largest country in South America. Crossed by the equator and the Tropic of Capricorn, Brazil is mostly a tropical country with four different time zones. Location in the southern hemisphere means that the academic year is from late February or early March to December. Consequently, all educational statistics refer to both the calendar and the

academic year. Brazil's 160 million inhabitants live mainly in urban areas distributed along or not far from the 7,367 km Atlantic coastline, where most schools and higher education institutions are also located.

The Federal Republic of Brazil comprises the Union, the Federal District (*Brasília*), the 26 states and over 5,500 municipalities, all autonomous under the Federal Constitution of 1988. Most statistical data is gathered by five macro-regions: the North, North-East, Central-West, South and South-East, where most of the population, the GNP and school and higher education enrolments are concentrated.

Education is defined as a right for all and an obligation of the family and the state (article 205 of the Federal Constitution). The state at all levels (Union, states and municipalities) is responsible for the maintenance and development of education. However, different state levels have different educational competencies and responsibilities. For instance, municipalities are basically involved with pre-school and elementary education and the federal level with higher education. Private provision of education is permitted subject to authorization and to quality evaluation and accreditation by public authorities (article 209 of the Federal Constitution).

The Brazilian educational system is divided into two main levels: basic education and higher education. Basic education includes early or pre-school education (ages 0-6), fundamental school (beginning at age 7, with 8 grades) and secondary school (3 or 4 grades).

Brazilian education, at all levels and types, is financed by public and private funds. The public sector encompasses the federal, state and municipal educational systems, which have different direct and indirect administrative bodies and educational institutions. The private sector maintains and/or manages private schools and universities, with revenues from fees and some contributions from public and private sources. Most of these institutions are also granted a broad tax exemption, including the employer's contribution to



the mandatory public social security plans, which account for a high level of public funding to all private educational institutions. There are also student aid programmes and scholarships programmes for all levels, from pre-school to graduate studies.

In order to understand the Brazilian educational system it is crucial to take into account national economic, social and political conditions. The recent monetary stability plan has set fiscal policy within the current Latin American ‘adjustment policies’ framework. Such policies have a strong impact on public finances and imply major structural reforms in the public sector, new patterns of relationships between economic agents and a severe shortage of government investment for sectors such as education, health and science and technology. Moreover, in the search for more efficiency in the education sector methods allocating resources are being reformed. There is concern about the uncertain outcomes of these changes and the lack of an objective plan with targets for educational access and quality.

It is fair to acknowledge that significant progress in terms of educational development is mainly due to social movements and changes within Brazilian civil society. The democratization of society and the state, changes in civil society’s capacity for organization, the strengthening of popular demands for quality of life and a wider perception of education as a right and a duty for all have redefined educational policies. Additionally, the government has had the dynamic capacity to push forward educational reform although major educational problems such as adult illiteracy, low schooling and great inequality persist. New developments in the educational system include the election of public school principals from among the teaching staff by teachers, other school employees, parents and students.

Major achievements in the Brazilian educational sector in recent decades are: a sharp fall in illiteracy rates, growth in enrolments at all levels (particularly in pre-school and secondary education, but relatively stagnant in undergraduate higher education) and a steady growth in the average years of schooling of

the overall population. Nevertheless, the quantitative and qualitative educational panorama is still very poor both in terms of supplying social demands and the contemporary requirements of the world of work and international economic competition.

## *Appendix 2*

### Questionnaire

#### 1. Overall context

- 1.2 Please provide a factual description of the way education funding is distributed in your country:
- 1.3 Please outline (e.g. 200 words) the formula used to allocate money to an individual school:
- 1.4 List the types of indicator used in the distribution formula:
- 1.5 What are the major differences between your country's formula funding methodology and the previous method of funding education?

#### 2. Openness of information

- 2.1 Is the amount allocated each year to each school in the public domain?
- 2.2 How is this figure published?
- 2.3 To whom is it readily available?
- 2.4 How easily understood is it by?
  - i. school managers?
  - ii. teachers?
  - iii. parents?
  - iv. school council (i.e. governing body)?
  - v. members of the local community?

### 3. Generating the budget prior to distribution

3.1 At what level of detail is the formula constructed and published?

YES NO

- i. teaching staff
- ii. non-teaching staff
- iii. books and other learning resources
- iv. premises
- v. management costs
- vi. administrative costs
- vii. none of these – simply a global sum determined by simple factors such as pupil numbers

Please comment on the above and develop your ideas below.

### 4. Data collection and verification

4.1 How are the data for the indicators in the distribution funding formula collected (e.g. number of pupils, number of pupils with additional educational needs)?

4.2 What scope is there for people at school level to misreport these data?

4.3 How frequently are the data collected?

4.5 How is the accuracy of the data verified?

### 5. Budget scrutiny at school level

5.1 Describe how the use of financial resources by schools is recorded.

5.2 To whom is it reported by schools?

- 5.3 What measures are taken, if any and by whom, if there is a discrepancy between the budget allocated to a specific heading and the expenditure incurred?
- 5.4 What degree of tolerance is permitted by financial management protocols?

## 6. Technical support for school managers

- 6.1 What level of technical support for financial management is provided for schools and by whom?
- 6.2 Is there a standard code of financial practice for all schools? If so, what is the level of geographical coverage, (e.g. national, regional, local)?
- 6.3 If the answer to 6.2. is YES, who sets the financial regulations and what main aspects of financial practice in schools do the regulations cover (e.g. separation of duties, limits on expenditure authorization, requirement for several quotations on purchases above certain thresholds, declaration of financial interest)?
- 6.4 Is there a single management information system or do all schools create their own?

## 7. Internal and external audit

- 7.1 Describe the audit measures that ensure compliance with financial regulations.
- 7.2 How many levels of audit are in place (e.g. within a school, by somebody from outside the school but local, by a nationally regulated external body)?
- 7.3 Does your system have in place a local (i.e. school level) board/committee/governors who have a front-line responsibility for ensuring public accountability for the use of school revenues and adherence to high ethical standards?
- 7.4 Describe the measures that might ensue if satisfactory compliance with financial procedures (short of criminal corruption) has not been achieved.

## 8. The detection of fraud or corruption

- 8.1 How well documented is your country in terms of the detection of fraud or corruption in the education system?
- 8.2 Since formula funding was introduced has there been any change in the extent of the corruption detected, (e.g. in the misreporting of data in order to increase fraudulently a school's budget allocation or with respect to the expenditure of money from the school's budget for personal benefit)?
- 8.3 Are there any loopholes in the formula funding methodology that have allowed corruption to take place?
- 8.4 What measures have been taken to close off these loopholes?
- 8.5 In order to eliminate the possibility of corruption, what measures would you recommend, in the light of your experience, to any country or state thinking of moving from centralized to a decentralized system for the funding of schools?

*Nota Bene:* If you have any documentation that you think may be useful to the IIEP to learn more about your country's situation regarding formula funding, decentralization and corruption, in addition to the valuable information you have given in this questionnaire, please feel free to enclose it with this document.

Furthermore, if there is any supplementary information you would like to add that has not been covered by this questionnaire please take the opportunity to do so below.

### *Appendix 3*

## Poland: Ministry of Education formulae for allocating subventions to local authorities for educational expenditure

In the national allocation formula for allocating grants from central government to local authorities for education the main indicator is student numbers. Students are counted as 1 for normal daily schools (public or non public), 0.7 for evening public school for adults and 0.35 for evening non-public school for adults. Other types of students receive additional weights, as listed below (the weight is in parentheses):

- students in a rural school ( $w = 0.35$ );
- students in a school in a small city ( $w = 0.2$ );
- students in poorer *gminas* ( $w = 0.05$ );
- students living 3 to 5 km from the school ( $w = 0.02$ );
- students living 5 to 10 km from the school ( $w = 0.07$ );
- students living over 10 km from the school ( $w = 0.15$ );
- students in *gminas* with a high average class size ( $w = 0.19$ );
- students in *gminas* with large number of highly qualified teachers (weight depends on some other indicators);
- minority students ( $w = 0.2$ );
- minority students learning in the mother tongue ( $w = 0.5$ );
- a system of weights for handicapped students (from 0.8 to 3);
- students in secondary school ( $w = 0.005$ );
- plus some incidental weights.

Weights are applied additively; for example a student at a rural school learning in a minority language is funded at the level of 1.85 times the funding of the regular urban student. It is important to note that primary school and *gymnasium* students are funded at the same level and students at secondary (post-*gymnasium*) school only a minute fraction higher. Only weights for school tasks have been listed above.



## *Appendix 4*

### Formulae for allocation of funds to individual schools in Victoria

The current funding formulae are based on three key components: core, needs-based and priority programmes.

#### Core

Core funding allocations provide for teaching staff, support of teaching and learning, premise costs and on-costs. Core funding represents approximately 80 per cent of the school budget.

#### *Teaching staff*

Formulae determine a staffing quota based on enrolment and type of school. Funding (except for the principal/head teacher positions) is then provided on the basis of a set amount per position to cover salary and on-costs. Schools determine a leadership and staffing profile to best suit requirements and within available funds, calculating staff costs as actuals rather than averages. Funds excess to staffing requirements are flexible and may be accessed as cash. Flexibility also includes the capacity for special payments to any staff (the principal excepted) within a specified range limit.

	Primary school (Year P-6) allocations	
Staff entitlement	= enrolment/21	
	= N	
Allocation	= (N-1) x \$52,050 + (1 x cost of principal)	

	Secondary school (Year 7-12) allocations	
Staff entitlement	= 4 + enrolment/16	
	= N	
Allocation	= (N-1) x \$52,050 + (1 x cost of principal).	

The primary allocation is further increased on the basis of the Year P-2 enrolment by AUD\$331 per student. A size adjustment factor is also applicable as well as a teacher relief (emergency teacher) allocation (AUD\$1537 x staff entitlement in primary and AUD\$729 x staff entitlement in secondary).

If the (actual) cost of the staff entitlement exceeds the funds allocated, then a compensatory amount is paid to the school. This policy is included in the transition to charging schools for actual staff salary costs and will most likely be phased out.

### ***Support of teaching and learning***

This allocation provides funds for non-teaching staff and school operational costs. Formulae take account of enrolment and school type.

Primary	Less than 200	(AUD\$358 x E x SAF) + (AUD\$20 x E)
	200 +	(AUD\$358 x E) + (AUD\$20 x E)
Secondary	Less than 500	(AUD\$569 x E x SAF)
	500 +	(AUD\$569 x E)

where:

E = enrolment,

SAF = school size adjustment factor to support small schools,

AUD\$20 additional factor for primary is to assist literacy planning,

the school allocation is paid as both credit and cash,

additional allocations apply for school/site complexity.

### ***Premises***

Premises funding includes contract cleaning, ground maintenance, utilities, maintenance and minor works and split-site allowances. Utilities are based on historical costs while other allocations are formulae driven. These formulae are complex and maintain historical patterns.

### ***On-costs***

On-costs funding provides for additional costs associated with payroll tax, superannuation charges and WorkCover premiums (insurance).

## **Needs-based funding**

Needs-based funding is provided through formulae-driven allocations for disabilities and impairments (D & I), special learning needs (SLN), English as a second language (ESL) and rurality and isolation (R & I). Total needs-based funding comprises approximately 20 per cent of all funds allocated to schools.

### ***Disabilities and impairments (D & I)***

When enrolled in mainstream schools (and similarly for special schools) these students are resourced according to their level of learning need, indexed on six levels. The level is determined in relation to support required in relation to physical disability, severe language disorder, severe emotional disorder, learning impairment, intellectual disability, visual impairment and autism spectrum disorder or combinations of these. Allocations for each level are shown below:

Level	1	Allocation	AUD\$3,928
	2		AUD\$9,084
	3		AUD\$14,338
	4		AUD\$19,570
	5		AUD\$24,760
	6		AUD\$29,979

The allocation is expected to cover all student costs. Additional allocations are made for teacher relief.

### ***Special learning needs (SLN)***

The allocation targets students whose readiness to learn is impaired due to poor educational experience and family or other circumstances. A school index is calculated from six factors related to the nature of the student population. Funding is allocated to those schools above a minimum threshold.

Allocation = (SLN index – threshold) x enrolment x AUD\$360

Minimum allocations apply for eligible schools (AUD\$2,000 for enrolments of less than 500 and AUD\$5,000 for larger schools).

### ***English as a second language***

This allocation is designed to provide programmes for ESL students calculated as an integrated weighted index for primary and secondary students and the school's profile of ESL students.

<b>Level</b>	<b>Description</b>	<b>Grade</b>	<b>Weighting</b>	<b>AUD\$ rate</b>
<b>1</b>	All primary ESL students not in levels 2-4	P-6	1.0	301
<b>2</b>	1-3 years in an Australian school	2-6	1.29	388
<b>3</b>	Less than 1 year in an Australian school	P-4	1.61	485
<b>4</b>	Less than 1 year in an Australian school	5-6	2.03	611
<b>5</b>	3-7 years in an Australian school	7-12	2.86	861
<b>6</b>	1-3 years in an Australian school	7-12	7.10	2,137
<b>7</b>	Less than 1 year in an Australian school	7-12	14.23	4,283

Funding thresholds of AUD\$9,740 and AUD\$20,000 apply to primary and secondary schools respectively. ESL funds are in addition to funds provided for these students through other components.

### ***Rurality and isolation (R & I)***

This allocation recognizes the special needs of students in these schools due to size, the requirement for shared specialists in small rural primary schools and location (distance from major population centres). In relation to size, eligible non-metropolitan primary and secondary schools are capped at 200 and 500 students respectively for the rural size adjustment factor.

Funding is calculated per student and diminishes with increasing enrolment. Examples are shown below from funding tables.

Primary	102 students	AUD\$543.40/student	AUD\$55,442 total
	150	\$286.60	\$42,983
	198	\$19.60	\$3,833
Secondary	40 students	\$4,455.40/student	\$178,216 total
	180	\$1,156.90	\$208,242
	425	\$301.90	\$128,318.

## Priority programmes

An additional 16 programmes provide allocations to schools specific to the needs of individual schools. They include language background other than English (LOTE), indigenous education, professional development and special initiatives. For 2003, many of these allocations have been incorporated into the CORE allocation to reduce complexity, increase transparency and demonstrate their permanent inclusion in recurrent school funding.

In summary, the Victorian allocative formulae are complex, an outcome probably related to a focus on historical factors in their derivation. It is emphasized that this problem is currently being addressed in Victoria with the aim of producing a new approach for 2004.

### *Indicator types*

- Degree and nature of student disabilities and impairments;
- special learning needs index relating to proportion of students disadvantaged through family and other circumstances;
- index of need for students from non-English-speaking backgrounds;
- small rural school size adjustment factor (curriculum guarantee); and
- location (rurality and isolation) index.

## *Appendix 5*

### The school financial calendar in Victoria

<b>Month</b>	<b>Process</b>	<b>Notes</b>
<b>January</b>	Complete Finance End of Year procedures	Refer CASES Quick Guide As part of the EOYP ensure that balances are transferred from school-defined codes flagged for deletion or modification
	Enter school council-approved program budgets for receipts and expenditure on to CASES	As per school council meeting minutes dated .....
<b>February</b>	Complete School Census	School council can pre-empt any changes to indicative SGB
	Complete Profit and Loss Reports for all Trading Operations	Should be completed prior to annual finance audit
<b>March</b>		
<b>April</b>	School receives confirmed School Global Budget	Analyse and compare to indicative SGB. Prepare possible amendments to program budgets for school council approval
	Submit FBT pro-forma or or nil return form	Refer <a href="http://www.sofweb.vic.edu.au/tax/FBT">http://www.sofweb.vic.edu.au/tax/FBT</a> for further information
<b>May</b>	Review approved program budget and actual entries in light of confirmed SGB	Possible amendments presented to school council
<b>June</b>		
<b>July</b>	Complete CASES Local Payroll PAYG end of financial year procedures	Refer CASES Quick Guide

**August**

<b>September</b>	School receives indicative School Global Budget for following year	
<b>October</b>	Begin preparations for <ul style="list-style-type: none"> <li>• finalizing current year budget</li> <li>• creating budget for next year</li> </ul>	Cash Grant allocation of indicative SGB used in budget for following year
<b>November</b>	Prepare for annual stocktake	Profit and Loss Reports for Trading Operations to include stocktake data
<b>December</b>	Analyse current year budget	Present to school council
	Submit next year's budget to school council for approval	Consult with relevant staff
	Review Chart of Accounts and flag items for deletion following Finance End of Year Procedures in January	
	Review list of outstanding orders and invoices and delete any that are no longer required	



## *Appendix 6*

### Cambridgeshire County Council – financial regulations for schools<sup>6</sup>

The following extract from the financial regulations of one English LEA gives a typical example of the framework within which schools with delegated budgets must work.

<b>Regulation number</b>		<b>Page number</b>
1	General context	4
2	Financial control – general	4
3	Financial systems/records	5
4	Banking and cash management	6
5	Financial control – capital	6
6	Financial control – revenue	7
7	Voluntary and private funds	7
8	Prompt payment of invoices	8
9	Debt management	8
10	Audit	9
11	Risk management and insurance	9
12	Purchasing of goods/work/services in FAMIS	12

6. Under section 151, Local Government Act 1972 and section 114, Local Government Finance Act 1988 and sections 48 and 49, School Standards and Framework Act 1998. 4th Edition August 2002 issued by the Assistant Director of ELH – Resources for the Chief Finance Officer.

13	Purchasing of goods/works/services where no access to FAMIS	15
14	Personal employee expenses	17
15	Payroll	18
16	Income	20
17	Cash security	21
18	Imprest accounts	22
19	Purchase cards	25
20	Stocks and stores	26
21	Security of assets	27
22	Information systems security	28
23	Fraud and corruption	28
24	Audit reporting and escalation protocol	28
	Appendix A – Retention of financial records	
	Appendix B – Debt management escalation protocol	
	Appendix C – Inventory records	
	Appendix D – Contact officers	

## Financial regulations for schools

### 1.0 General context

- 1.1 Under the School Standards and Framework Act 1998 all schools are required to have a set of Financial Regulations. Schools can either draft their own regulations or adopt those contained in this document, but these regulations form the minimum standard and a school's own regulations must be no less rigorous than these.
- 1.2 These regulations are established by law and by the Council's Constitution (Financial and Contract Procedure Rules). They detail the responsibility of head teachers and governors in ensuring the proper administration of the Council's financial affairs.

- 1.3 Under article 12.04 of the Constitution, Cambridgeshire County Council's Head of Finance is the Chief Finance Officer designated under section 151 of the Local Government Act 1972 to be responsible for the proper administration of the Council's financial affairs. He/she is also responsible under section 114 of the Local Government Finance Act 1988 to report formally any instance of unlawful expenditure (potential or actual) to the authority's members and external auditors.
- 1.4 These Financial Regulations for Schools should be read in conjunction with the Financial Framework for Schools and the Contract Regulations for Schools. These three documents form the overall Scheme of Financial Management for Schools.

## **2.0 Financial control – general**

- 2.1 The Governing Body must immediately inform the Head of Finance of any matters arising, decision or course of action or proposed decision, proposed course of action or entry of an item of account which may give rise to a report under section 114 of the 1988 Act (see Regulation 1.3 above).
- 2.2 The Governing Body shall ensure that all the documents that comprise the overall Scheme of Financial Management for Schools are observed throughout the school.
- 2.3 The Governing Body shall:
  - (a) ensure that the allocation of resources promotes the aims and values of the school.
  - (b) safeguard the spending of public money from waste or misuse.
  - (c) comply with any statutory obligations or requirements of the Council in the management of school finances.

- (d) annually set a balanced budget and where this is not possible apply to the Council for a licensed deficit budget, including submitting a recovery plan. The Council cannot write off a school deficit.
- 2.4 The Governing Body is responsible for the control of staff and the security, custody and control of all other resources including plant, buildings (except where they are the responsibility of the Head of Property and Procurement), materials, cash and stores appertaining to the school.
- 2.5 The Governing Body is responsible for the overall finances of the school. Day to day financial and management responsibilities must be aligned so that managers are responsible for the financial consequences of their decisions. Budgets must be assigned to one authorized budget holder only.

### **3.0 Financial systems/records**

- 3.1 The Head of Finance is responsible for the operation of the County Council's accounting system, the form of accounts and the supporting financial records.
- 3.2 All schools are required to keep a commitment accounting system. This may be either the Council's Finance and Management Information System (FAMIS) system or a locally held system. Local systems will be subject to approval by the Head of ELH Finance.
- 3.3 FAMIS shall be the prime system upon which final assessments of financial performance shall be made.
- 3.4 Schools authorized to operate local bank accounts must submit financial returns in accordance with required reporting procedures, and must submit a fully reconciled year end return for upload to FAMIS in accordance with the required closedown timetable.

- 3.5 Schools that do not either use FAMIS for commitment accounting or operate a local bank account must reconcile any local accounting records to the Council's FAMIS system during the course of the financial year.
- 3.6 All documents, invoices, etc. pertaining to transactions on central and local accounting systems must be retained in accordance with the requirements set out in *Appendix A* (Retention of Financial Records).

#### **4.0 Banking and cash management**

- 4.1 The Head of Finance has delegated responsibilities for the Treasury Management function (management of debt and the borrowing and investment of money) and arranging and operating the Council's banking facilities. This means that no Head teachers or Governors are empowered to open any kind of bank account, to invest or borrow any money or to enter into any credit arrangement in relation to their public funding or balances without approval from the Head of Finance.
- 4.2 Schools must use the banking facilities operated by the Council, unless they have been authorized to operate a local bank account.
- 4.3 Permission to operate a local bank account is subject to approval by the Head of Finance, and schools can choose to bank using a sub-account of the Council's bank or with any other approved bank.
- 4.4 Schools can start to operate a local bank account from either 1 April or 1 September and must give notice to ELH Finance of the intention to operate a local bank account by 30 September or 28 February respectively.
- 4.5 Local bank account schools must comply with the reporting and operating requirements specified by ELH Finance, details of which can be found in the *Bank account school information pack*. If, in the judgement of

the Head of Finance, a school fails to carry out the processes and requirements of running a bank account satisfactorily, then the bank account may be withdrawn.

### **5.0 Financial control – capital**

- 5.1 Authority for expenditure of devolved capital funding is conferred on the Governing Body insofar as it relates to a project identified within the capital programme as agreed by the Council (normally *via* the School Asset Management Plan).
- 5.2 Schools are not permitted to undertake a capital project (a project costing over £20,000 to acquire or provide land or buildings) without approval of the Council, and schools have no power to borrow externally to meet capital expenditure requirements.
- 5.3 The levels of authority within schools for capital expenditure shall be those defined in the school's own financial regulations, but in any event the levels shall be no greater than those specified in the Contract Regulations for Schools (Regulation 2 - Delegation of Responsibilities).

### **6.0 Financial control – revenue**

- 6.1 Authority for expenditure of delegated revenue funding is conferred on the Governing Body insofar as it relates to spending for the purpose of the school as outlined in section 48 (The Cambridgeshire Scheme) or additional purposes as prescribed by the Secretary of State under section 49.
- 6.2 Schools may use some of their delegated funding to meet the cost of capital expenditure, but where this will exceed £20,000 in any one year the Director of ELH and the Head of Finance must be notified and account taken of their advice.

- 6.3 The Governing Body may choose to delegate responsibility for some levels of expenditure, as defined in the school's own financial regulations, but these levels shall be no greater than those specified in the Contract Regulations for Schools (Regulation 2 – Delegation of Responsibilities).
- 6.4 Schools may vire money from one budget heading to another within their delegated budget, but not at the expense of statutory duties. The Governing Body should decide the appropriate levels of delegated responsibility to the Head teacher for virements. This should be recorded either in the schools financial regulations or in Governing Body minutes. No virement responsibility levels are specified in the Scheme, other than the overall limit of the delegated budget.
- 6.5 Schools are not permitted to obtain any loan, other than that provided by the Council, without the permission of the Secretary of State.

#### **7.0 Voluntary & private funds and trading accounts**

- 7.1 Voluntary funds must be accounted for separately from the public funding and audited annually by an auditor who is completely independent of the school. A copy of the auditor's certificate must be sent to ELH Finance.
- 7.2 It is recommended that where the voluntary fund exceeds £20,000 the annual audit should be carried out by someone with a formal accountancy/audit qualification.
- 7.3 Any voluntary fund with an income or expenditure greater than £1,000 must be registered with the Charity Commission.
- 7.4 Any voluntary fund with a taxable income or expenditure greater than the limit specified by HM Customs and Excise (currently £55,000) must be registered for VAT.

- 7.5 A copy of the annual accounts of any trading units controlled by the school must be sent to ELH Finance.

### **8.0 Prompt payment of invoices**

- 8.1 Under the Late Payments of Commercial Debt (Interest) Act 1998, interest may be payable to suppliers where invoices are not paid within 30 days of receipt or as specified in the contract terms. Schools are responsible for date stamping invoices upon receipt and ensuring prompt payment of their invoices. Any charges incurred as a result of the school delaying payment shall be borne by the school.
- 8.2 Schools must abide by any procedures issued by the Council in connection with the employment of contractors and payment of invoices under the Construction Industry Tax Scheme.

### **9.0 Debt management**

- 9.1 Income/debt will be managed and collected in accordance with procedures set by the Head of Finance, in consultation with Directorate Management Teams (see *Appendix B – Debt Management Escalation Protocol*).
- 9.2 The Governing Body is responsible for the collection of income and the management of debt relating to the school, and must adopt any procedures and targets set by the Council for the reduction of outstanding debt.
- 9.3 For schools using FAMIS, the Debt Management Escalation Protocol (see *Appendix B*) allows for debt management to follow pre-defined criteria and processes, with schools required to respond to the Council's Debt Manager within 21 days. The escalation protocol ensures that



positive action to collect the debt or write-off proceeds along a given path, unless the school intervenes to recommend alternative treatment.

The Budget Reviewer plays a very important role in the escalation procedure since he/she must advise the Council's Debt Manager (who will provide lists of recommended write-offs) if Budget Holders are not responding and if debt recovery action is not to proceed to the next stage. The Budget Reviewer role would normally be undertaken by the Chair of the Finance Committee, on behalf of the Governing Body.

- 9.4 All schools should have an escalation procedure to ensure effective debt management, similar to that shown in *Appendix B*.
- 9.5 The Governing Body may write off debts to a limit of £250. For amounts greater than this, approval is required from the Head of Finance.
- 9.6 When there are disputes relating to debts internal to the County Council, these shall be resolved by the Head of Finance and the Head of Legal Services, after the debt has been outstanding for more than 6 months.

## **10.0 Audit**

- 10.1 Under the Scheme of Delegation, the Head of Audit and Risk Management shall:
  - (a) maintain an adequate and effective internal audit of all the activities of the Council.
  - (b) have authority to visit all schools and have a right of access at all times to such documents, other records, computer systems, and Council property as appear to him/her necessary for the purpose of the audit.
  - (c) be entitled to require from any Governor or school employee such information and explanation as he/she thinks necessary to satisfy himself/herself on any matter.

- 10.2 The Governing Body shall bring immediately to the notice of the Head of Audit and Risk Management any suspected or apparent financial irregularity affecting the School or the Council. If the irregularity is confirmed, the Chief Executive shall be advised.
- 10.3 Internal Audit shall examine arrangements to ensure standards of internal control are adequate.
- 10.4 Attention is drawn to the statutory role of the Council's external auditors (currently, the District Audit Service), which involves the same rights of access and entitlement as those set out for Internal Audit in Regulation 10.1.

### **11.0 Risk management and insurance**

#### *Strategy*

- 11.1 The Head of Audit and Risk Management has delegated powers to establish and maintain a systematic strategy, framework and processes for managing risk. Part of the strategy is to identify the risks facing the organisation and analyse what types of protection are required to manage adverse risks.
- 11.2 Effecting insurance is one element of that strategy which can be underwritten by insurance policies to give a measure of financial protection against loss.
- 11.3 This strategy does not obviate the need for each Governing Body to manage all forms of business and operational risk in connection with the running of the school and its activities.

*Insurance programme*

- 11.4 The Head of Audit and Risk Management, in consultation with the Head of Finance, has delegated powers to effect and manage insurance cover for specific risks and decide what is the most appropriate package of internal (self-funded) and external insurance.
- 11.5 Schools have the option of buying into the Council's insurance scheme or buying insurance cover from an external insurer, however **any alternative insurance cover must not be less than that provided by the Council's scheme.**
- 11.6 The County Council must be named on all insurance policies.
- 11.7 The Head of Audit and Risk Management shall keep a register of all insurance policies held and a full record of what property and risks are covered thereby.
- 11.8 A brief statement of the main policies taken out by the Council is given here. Where additional cover is required a Budget Holder must contact the Insurance and Risk Management Section for advice to avoid duplication of existing insurance arrangements.

Centrally arranged policies are:

1. Fire and associated risks for all buildings which the Council owns, or for which it has accepted legal responsibility by way of a lease or licence.
2. Public and employers' liability, including libel and slander, professional indemnity, officials' indemnity and land charges.
3. Personal accident cover for risk of assault on employees of the County Council and for injury to Council Members and authorized volunteers.
4. Motor vehicles – comprehensive cover on all County Council vehicles, together with contingent liability cover for use of privately owned vehicles used on official business.

5. Pecuniary loss (money, fidelity guarantee and cheques indemnity).
6. Costs of reinstatement and recovery of business data and ensuring business continuity protection for ICT infrastructure and systems.

Details of the policy numbers, name of current underwriters or information on the scope of cover or policy terms and conditions are available from the Insurance and Risk Manager within Audit and Risk Management Division.

- 11.9 The County Council insurance does not cover Private Funds. Insurance and Risk Management operates a separate insurance scheme for Private Funds which schools can purchase.

*Notification of changes of risk*

- 11.10 Governing Bodies shall give prompt notification to the Head of Audit and Risk Management of all new risks, property, vehicles and other assets or contractual obligations which require to be insured and alterations that may affect existing insured risks (including closure of buildings, sale of vehicles or disposals of other insured assets).
- 11.11 Where contracts are to be entered into for services to be provided to an external party, the Insurance Section must be consulted on appropriate levels of cover before the terms are agreed. For lettings to casual users, insurance cover can be obtained *via* the Insurance Section. For lettings to regular or commercial users, the hirer should obtain their own insurance cover, which should cover legal liability.
- 11.12 Provision of indemnities which may assume legal liability for the actions of another party must not be accepted without full consultation with the Council's legal advisers and if accepted must also be notified to the Insurance and Risk Management Section.

- 11.13 Governing Bodies must formally assess their insurance requirements at least annually. To avoid action that may unintentionally negate existing insurances, Governing Bodies must seek advice from the Insurance Section if additional insurance cover is purchased.
- 11.14 Governing Bodies are responsible for ensuring that all assets are included on inventory records, in accordance with Financial Regulation 20 (Security of Assets) and *Appendix C*.

*Reporting of incidents, losses and potential claims*

- 11.15 Schools must make a written report of any event, loss, liability or damage which may result in an insurance claim and give full and timely assistance with the conduct of any investigation which may follow. Advice must be sought immediately from the Insurance Section if there is a suspicion that a civil legal action is in prospect.
- 11.16 Civil procedure rules and protocols must be strictly adhered to in order to avoid cost penalties or unnecessary litigation expenses. Employees and other persons must not attempt to negotiate a settlement, give interviews, make statements or offer to pay compensation in any way that may prejudice any civil legal action which may be brought subsequently against the Council.
- 11.17 The same incident may lead to an investigation for an alleged breach of or failure to comply with some part of the Health and Safety at Work Act and the regulations made hereunder.

*Use of motor vehicles*

- 11.18 All staff using their own private vehicles on behalf of the Council shall maintain appropriate insurance cover for business use.

- 11.19 Drivers must be authorized to drive County owned or hired vehicles before use. Only drivers who hold the Council Minibus Driving Permit will be authorized to drive a minibus with passengers.

## **12.0 Purchasing of goods/works/services in FAMIS**

### *Introduction*

- 12.1 The County Council, including schools, is a major purchaser of goods, works and services. It is at the point of ordering that the school is committing expenditure. Therefore the relevant Budget Holder must ensure that:
- (a) all orders are completed properly and appropriately authorized;
  - (b) the extent of the commitment is known;
  - (c) budgets are not exceeded without appropriate authority;
  - (d) only goods/works/services as ordered and received are paid for;
  - (e) purchases are lawful (i.e. within the powers of the County Council);
  - (f) purchases are only made for County Council purposes – staff and any other organizations are not permitted to use County Council orders for non-County Council purchases;
  - (g) value for money is obtained, with Contract Regulations for Schools being strictly adhered to.

Footnote: In FAMIS commitments are known as *encumbrances*.

### *Overview of the business rules underlying the use of FAMIS*

- 12.2 FAMIS allows for the electronic processing and authorization of transactions relating to the purchase of goods/works/services.
- 12.3 FAMIS also enables a set of control rules to enforce separation of duties in the purchasing of goods/works/services.

12.4 For purchasing goods/work/services in FAMIS, three roles are required:

- (a) requisitioner (Purchase Requisition Raiser);
- (b) approver (Budget Holder);
- (c) goods receptor.

Where this separation is impractical, as a minimum the person checking that the goods per invoice have been received must not be the person authorizing the order and/or certifying the invoice.

12.5 The above roles are set in FAMIS through the configuration of user profiles and responsibilities, linked to each user's personal identification (ID). To provide minimum separation of duties within the FAMIS system, the profiles and responsibilities are set such that the Approver cannot also be the Goods Receptor. A Requisitioner cannot approve requisitions/orders unless they are also a designated Approver.

12.6 To ensure the appropriate authorization of goods/works/services and that an adequate separation of duties is maintained, staff must not in any circumstances share their FAMIS password, nor give other users the opportunity to log on under their ID.

12.7 FAMIS operates such that if the goods/work/services recorded as received agree to those ordered per FAMIS, and the invoice subsequently matches the details already recorded on FAMIS, the invoice will be processed for payment, without further pre-payment check and authorization by the Budget Holder.

12.8 Therefore, the Budget Holder must ensure that a FAMIS purchase requisition is completed and authorized for all purchases made (except where a Purchase Card is being used or in specific areas approved

by the Head of Finance), and the receipt of those goods/works/services must be recorded on FAMIS.

- 12.9 Once a purchase requisition has been approved, the transaction is processed as a FAMIS order, and the order issued to the supplier. The Budget Holder is not required to print the order and add a manual signature.

*Raising orders for goods/work/services*

- 12.10 Approved County Council suppliers must be used for all purchases made. Where no approved supplier can provide the goods/works/services, the Budget Holder must submit a formal application to the Purchasing Support Unit for approval, before the goods/works/services are ordered.
- 12.11 The Contract Regulations for Schools must be followed in respect of all purchases.
- 12.12 Oral (telephone) orders and orders made over the internet must only be made with the prior knowledge and approval of the Budget Holder. The order must be confirmed immediately afterwards by raising an official FAMIS order clearly annotated 'Confirmatory Order' in the product description box. (Note that the latter is only possible for non-catalogue orders i.e. it is not possible for orders from a FAMIS catalogue such as ESPO). Confirmation orders are not necessary if a Purchase Card has been used.
- 12.13 The Head teacher must authorize all orders raised, unless he/she has reassigned authority on FAMIS to another member of the senior management team under delegated authority.



*Receipting of goods/work/services*

- 12.14 Goods/works/services when received must be certified as such on FAMIS. Any delays which result in the payment of interest charges may be passed on to the school.
- 12.15 Wherever possible, the person recorded in the system as certifying the receipt of the services should be the person who actually verified them.
- 12.16 However, in all cases the person recorded in the system as having receipted the goods/works/services is responsible for ensuring that they are receipted on FAMIS only where they have been physically received or carried out and examined as to quantity and quality, as ordered. Whenever practical the receptor should not rely on verbal assurances from another person.

*Variations between orders and goods/works/services received*

- 12.17 Where the goods/works/services received vary to that originally ordered, and this exceeds the corporately set tolerance threshold, the Budget Holder must authorize the additional amount before the invoice can be paid. The Budget Holder must report any difference to the Purchasing Support Unit so that the order can be varied and approval to the variation sought from the Budget Holder.

*Payment of accounts*

- 12.18 The County Council is liable for payment of interest where invoices are not paid within 30 days or per the supplier's payment terms.

- 12.19 To reduce the delays in the processing and payment of invoices, all invoices received in respect of orders raised in FAMIS will be date-stamped and registered by the Invoice Management Unit.
- 12.20 Where the invoiced amount does not match the order/goods received, the Requisitioner will be notified, and the Budget Holder must approve the variation.
- 12.21 Where an invoice relating to a FAMIS order is received by a department in error, the invoice must be date stamped before being forwarded promptly to the Invoice Management Unit for processing.
- 12.22 The requirements of the Sub-contractors Construction Industry Tax Scheme must be complied with.

### **13.0 Purchasing of goods/works/services where no access to FAMIS**

- 13.1 Where the school does not yet have access to FAMIS, this Financial Regulation applies.

#### *Separation of duties*

- 13.2 The four elements of ordering and invoice processing should, as far as possible, be carried out by separate people, i.e.
  - (a) order completion, including authorization;
  - (b) checking that goods have been received as ordered, including certifying invoices to show that goods have been received;
  - (c) checking off invoices against copy orders for correctness of price and ensuring items have not been previously passed for payment;
  - (d) authorizing invoices for payment.

- 13.3 In such circumstances where this separation is impractical, as a minimum the person checking that the goods per invoice have been received must not be the person authorizing the order and/or certifying the invoice. This must be the exception, and only applied where the full separation of duties as outlined in 13.2 is not possible.

*Use and control of official stationery*

- 13.4 Official orders in the form approved by the Director of Resources must be issued for all goods, works and services required by the Council. Order books are obtainable from the Council's official print management contractors (Pitney Bowes Management Services RES1004 Shire Hall; contact Gemma Rollings 01223 717291 – FAMIS Order Pads).
- 13.5 Blank orders must be held securely, used sequentially, and all orders should be accounted for with any cancelled orders crossed through and retained.
- 13.6 Copy orders must be retained and filed in an orderly manner and marked clearly to show items received and paid for.

*Raising orders for goods/work/services*

- 13.7 All orders must be signed by the appropriate Budget Holder or by a person who is authorized to sign orders on his/her behalf.
- 13.8 Approved County Council suppliers must be used for all purchases made. Where no approved supplier can provide the goods/works/services, the Budget Holder must send a formal application to the Purchasing Support Unit for approval.
- 13.9 The Contract Regulations for Schools must be followed in respect of all purchases.

- 13.10 Oral (telephone) orders and orders made over the internet must only be made with the prior knowledge and approval of the Budget Holder and should be confirmed immediately afterwards by raising an official order clearly annotated 'Confirmatory Order' and signed by the Budget Holder.
- 13.11 The Budget Holder must authorize all orders raised.
- 13.12 When authorizing the order, the Budget Holder is responsible for ensuring that the order:
- (a) is completed properly;
  - (b) complies with Financial Regulations, Contract Regulations and EU directives;
  - (c) is appropriate for County Council purposes;
  - (d) offers the most favourable terms for price delivery and quality for the County Council;
  - (e) can be covered by the appropriate budget.

*Payment of accounts*

- 13.13 Budget Holders and other authorized signatories are given authority by the school to authorize invoices for payment. Each authorizer is required to certify that the payment voucher is correct by signature on a certification slip, prior to passing to the Accounts Bureau in Resources Directorate.
- 13.14 A register of specimen signatures of those authorized to pay accounts will be maintained by the Accounts Bureau in the Resources Directorate. It is the responsibility of the school to ensure this information is kept up to date, and that any changes are notified immediately to the Accounts Bureau.

- 13.15 In certifying the invoice, the authorizer is responsible for ensuring that:
- (a) Payment is only made where goods or services have been received or carried out and examined as to quantity and quality. (Note: in certain limited circumstances e.g. payment of course fees, payment may be required in advance. In these circumstances, if unavoidable, payment may be made provided proper procedures are introduced that ensure that the goods/services paid for are received and are of sufficient quality and if not a refund obtained).
  - (b) The expenditure is lawful (i.e. within the powers of the County Council).
  - (c) Purchases are only made for County Council purposes. Staff and any other organizations are not permitted to use County Council orders for non-County Council purchases.
  - (d) The prices, discounts and other allowances are correct, and that all calculations on the invoice (including VAT) are arithmetically correct.
  - (e) The expenditure is within budget limits.
  - (f) The invoice has not previously been passed for payment.
- 13.16 Virtually all VAT charged to the County Council by suppliers can and must be reclaimed. So VAT must be coded out separately, otherwise schools (and the County Council) are bearing an unnecessary cost. For more information on VAT, see *Guidance on value added tax*.
- 13.17 Copy invoices and invoices that are hand-written or have no VAT registration number should be subject to thorough checks to establish their validity, and checks made to ensure that they have not been previously passed for payment. Statements of account must not be passed for payment.

- 13.18 *Proforma* invoices should not be used as a substitute for a creditor's proper invoice and, where possible, should be supported by correspondence or such other documentation as may be necessary to establish that payment is due. Where VAT is payable on advance payments, a VAT receipt must be obtained and filed.
- 13.19 All invoices must be paid within 30 days of receipt or within the time limits specified by suppliers. Therefore, all invoices must be date-stamped upon receipt, certified and authorized as per paragraph 13.15, and passed to the Accounts Bureau promptly. Any delays which result in the payment of interest charges may be passed on to the school.
- 13.20 Advice on whether a payment is lawful can be obtained from ELH Finance or Internal Audit. Any suspicion that a payment is not lawful must be reported to the Head of Audit.

#### **14.0 Personal employee expenses**

- 14.1 The County Council has a responsibility to provide the Inland Revenue with details of *all* benefits in kind provided or expenses reimbursed to its employees, and must ensure that income tax and national insurance contributions are collected on all qualifying expenditure.
- 14.2 Where schools fail to comply with the procedures set out in the *Expenses and tax compliance guidance*, their own individual budgets will be charged with any tax, national insurance, interest and penalties assessed on the Council.
- 14.3 Where a school has decided to opt out of the Council's payroll provision and use an external payroll provider, the external provider will handle the administration of taxation, national insurance, pension and expenses on behalf of the school, including the payment of amounts to Inland Revenue and other parties. However the school is responsible for

ensuring compliance with any Inland Revenue limits for expense and mileage allowances to ensure tax exemption, and for the submission of appropriate P11D returns to Inland Revenue.

- 14.4 All employee expenses claims must be approved by the claimant's line manager and approved by the appropriate Budget Holder as being correct and in accordance with the requirements of the service.
- 14.5 Staff must not authorize their own claims. The only exception to this is Head teachers, who may authorize their own claim forms.
- 14.6 The Budget Holder is responsible for:
  - (a) ensuring that payments are only made to *bona fide* employees who are eligible to receive payments at that time according to current rules laid down by the County Council;
  - (b) ensuring that payments are in accordance with current rates;
  - (c) making prompt, complete and accurate returns to Employee Benefits in Resources, of information needed for returns to the Inland Revenue such as cars provided to employees outside the normal lease car scheme, telephones, living accommodation, etc., and any other possible taxable benefits. See *Expenses and tax compliance* guidance for more information.
- 14.7 All claims for reimbursement of expenditure by individuals must be processed through the school's payroll system and not via the school imprest, petty cash or bank account. For schools using the County Council's payroll provider, this will be *via* Employee Benefits in Resources Directorate.
- 14.8 Claims must be made using the appropriate claim forms, with supporting receipts where applicable. Forms and guidance notes can be found at *Employee benefits*.

- 14.9 Leavers must be notified to the school's HR provider and payroll provider in order to reclaim any repayment of expenses due. Relocation and training expenses can be repayable if the employee leaves within a specified period. Car loans are repayable and Employee Benefits must be informed separately to ensure reclaiming of these amounts.

### **15.0 Payroll**

- 15.1 It is the legal duty of the Director of Resources to make proper arrangements for the operation of PAYE and National Insurance procedures for all employees, including casual and part time employees.
- 15.2 The school's payroll provider is responsible for making payment of all salaries, wages, gratuities, compensation and other emoluments to all current and former employees of the school.
- 15.3 The rules for determining whether an individual is treated as an employee or as self-employed for tax purposes are complex, and there are severe penalties for failing to deduct tax where it is due. Budget Holders should refer to the detailed guidance available in the HR Policies and procedures Manual (Part D: Contracts of employment). The Contract Development Manager (Payroll) can advise in cases of doubt.
- 15.4 It is the Head teacher's responsibility to ensure that:
- (a) Payments are correct, authorized and accounted for properly.
  - (b) Payments are made only to *bona fide* employees of the school and to valid beneficiaries of the Pension and Compensation Schemes.
  - (c) Allowances and deductions are authorized, correct and are properly accounted for and the persons in receipt of allowances are eligible for them.



- (d) Payments are lawful (i.e. within the powers of the County Council).
  - (e) Payments are within budget.
- 15.5 The Head teacher must ensure that the appointment of all employees is in accordance with the policies of the Governing Body, at the approved grades and rates of pay.
- 15.6 No person may authorize any notification to the payroll provider concerning amendments to his/her own pay.
- 15.7 The school's payroll provider must be notified as soon as possible, in a form acceptable to them, of all matters affecting payroll payments, such as appointments, dismissals, resignations and retirements, or any other change of circumstances affecting remuneration.
- 15.8 The school's payroll provider must be notified of all information to ensure that the correct deductions are made for pensions contributions, income tax, national insurance, sickness and maternity pay, and other miscellaneous deductions.
- 15.9 All documents sent to the school's payroll provider should identify clearly to whom they relate, i.e. by showing the name, payroll reference number and/or job title and place of work.

## **16.0 Income**

- 16.1 It is the Budget Holder's responsibility to ensure that procedures for the collection or invoicing of income due are operating such that:
- (a) All income due is identified and accounted for properly.
  - (b) Invoices for income due (or credit notes) are raised as soon as the chargeable goods or services are provided.

- (c) All monies received are brought into account promptly, correctly, accurately and completely.
  - (d) All income collected is held securely, banked promptly and intact.
  - (e) VAT is accounted for correctly. (For further information, see *Guidance on value added tax.*)
- 16.2 All income received must be recorded on the school's prime accounting records. Where the school has access to FAMIS Accounts Receivable module, all income received must be recorded on FAMIS using the lodgement facility.
- 16.3 Official County Council documentation for receipting and raising invoices must be used. The Resources Directorate is responsible for the ordering, issue and control of all receipt and invoice forms, unless alternative arrangements have been agreed with the Director of Resources.
- 16.4 All monies received must be receipted on an official County Council receipt book or otherwise adequately recorded (e.g. dinner register) at the time of receipt.
- 16.5 School receipts, and not County Council receipts, should be used for Private Fund money.
- 16.6 For remittances where receipts are not always issued (e.g. settlement of debtors invoices) an accounting record (such as a remittance list) must be made immediately on receipt.
- 16.7 Each person responsible for paying money into a bank account must enter onto the copy paying-in slip sufficient information to identify each transaction including the amount of the cheque and a reference (such as receipt number or debtor name) to connect the cheque with

the service provided. On the back of each cheque the person should enter sufficient detail to identify the school.

- 16.8 On handing cash over to another person, all employees should ensure that they receive a suitable formal acknowledgement such as a receipt.
- 16.9 To ensure adequate separation of duties within the cash collection and banking process, so far as is possible, different people should undertake the following activities:
  - (a) collecting or receiving money;
  - (b) recording and banking receipts;
  - (c) reviewing and reconciling receipts to cash banked;
  - (d) authorization of debt write offs;
  - (e) custody of saleable stock and materials.
- 16.10 Where the number of staff is not sufficient to allow such separation, as a minimum, the person responsible for reviewing and reconciling receipts to cash banked and/or authorizing debt write offs should not be the person responsible for collecting and/or banking receipts. This must be the exception, and only applied where the full separation of duties as outlined in 16.9 is not possible.
- 16.11 Regular reconciliations of amounts collected (per till rolls, receipts, etc.) to cash banked as recorded on copy paying-in slips should be carried out, by someone independent of the persons carrying out the receipting, recording and banking of income.

## 17.0 Cash security

- 17.1 All persons involved in cash handling have a duty to ensure that practice and procedures properly safeguard cash holdings in their possession, **but not at any risk to their own person.**
- 17.2 Head teachers must ensure that written procedures exist covering the aspects of cash security covered below, and what action staff are to take in emergencies, e.g. attempted theft; fire alarms, etc.
- 17.3 Head teachers must ensure that adequate arrangements are made to safeguard monies pending banking. Such arrangements include:
- (a) use of locked cashboxes held in a safe or locked drawer or cabinet;
  - (b) restricted access to the keys for the above;
  - (c) locking cash away when unattended;
  - (d) not counting cash or accessing the safe, etc. in view of visitors and members of the public;
  - (e) where large amounts are collected, considering the physical security of the cashier's office (e.g. access arrangements to the cashiers area; screens; alarm systems, etc.).
- 17.4 Head teachers must ensure that banking arrangements minimize monies held, do not exceed insurance levels and minimize the risk to staff undertaking the bankings. Such arrangements include:
- (a) measures to minimize actual cash (e.g. use of cheques and debit/credit cards);
  - (b) regular bankings, at least weekly and daily whenever cash exceeds £5,000;
  - (c) use of night safe facilities when banks are not open;
  - (d) varying the timing and route of visits to the bank, and the staff undertaking the bankings;
  - (e) not utilizing conspicuous bags, etc. to transport monies;

- (f) use of security services for cash sums in excess of £5,000;
- (g) Head teachers must not allow levels of cash held to exceed the maximum permitted limits (£5,000) set under the insurance policy for monies held in a safe during working hours and overnight.

## **18.0 Imprest accounts**

- 18.1 Imprest Bank Accounts are used for items of expenditure for which it is not practical/cost-effective to pay through the normal payments system. Generally such payments will be small in value, or one-off purchases. Payments to regular suppliers should be made through FAMIS. The Council requires that Imprest Accounts should be held at an absolute minimum level. Purchase cards (see Financial Regulation 19) should be used where a school regularly purchases individual items with a value less than £50.
- 18.2 The Budget Holder (account holder) is responsible for ensuring that:
- (a) imprest cash and chequebooks are safeguarded from theft and misuse, that access is restricted, and that they are locked away when not in use;
  - (b) expenditure incurred through Imprest accounts is *bona fide*, lawful and in accordance with the requirements of the service;
  - (c) expenditure is within budget limits;
  - (d) there are adequate procedural notes specifying the respective responsibilities of staff involved in the operation of the Imprest Account.
- 18.3 The Payments Section within Resources Directorate will monitor the use of Imprest Accounts.
- 18.4 The opening of Imprest Accounts must be authorized by the Director of Resources. The Payments Section must be notified of any wish to close or transfer an Imprest Account.

*Inappropriate expenditure*

- 18.5 The following expenditure must not be made through Imprest Accounts:
- (a) Payment of salaries or wages to staff or payments which could be considered as such by the Inland Revenue e.g. honoraria.
  - (b) Payments to contractors in the Construction Industry. (For more information, see *Subcontractors – construction industry tax deduction scheme*.)
  - (c) Payment of any expenses to County Council employees. (For more information, see *Expenses and tax compliance guidance*.)
  - (d) Payment for items which can be acquired using a Purchase Card. (For more information, see *Purchasing card procedures guide*.)

*Supporting documentation*

- 18.6 Claims must be submitted on an approved claim form. They should be submitted to the Payments Section sufficiently regularly to ensure the account does not become overdrawn (normally at least monthly).
- 18.7 The claim must be certified by an appropriate officer designated by the Account Holder.
- 18.8 Claims must be supported by adequate documentation to support the expenditure incurred. This should demonstrate that the expenditure is *bona fide*, lawful and in accordance with the requirements of the service. The documentation should record:
- (a) the reason for/details of the expenditure;
  - (b) date expenditure was incurred;
  - (c) amount of expenditure;
  - (d) signature of person incurring the expenditure;

- (e) where expenditure incurred is large (over £30), a second member of staff must sign the supporting documentation.
- 18.9 Wherever possible the supporting documentation must be a VAT invoice/receipt to enable the VAT element to be reclaimed. Failure to obtain such a voucher means that the school budget will have to bear the VAT element of any expenditure.

*Separation of duties*

- 18.10 There must be a separation of duties between the persons:
- (a) operating the Imprest and preparing the claim and reconciliation statement (signing the 'Prepared By' statement);
  - (b) signing the certification statement on the claim.
- 18.11 The person operating the Imprest and preparing the claim and reconciliation must not be a cheque signatory.
- 18.12 The person signing the claim certification statement is responsible for:
- (a) checking that the documentation supporting the claim is complete and satisfactory;
  - (b) checking that the claim and reconciliation statement is correct both in principle and arithmetically;
  - (c) physically checking the figures in the reconciliation statement, e.g. verify the accuracy of the cheques outstanding figure and the bank balance;
  - (d) counting cash in hand, and ensuring it agrees to the amount entered on the claim.

- 18.13 The person signing the certification slip must ensure that separate persons have signed the ‘prepared by’ and certification statements before certifying the claim for payment.
- 18.14 Reimbursement of claims will normally be made direct to the Bank, the amount being notified to the Account Holder. No other monies are to be paid into the Imprest Account.

#### *Imprest levels*

- 18.15 The Imprest Account must never go overdrawn. Any overdrawn accounts will be immediately referred to the Head teacher, who must take the necessary remedial action. Purchase cards should be used to ensure expenditure does not exceed Imprest levels.
- 18.16 Imprest Account levels should be monitored to ensure that they continue to provide sufficient funds to cover approximately 8 weeks average Imprest expenditure. ELH Finance should be consulted on the appropriate level of Imprest Account. Temporary increases can be obtained to cover anticipated periods of exceptional expenditure.

### **19.0 Purchase cards**

- 19.1 The County Council Purchasing Card Scheme is the preferred method of paying for low value and infrequently supplied goods. Purchase cards are to be used for items of expenditure for which it is not practical/cost-effective to pay through the FAMIS system. Generally such payments will be under £50, or one-off purchases, or where it is inefficient to raise an order and pay an invoice to suppliers not on FAMIS or you are unlikely to use again (e.g. conference fees, books, subscriptions). Purchase cards should be used for rail travel.



- 19.2 Bank account schools that use a sub-account of the Council's bank account can choose to operate under the Council's Purchase Card scheme, as described below for non-bank account schools. The re-charge for purchases made using the card will be taken from the school's bank account by ELH Finance, following the same procedure as currently operated for other non-payroll transactions.

Alternatively bank account schools using a sub-account can make their own arrangements with their bank (refer to 19.3).

- 19.3 Bank account schools that do not bank as a sub-account of the Council's should arrange the provision of purchase cards directly with their bank.

The financial principles applied within the school for monitoring and control of the use of purchase cards must be consistent with those outlined below.

- 19.4 Each purchase card is assigned to an individual cardholder who has personal responsibility for its proper operation, in accordance with this Regulation. Purchase cards must not be used for private use.
- 19.5 The Head teacher is responsible for ensuring that all staff assigned a purchase card are operating procedures such that:
- (a) cards are safeguarded from theft and misuse;
  - (b) expenditure incurred through the use of purchase cards is *bona fide*, lawful and in accordance with the requirements of the service;
  - (c) expenditure is within budget limits.
- 19.6 All cardholders must use their purchase card in accordance with the requirements laid down in the *Purchasing card procedures guide*.

The Purchasing Support Unit will monitor the use of purchase cards under the Council's scheme to ensure the requirements are adhered to.

- 19.7 The allocation of purchase cards under the Council's scheme must be authorized by the Head teacher and sanctioned by the Head of Income and Payments. Transaction limits and monthly credit limits for each card must be approved by the Head of Income and Payments.
- 19.8 A transaction log must be maintained by all cardholders.
- 19.9 The Head teacher is responsible for ensuring adequate checks are made to reconcile the cardholder transaction logs to the amount shown on the individual cardholder statements from the bank. It is expected the cardholder will normally carry out this reconciliation, the Head teacher then certifying the transaction logs.

Where the Head teacher is the cardholder it is expected the Chair of the Governor's Finance Committee, or other designated Governor, will periodically review expenditure on the Purchase Card.

- 19.10 In addition the Head teacher is responsible for ensuring adequate checks are made to reconcile the transaction logs to the record of expenditure within FAMIS or the relevant prime accounts record. It is expected the financial administrator will normally carry out this reconciliation.
- 19.11 Where payment of the card account is made through the County Council, any discrepancies between the actual purchases and the financial control report must be notified immediately to the Central Purchase Card Administrator.

- 19.12 The Head teacher is responsible for certifying that the transaction log maintained by the cardholder is correct and that purchases are within budget and lawful.
- 19.13 All expenditure must be supported by adequate documentation to substantiate the expenditure incurred. This should demonstrate that the expenditure is *bona fide*, lawful and in accordance with the requirements of the service. The documentation should record:
- (a) the reason for and details of the expenditure;
  - (b) date expenditure was incurred;
  - (c) amount of expenditure.
- 19.14 Wherever possible the supporting documentation should be a VAT invoice/receipt to enable the VAT element to be reclaimed. Failure to obtain such a voucher means that the school budget will have to bear the VAT element of any expenditure.
- 19.15 A centralized file must be maintained within the school for each cardholder, holding all certified transaction logs, statements and supporting receipts/documentation.

## **20.0 Stocks and stores**

- 20.1 The school will hold stocks and stores of some items needed on a day-to-day basis.
- 20.2 The Head teacher is responsible for ensuring that adequate procedures and financial controls are in place to ensure the appropriate use of these assets, such that:
- (a) records and procedures are sufficient to identify transactions and the volume and value of all usable stocks/stores held;
  - (b) stocks and stores are properly secured;
  - (c) best value is obtained in the provision of stocks and stores.

*Best value*

- 20.3 In general, stocks/stores should be maintained at minimum levels consistent with operational requirements.
- 20.4 Order quantities should be calculated to obtain economies in purchasing consistent with minimising investments in stocks.
- 20.5 Where stocks have a limited shelf life or are liable to obsolescence, stores should be used on a first in first out basis.
- 20.6 Disposal of surplus or obsolete stocks/stores must be undertaken in accordance with the Contract Regulations for Schools.

**21.0 Security of assets**

- 21.1 This Regulation applies to all assets (owned or leased) which cost more than £500 and to all portable and attractive items owned by the County Council or the school.
- 21.2 Head teachers are responsible for ensuring that:
  - (a) proper security is maintained at all times for all buildings, furniture, plant, equipment, vehicles, stores, stocks, cash, etc. under their control. They should also aim to achieve maximum utilization of such assets in the provision of services;
  - (b) appropriate inventory records are maintained, in accordance with the instructions in *Appendix C*;
  - (c) surplus or obsolete materials, stores or equipment are disposed of in accordance with the Contract Regulations for Schools.
- 21.3 Inventory records should ordinarily be maintained using the standard County Council Inventory Book, obtainable from Facilities

Management Section within Resources. Any alternative method of recording inventories must be approved by Internal Audit.

- 21.4 Registers of key holders for buildings, safes, etc. should be maintained. Keys should be issued to as few people as possible.
- 21.5 The Head of Property and Procurement shall maintain a register of all properties held by the Authority, showing the purpose for which the property is held, the location, extent and plan reference, purchase details and the nature of the interest.
- 21.6 The Head of Legal Services shall arrange for the safe custody of title deeds in respect of land and properties.

## **22.0 Information systems security**

- 22.1 Ensuring the integrity, availability and confidentiality of data is an important matter and is subject to a number of legal acts (e.g. Computer Misuse Act 1990, Data Protection Act 1998, Copyright Designs and Patent Act 1988).

The *County Council's information systems security policy* must be followed.

## **23.0 Fraud and corruption**

- 23.1 The County Council is committed to the elimination of fraud and corruption and is determined to protect itself from such unlawful activities, whether they are attempted from within or by an outside individual, group or organization.

The *County Council's anti-fraud and corruption policy* must be followed.

#### **24.0. Audit reporting and escalation protocol**

- 24.1 Audit Managers are responsible for both ensuring the issue of audit reports within a maximum of four weeks of completion of fieldwork and ensuring a satisfactory response is received. Written responses should normally be made within four weeks of issue. Reminders are issued after four weeks.
- 24.2 Where material recommendations are not accepted or no response is received, after a further week the Audit Manager will discuss with the auditee and, if still no acceptance or response, will report to the Assistant Director (Resources).
- 24.3 If a satisfactory response is not received after referral at 24.2 above, the Audit Manager reports to the Head of Audit who decides on further action. (This may involve reporting to the Director of Resources and/or Service Director with recommendations for further action).
- 24.4 Reports outstanding for more than two months will be reported to the Policy Scrutiny and Audit Committee.
- 24.5 Timescales will be accelerated where there is significant risk of material loss or error or where particularly sensitive or contentious issues are involved.
- 24.6 Audit Managers are responsible for bringing to the attention of the Head of Audit, significant audit findings and sensitive or contentious issues.
- 24.7 The Head of Audit briefs the Director of Resources monthly on audit issues and findings. The Head of Audit is responsible for deciding on those issues sufficiently important to bring to the Director of Resources attention between these meetings.

- 24.8 The Head of Audit is responsible for identifying and reporting major issues to Chief Executive.
- 24.9 A quarterly ‘audit issues’ report is presented to the Policy Scrutiny and Audit Committee.
- 24.10 Follow-up audits have been introduced to ensure proper implementation of audit recommendations where major weaknesses in systems have been identified.

## Appendix A – Retention of financial records

It is important that records (computerized or manual) are carefully retained and systematically filed as they are required for inspection by a number of agencies such as Internal Audit, the District Auditor, Contributions Agency, Inland Revenue, Customs and Excise officials, etc.

The required MINIMUM period for the retention of financial records is CURRENT FINANCIAL YEAR PLUS THE THREE PREVIOUS FINANCIAL YEARS.

This applies to Receipts, Till Rolls, Invoices, Copy Orders, Audit Trails, School Meals and School Funds Records and Purchase Card transaction logs.

The advised periods for the retention of other financial records are detailed below:

<b>Accounts, etc.</b>	<b>Period of retention</b>
Sales contracts	6 years after agreement ends
Purchasing contracts	6 years after agreement ends
Stock inventories	10 years
Published accounts	Permanently
Taxation returns	Permanently
External audit reports	Permanently
Cheques	6 years
Bank statements	6 years
Cash statements	6 years
Deeds of covenant	12 years after final payment
Primary salaries and wages records	7 years
Expense accounts	7 years
Pension scheme records	Permanently
<b>General</b>	
Insurance policies (excluding liability)	6 years after lapse
Liability insurance policies	Permanently/indefinitely
Insurance claims	6 years after settlement
Insurance schedules	10 years
School minutes	Permanently

## Appendix C – Inventory instructions

### 1. Purpose

- 1.1 To provide instructions on how inventories must be maintained.
- 1.2 Internal Audit must be consulted prior to computerizing the inventory.



## **2. Inventory records**

- 2.1 The inventory must include all individual items of value exceeding £500. However it is recommended that items of lesser value should be included if they are portable. Furniture need not be included unless it is considered unique or particularly valuable.
- 2.2 Serial numbers of equipment must be noted as this information may be very useful to the police if items are stolen. Security marking should be used to record the name of the establishment and its postcode. (Items on loan from other establishments, etc. should not be marked).
- 2.3 Head teachers must ensure that the register is kept up to date. Systems therefore should ensure that the person responsible for the inventory is kept fully informed of purchases, loans, write-offs, etc.
- 2.4 Proper procedures must be established for loans of equipment, including authorization policy, specification of finite periods of loan and written acknowledgement of loan. Loans out and items borrowed must be recorded in the sections provided at the back of the inventory book.
- 2.5 The Head teacher must sign the inventory book to authorize write-offs, transfers and sales.
- 2.6 Head teachers must ensure that inventories are checked at least annually. The existence of items loaned out, and those held on loan should also be checked. The annual check should be undertaken by someone other than the person responsible for the equipment on the inventory. The check must be documented as specified in the inventory book.

- 2.7 Where the Head teacher is responsible for several establishments or offices, each with their own inventory, a master list of inventories held should be maintained.
- 2.8 Surplus, obsolete or unserviceable equipment must first be offered to other establishments or departments. If it is not required by other parts of the Council, it should be sold at the best price available, in accordance with the Contract Regulations for Schools. The agreed price must be paid before removal of the item.
- 2.9 Where computers are to be disposed of, IT advice must be sought in view of the implications for software licences and data security.
- 2.10 A copy of the inventory must also be kept off-site.

## *Appendix 7*

### Consistent financial reporting – the principles behind the new budget headings

The headings in the new framework have been developed to meet the following criteria:

- (a) The overall number of headings should be kept to a minimum.
- (b) The headings should as far as possible separate controllable from uncontrollable expenditure, e.g. separating building maintenance from rates.
- (c) They should separate out areas of spending where services are procured in very different ways, for example catering.
- (d) They should be based on the gross income that is at the disposal of the school and the gross expenditure.
- (e) The amount of money involved under each heading should not be too small.
- (f) The headings should be capable of being aggregated in different ways that will match the definitions currently used by OFSTED, the LEA and the DfES (Section 52 outturn statement) so that it is easier to maintain key data over time.

#### The framework

There are 13 headings for income, all prefixed by the letter **I**:

I01 Funds delegated by the LEA

- I02 Funding for sixth form students
- I03 SEN funding (not for special schools)
- I04 Funding for minority ethnic pupils
- I05 Standards fund
- I06 Other government grants
- I07 Other grants and payments
- I08 Income from facilities and services
- I09 Income from catering
- I10 Receipts from supply teacher insurance claims
- I11 Receipts from other insurance claims
- I12 Income from contributions to visits
- I13 Donations and/or private funds.

The **School finance pack (DfES ref: 0777/2001)** explains further why these sub-divisions of finance have been made. A significant difference for many LEAs is that they will have to itemize separately what has been allocated for SEN (including Standards fund contribution).

There are 30 headings for expenditure, all prefixed by **E**:

- E01 Teaching staff
- E02 Supply staff
- E03 Education support staff
- E04 Premises staff
- E05 Administrative and clerical staff
- E06 Catering staff
- E07 Cost of other staff
- E08 Indirect employee expenses
- E09 Staff development and training
- E10 Supply teacher insurance
- E11 Staff related insurance
- E12 Building maintenance and improvement
- E13 Grounds maintenance and improvement

- E14 Cleaning and caretaking
- E15 Water and sewerage
- E16 Energy
- E17 Rates
- E18 Other occupation costs
- E19 Learning resources (not ICT)
- E20 ICT learning resources
- E21 Exam fees
- E22 Administrative supplies
- E23 Other insurance premiums
- E24 Special facilities
- E25 Catering supplies
- E26 Agency supply staff
- E27 Bought-in professional services – curriculum
- E28 Bought-in professional services – other
- E29 Loan interest
- E30 Direct revenue financing (revenue contributions to capital).

Some interesting points of detail:

- a) There is a clear distinction made between pay and non-pay costs. If a school directly employs somebody, this must be shown in headings E01 to E07. Somebody providing labour as part of a service contract will be recorded under other headings.
- b) A distinction has been made between *administration* and *curriculum* costs. This is to enable the administrative costs of a school to be compared with performance. Schools are however reassured that they should not agonize over small items: A piece of paper or even a photocopy might not fall easily into one category or another. Schools should exercise judgement on items such as these, taking account of the relative costs of doing minute differentiation compared with the benefits that might accrue.

Schools now have much more direct involvement with capital so there is separate categorization, prefixed by **CI** for income:

- CI01 Capital funding from public sources managed by the governing body, including that provided by the Standards Fund and the proceeds from the sale of fixed assets
- CI02 Loan income from any source, including LEA loans scheme
- CI03 Private income dedicated for use as capital funds
- CI04 Direct revenue funding (an exact match to E30).

Capital expenditure is logged under four headings prefixed by **CE**:

- CE01 Costs of acquisition of land and existing buildings
- CE02 Costs of new construction, conversion and renovation
- CE03 Costs of ‘capitalized expenditure’ – acquisition, renewal or replacement of vehicles, equipment or machinery to be used at the school
- CE04 Purchase of computer hardware and software where these are to be capitalized or are funded from capital grant.

These headings will require governors to re-think how they have previously logged purchases for items such as minibuses from private funds.

The government and Audit Commission are as keen as governors and LEAs to know what balances schools are carrying forward and why, so there is a set of headings for reporting end-of-year balances, prefixed with **B**:

- B01 Standards Fund unspent balance (revenue)
- B02 Other revenue balance (this can be negative)
- B03 Devolved formula capital balance
- B04 Unspent capital allocations of current financial year’s Standards Fund and National Grid for Learning (NGfL) capital funding
- B05 All other capital balances not already accounted for.

## Better benchmarking

For the last 2 years the Audit Commission has put in place a web site to help schools benchmark their expenditure: [www.schools.audit-commission.gov.uk](http://www.schools.audit-commission.gov.uk). Its effectiveness has been limited by the low proportion of schools submitting their data and by inconsistency in the headings school use. Once CFR has been introduced, schools will be able to use the web site more easily.

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