Summary of the National Audit Office Report: Financial Stability of Schools

Overview

In December 2016, the National Audit Office released a report looking into the financial stability of schools in England and whether the Department for Education (DfE) is well placed to support schools and academies at risk of financial instability.

The report looked at state-funded primary and secondary schools (the report does not cover special schools or alternative provisions) and assed the following areas.

- Challenges to schools' financial sustainability
- The Department's understanding of, and support for, schools' financial sustainability
- How the Department identifies and addresses the risk of financial failure in schools.

Top line figures

- There will be an 8.0% real-terms reduction in per-pupil funding for mainstream schools between 2014-15 and 2019-20 due to cost pressures
- Mainstream schools will need to make savings of £3bn by 2019-20 to counteract cost pressures
- 60.6% of secondary academies spent more than their income in 2014/15

Summary of Key findings

- The Department's overall schools budget is protected in real terms but the amount of funding per pupil does not increase in line with inflation. Funding per pupil will, on average, rise only from £5,447 in 2015-16 to £5,519 in 2019-20; a real-terms reduction once inflation is taken into account.
- The Department estimates that mainstream schools will have to find savings of £3.0 billion to counteract cumulative cost pressures.
    - There are additional costs to schools including:
        - Pay rises
        - The introduction of the national living wage
        - Higher employer contributions to national insurance and the teachers' pension scheme
        - Non-pay inflation
        - The apprenticeship levy

- The Department's savings estimates do not take into account the cost of implementing its policy changes. The DfE have not assessed the impact on schools and academies with the withdrawal of the Education Services Grant (ESG).
- Using benchmarking, the Department can demonstrate (in theory) that schools should be able to make the required savings in spending on workforce and procurement without affecting educational outcomes, but it cannot show that these savings will be achieved in practice.
    - Further savings are difficult due to the nature of classrooms and other facilities which may make it difficult for schools to change size or layout.
    - The Department has not tested the minimum cost of running different types of school in practice to achieve the desired educational outcomes.
- The Department has not clearly communicated to schools the scale of savings and pace at which the savings will need to be made,
    - The Department announced in the 2015 Spending Review its aspiration to save £1 billion a year through better procurement by the end of the Parliament. It has not, however, made clear the total savings that schools will need to make, or that it expects most of the total to come from workforce savings.
- Overall, the financial position of primary schools has been relatively stable, but there are signs of financial challenges in secondary schools.
    - **Primary school**
        - Between 2010-11 and 2014-15, the proportion of maintained primary schools spending more than their income dropped from 35.6% to 32.7%.
        - The proportion in deficit fell from 5.7% to 4.2%.
        - Between 2011/12 and 2014/15, the proportion of primary single academy trusts in deficit decreased from 3.2% to 1.6%.
        - For those trusts, the average deficit fell in real terms from £58,000 to £48,000.
    - **Secondary Schools**
        - Between 2010-11 and 2014-15, the proportion of maintained secondary schools spending more than their income rose from 33.7% to 59.3%.
        - The proportion in deficit was 15.0% in 2014-15 and the average size of deficit increased in real terms from £246,000 to £326,000.
        - Between 2012/13 and 2014/15, the proportion of secondary academies spending more than their income rose from 38.8% to 60.6%.
- In recent years schools have spent a smaller proportion of their budgets on teaching staff.

- The Department's analysis found that from 2009-10 to 2013-14, 70% of a sample of maintained schools reduced the proportion of their spending that went on teaching staff, despite only 34% experiencing a reduction in funding.
  - The Department has not done the same analysis for academies.
- The Department continues to develop and publish advice and guidance to help schools improve their financial management and achieve efficiency savings. It has not, however, yet completed work to help schools secure crucial procurement and workforce savings.
- The Department's support should be particularly useful for those schools where financial management is weakest, but it cannot be sure that the schools most in need of support will use it.
  - The Department has delayed a planned 'invest to save' fund, intended to help schools make changes to enable them to become more efficient.
- The Agency (Education Funding Agency) should intervene both earlier and more often when it has financial concerns about maintained schools
  - The Agency aims to intervene in a local authority when 2.5% or more of maintained schools in the area have excessive deficits or if over 5% of maintained schools have excessive surpluses continuously over a four-year period.
  - Due to the way in which it applies its criteria, the agency did not intervene as often as it might have, especially with the LA with the highest proportion of schools in deficit in 2014-15 (13.0%).
  - In light of the NAO's analysis, the Agency has decided to change its approach for 2015-16.
- The Agency has a process for assessing financial risk in academies. Its records, however, make it difficult to gain assurance that all academies which could be at risk have been dealt with consistently.
  - The Agency does not necessarily classify all trusts forecasting deficits of 5% or more as high risk.
  - The Agency told the NAO that it is taking action to improve its record keeping and that it is strengthening its oversight.
- The Agency does not systematically evaluate the impact of its financial interventions on schools' longer-term financial sustainability and educational outcomes.
  - Analysis of the Agency's data suggest that its interventions may not always result in trusts successfully addressing the financial issues that led to them being included in the national concerns report.

Recommendations

- The Department should publish, as soon as possible, its assessment of the financial challenges to be faced by schools between 2015-16 and 2019-20. The Department should keep this information up-to-date as its assumptions change.

- The Department should provide clear leadership to support schools and to ensure that all parties are open about the opportunities to make efficiency savings. They should also ensure that they are realistic about timetables and the implications of cost savings and that all parties understand each other's concerns. The Department must take responsibility for supporting schools to meet cost pressures in a financially sustainable manner which takes educational outcomes into consideration.
- The Department should move faster to set out how it envisages mainstream schools will achieve savings of £3.0 billion by 2019-20, together with the information and support schools will need in order to meet this target. Experience shows that it takes time to secure savings in a way that does not damage services. Schools will need time to examine the Department's guidance on procurement and workforce in particular, and to develop and implement savings plans.
- The Department should work with the schools sector to gather evidence to assure Parliament that school spending power can reduce at the same time as educational outcomes are improved. This should be a core priority for the Department in evaluating its School Financial Health and Efficiency programme.
- The Agency should further develop its approach to oversight and intervention with a renewed focus on preventing financial failure. The Agency should continue to develop its preventative approach to identifying academy trusts at risk of getting into financial difficulty and consider with local authorities whether a similar approach is feasible for maintained schools. As with the maintained sector, the Agency should intervene when academy trusts are building up surpluses as well as developing its understanding of why trusts are doing so.
- The Agency should improve its central records to provide assurance around its intervention decisions and use its information to improve its decision making process. It should follow up and evaluate its interventions and share learning on what works best to address risks to schools' financial sustainability. The Agency could also develop the analysis we have undertaken about how trusts' financial risk has changed over time, coupled with its planned risk projections.