National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

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Department for Education and
Education Funding Agency

Managing the expansion of the Academies Programme

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National Audit Office

Department for Education and
Education Funding Agency

Managing the expansion of the Academies Programme

Report by the Comptroller and Auditor General

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Amyas Morse
Comptroller and Auditor General
National Audit Office

20 November 2012

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This report evaluates the Department's implementation of the Academies Programme expansion since May 2010, and the adequacy of its funding and oversight framework across the academies sector (including academies established before May 2010).

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Contents

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This report can be found on the National Audit Office website at www.nao.org.uk/academies-programme-2012

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Key facts

2,309	1,037%	£8.3bn
number of academies as at September 2012	growth in the number of academies between May 2010 and September 2012	total expenditure by the Department for Education on the Academies Programme, including sixth-form funding , in the two years from April 2010 to March 2012

5 per cent and 15 per cent	the percentage of total schools revenue funding which went to academies in 2010-11 and 2011-12
£1.0 billion	the estimated additional cost[1] to the Department of expanding and operating the Programme in the two years from April 2010 to March 2012
£350 million	the portion of this £1.0 billion which the Department was not able to recover from local authorities to offset against academy funding, and which therefore remained in the local authority system
53 per cent	the reduction in estimated additional cost per open academy (excluding transition costs) between 2010-11 and 2011-12
48 per cent	the estimated percentage of all secondary school pupils attending academies as at September 2012
5 per cent	the estimated percentage of all primary school pupils attending academies as at September 2012

1 Defined as the Department's total expenditure on the Programme, net of money which it i) recovered from local authorities, ii) distributed to schools on the same basis, irrespective of whether they were maintained schools or academies, or iii) provided directly to 103 academies for whose pupils it does not allocate any funding to local authorities, thus making recovery unnecessary.

Summary

1 Academies are publicly funded independent state schools. They are directly accountable to the Department for Education (the Department), and outside local authority control.

2 Academies are run by 'academy trusts'. These are charitable companies limited by guarantee, each of which is accountable to the Secretary of State for Education through an individual funding agreement. This sets the trust's operating framework, and the conditions it must meet to receive public funding.

3 Unlike maintained schools, which receive their funding via local authorities, academies are funded directly by central government. The Department recovers most of this funding from local authorities, as the latter are no longer responsible for funding schools once they become academies. Academies have greater financial freedoms than maintained schools, for example to set staff pay and conditions.

4 The term 'academy' covers several types of school. This report focuses on 'converter' academies (whose academy trust is formed from the predecessor school's governing body) and 'sponsored' academies (where an external sponsor organisation takes over the running of the school). Together, these made up 97 per cent of all academies open as at September 2012.

5 The following bodies have a role in funding and overseeing academies (**Figure 1** on page 7):

- **The Department** has overall responsibility for education and children's services, including the policy framework and oversight of the school system. It authorises and establishes new academies. Its Accounting Officer is accountable to Parliament for ensuring regularity, propriety and value for money in the work of the Department and its agencies, and in the system through which it funds academies.

- **The Office of the Schools Commissioner** (within the Department) monitors academies' academic performance, intervenes in failing academies and identifies potential sponsors.

- The **Education Funding Agency** (EFA, an executive agency of the Department) funds open academies, and monitors their finances and governance. Between 1 April 2010 and 31 March 2012, these functions were carried out by the Young People's Learning Agency (YPLA). The EFA's Accounting Officer is responsible for grants provided to academies, and requires assurance over how they spend these funds.

- **Academy trusts** are responsible for the performance of academies they manage. Their accounting officers are accountable to Parliament and the Department for the public funding they receive.
- **Ofsted** (the Office for Standards in Education, Children's Services and Skills) assesses the quality of education in all schools (including academies).
- **Local authorities** retain statutory responsibility for the overall adequacy and sufficiency of local education provision.

6 The Academies Programme (the Programme) was launched in 2002. It was originally aimed at improving educational attainment in deprived areas by replacing underperforming secondary schools, or building new schools where additional places were required. Our last report on the Programme in 2010 concluded that many academies were performing impressively in delivering these intended impacts. However, we noted that this was not necessarily a predictor of how the academy model would perform in future, and that expansion would increase the scale of risks to value for money.

7 In May 2010, in line with a coalition commitment to reform the school system, the Government announced its intention to allow all schools to seek academy status. The Department accorded urgent priority to reform, and the Academies Act was passed in July 2010, allowing the first converter academies to open that September.

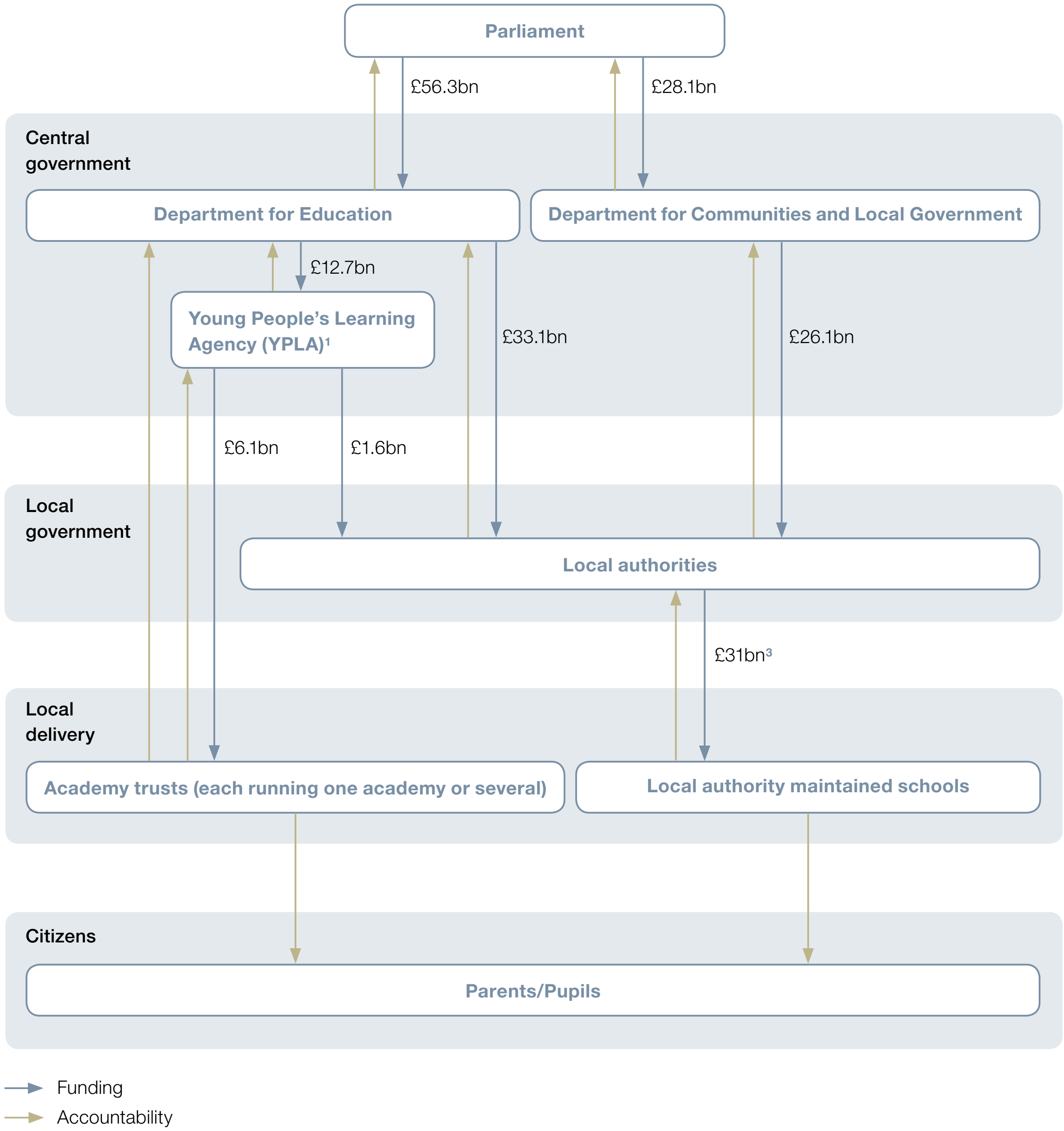
8 The Department considers that international evidence suggests academies combine autonomy and accountability in a way which has raised standards in other education systems around the world. Its long-term aim is an autonomous, self-improving, self-supporting school system consisting mainly of academies. Its expectation is that school performance will be improved by collaboration and school-to-school support.

Scope of the report

9 This report evaluates the Department's implementation of the Programme expansion since May 2010, and the adequacy of its funding and oversight framework across the academies sector (including academies established before May 2010).

10 The expansion is still in an early phase, and there is limited trend data on how schools have performed academically since joining the expanded Programme. We will examine this aspect of academies' performance as part of our future value-for-money programme. The report does not cover capital funding, nor assess in depth the impact of the expansion on local authority finances or services.

Figure 1
Funding and accountability arrangements for maintained schools and academies, 2011-12



NOTES

1 On 1 April 2012, the EFA took on the YPLA's responsibilities for funding and overseeing open academies.

2 £6.1 billion of the £12.7 billion paid to the YPLA was passed on to academies (including sixth forms). The remainder was spent mainly on 16–19 provision in maintained schools (£1.6 billion) and other providers.

3 Estimated from budgeted data.

Source: National Audit Office

Key findings

Implementing the expansion

11 **By September 2012, the Department had achieved a major expansion of the Programme, with 2,309 open academies compared to 203 in May 2010. Schools applying to 'convert' to academy status have been the main driver of this growth.** The first 34 converters opened in September 2010, and by September 2012 around 11 per cent of all state-funded schools were academies. Our survey showed that most converters applied for academy status to obtain greater freedom to access and use funding, and to innovate in raising educational standards (paragraphs 1.3 and 1.15).

12 **Large variations in take-up suggest that the Department needs to continue developing its approach to generating demand.** In September 2012, an estimated 48 per cent of secondary-school pupils in England were attending academies, but only 5 per cent of primary pupils. The proportion of schools with academy status also varies across local authorities. In September 2012, this ranged from none to 100 per cent for secondary schools, and none to 55 per cent for primary schools (paragraphs 1.16–1.18).

13 **Uncertainty is inevitable in forecasting a largely demand-led programme. However, the Department's initial failure to anticipate the scale of interest or develop robust cost estimates led to funding pressures.** Between April 2010 and March 2012, the Department funded the Programme mainly from its overall schools funding settlement. To remain within overall spending limits without restricting the pace or scale of the expansion, it used additional contingency funding of £105 million in 2011-12. It also reassigned money from other budgets, including around £84 million of previously allocated discretionary funding in 2010-11, and £160 million in 2011-12. The Department's forecasts of academy numbers and costs have become more robust, although it expects to overspend against budgeted Programme expenditure in 2012-13 (paragraphs 1.6–1.12).

14 **The Department's risk-based approach to approving conversions – coupled with the fact that most converters to date have been outstanding and good schools – appears so far to have managed the risk of schools converting with underlying financial or performance issues, or being unable to cope with academy status.** Few of the 1,808 converters open by September 2012 have shown academic or financial decline. However, the widening of conversion criteria has meant that the proportion of applicants rated only 'satisfactory' (a grade now replaced by 'requires improvement') has risen from under 5 per cent in 2010 to 22 per cent in 2012. Future applications may therefore involve more complex financial, governance and performance issues, and the Department's assessment process will need to remain sufficiently robust (paragraphs 1.24–1.28, 1.30–1.31).

Post publication this page was found to contain an error which has been corrected
(Please find Published Correction Slip)

The cost of the expanding Programme

15 **In the two years from April 2010 to March 2012, the Department spent £8.3 billion – 10 per cent of its total revenue spend on schools – on the Programme. An estimated £1.0 billion of this was additional cost to the Department** (see footnote 1). It spent £49 million on central Programme administration, £338 million on transition costs, £92 million on academy insurance, £22 million on support for academies in deficit, £68 million reimbursing academies' VAT costs, and £29 million on other grants. The Department also chose to spend £21 million double-funding academies and local authorities to ensure sustainability of some local authority services, and £59 million protecting academies against year-on-year volatility in their income. A further £350 million was money the Department was not able to recover from local authorities to offset against academy funding, and which therefore remained in the local authority system. In 2011-12, the Department sought to increase the amount it recovered by transferring local authority funding from the Department for Communities and Local Government. However, it underestimated the number of new academies for which to do so. It also agreed to repay local authorities £58 million (included in the £350 million above) after some authorities challenged the fairness of the transfer calculation (paragraphs 2.2–2.6, 2.11).

16 **The estimated annual additional cost of the Programme has increased as numbers of academies have grown, and the Department's estimates suggest it will continue to do so in 2012-13. However, the Department reduced its additional recurrent cost per open academy by 53 per cent between 2010-11 and 2011-12, mainly because it recovered a greater proportion of funding from local authorities, and because academies' VAT costs are now refunded by HMRC rather than the Department. The Department has also reduced transition funding for sponsored academies, and plans to reduce this further during 2012/13.** It expects that planned changes to the funding system in 2013/14, and ongoing improvements in forecasting academy numbers, will support further cost reductions and improved cost forecasting (paragraphs 2.14–2.16).

Financial management, governance and oversight

17 **The Department relies on the quality of academies' financial management and governance to ensure effective and proper use of public money.** The EFA considers less than 1 per cent of academies to be at significant financial risk, and our survey suggests a higher proportion of academies are complying with basic good governance than in 2010. To date, there have been few investigations into financial mismanagement and governance failure. However, in addition to their impact at academy level, such failures create the risk of wider reputational damage to the Programme. In September 2012, the EFA issued new guidance, emphasising its expectations of academy trust accounting officers and governing bodies (paragraphs 3.4–3.9).

18 The Department is taking steps to address the tension highlighted in our previous report between strong stewardship of public money and a 'light-touch' oversight regime, but their effect is not yet clear. The Comptroller and Auditor General qualified the YPLA's 2011-12 accounts. His report highlighted limitations in the academies assurance framework, and associated compliance and resourcing issues. Nonetheless, almost half of converters responding to our survey feel less free from bureaucracy than they expected before converting. In September 2012, the Department and the EFA introduced changes intended to reduce administrative burden on academies, and place greater reliance on academy auditors to obtain assurance over regularity of expenditure. The Department faces challenges to include academies in its consolidated financial statements for the first time in 2012-13 (paragraphs 3.16–3.17, 3.22–3.26).

19 There is little routine data showing how schools' cost bases change when they become academies. Our survey suggests converters have experienced increases in some cost types and decreases in others. Many have seen increases related to the additional responsibilities of academy status, such as back-office costs. The Department provides additional Local Authority Central Spend Equivalent Grant (LACSEG) funding towards these services, although some academies report that cost pressures remain. Seventy-one per cent of converters reported increases in finance and accountancy-related costs and 49 per cent in insurance, a cost which the Department reimburses to all academies (paragraphs 3.12–3.15, 3.17).

20 Limitations remain in the data for assessing and comparing value for money in academies. Comprehensive and comparable information on academies' exam performance is widely available, but financial data is not yet fully comparable between academies and maintained schools, nor always reported at individual academy level. The Department has published high-level principles for assessing value for money in schools, and is developing a more detailed framework for academies. This will need to specify baselines, measures and time frames for implementation (paragraphs 3.28–3.33, 3.35).

Conclusion on value for money

21 The Department has delivered a fundamental change in the nature of the Academies Programme, through a rapid ten-fold increase in the number of academies since May 2010. This is a significant achievement, although it is too early to conclude on whether this expansion will ultimately deliver value for money.

22 Our previous report suggested that expanding the Programme would increase the scale of risks to value for money. In practice, the Department was unprepared for the financial implications of rapid expansion. Funding arrangements have not operated as anticipated, driving over one-third of the £1.0 billion additional cost of the Programme since April 2010. Rapid cost growth has led to ongoing pressures on the Department's wider financial position, requiring it to transfer funding from other budgets to manage the resultant risks.

23 In seeking to resolve the tension between academies' autonomy and public accountability through a light-touch oversight regime, the Department needs to weigh carefully the impact that relatively few failures in governance and control may have on the Programme's reputation. It needs to build on its increased efforts to address accountability and funding issues in order to reduce risks to value for money as the Programme continues to expand.

Recommendations

24 **The Department should set out a pathway for how and when it intends to assess the value for money of the Programme, including a baseline position and key information sources.** Our 2010 report recommended that the Department set out objectives and measures of success. The Department has published high-level principles for assessing value for money in schools, but has yet to state how or when it will bring key data together to assess the value for money of the Programme.

25 **The Department should state clearly how it intends to monitor and address the issues contributing to the Programme's additional cost.** It is planning reforms to school funding (including LACSEG) from 2013/14, and has made progress in areas such as reducing start-up grants and recovering funding from local authorities. It has yet to fully address other recurrent costs, such as insurance, which will otherwise continue to increase as the Programme expands.

26 **The Department should explore the extent to which academies are experiencing cost increases or savings, and work with the sector to reduce costs and spread good practice.** Our survey found that converters have experienced increases in some cost areas and decreases in others, some of which they ascribe to academy status.

27 **The Department should continue working with the sector to emphasise the importance of proper stewardship and compliance while minimising unnecessary burdens.** The Comptroller and Auditor General qualified the YPLA 2011-12 accounts owing to lack of assurance over regularity of expenditure. Forty-seven per cent of converters responding to our survey feel less free from bureaucracy than they expected before converting.

Part One

Implementing the expansion

1.1 This part of the report examines how the Department for Education (the Department) has implemented the expansion of the Programme.

Introduction

1.2 The Department attached urgent priority to reforming the school system. The Academies Bill containing the necessary legislation was introduced on 26 May 2010, and received Royal Assent on 27 July.

1.3 The Department invited approaches from all schools interested in becoming academies, and the first 34 'converters' opened in September 2010, along with 64 'sponsored' academies approved prior to the election. By September 2012, the Department had achieved a major expansion of the Programme:

- There were 2,309 open academies, 48 per cent of which were secondary converters (**Figure 2**).
- Eleven per cent of all state-funded schools in England were academies (1 per cent in May 2010).
- The proportion of total schools revenue funding going to academies increased from 5 per cent in 2010-11[2] to 15 per cent in 2011-12.

1.4 In the two years from April 2010 to March 2012, the Department spent some £8.3 billion funding the Programme, including direct funding to academies. The Department's management of costs is examined in Part Two.

1.5 The Department's decision to expand the Programme at pace presented a number of significant challenges. These are outlined below.

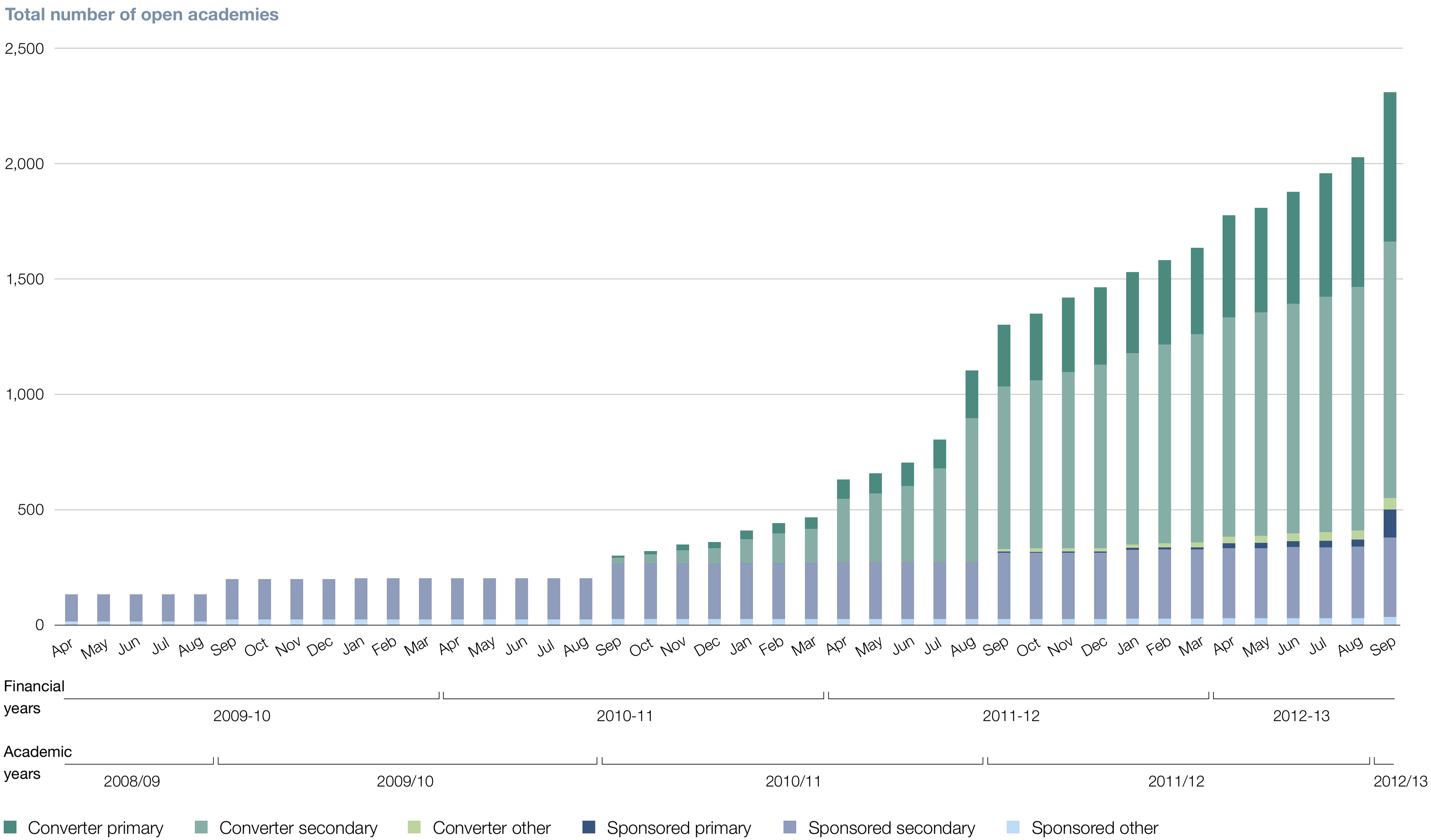
Forecasting and funding

1.6 The Department needs accurate forecasts of the number and timing of schools becoming academies in order to plan the human and financial resources needed to deliver the Programme. The number of academies directly influences the scale of costs, and forecasting is complicated by uncertainty since most schools choose when they apply for conversion, and can specify their preferred opening date.

2 Dates in the format '20xx-20yy' refer to central/local government financial years (1 April to 31 March). Dates in the format '20xx/yy' refer to academic years (1 September to 31 August). Most academies' financial years are aligned to the academic year, and are given in the format 20xx/yy.

Figure 2
Number of open academies by type and phase, April 2010 to September 2012

By September 2012, there were 2,309 open academies, 48 per cent of which were secondary converters



NOTE

1 'Other' comprises special and 'all-through' academies. All-through academies provide primary and secondary education, with no application process between the two.

Source: National Audit Office analysis of Department for Education data

1.7 The Department initially underestimated both demand and costs. Its Impact Assessment accompanying the Academies Bill assumed that 200 schools would convert in each of the first four years of the expanded Programme. While 195 schools converted in year one (2010-11), 1,103 converted in year two (2011-12). The Assessment contained simplistic assumptions about some funding elements and omitted other costs, including sponsored academy start-up funding.

1.8 The Department's cost modelling subsequently improved, but remained incomplete at the time of the 2010 Spending Review (October 2010). The Department's settlement contained provision to fund some costs of the expansion from within the overall schools budget, once commitments to protect per-pupil funding in all schools were met. However, the Department found it difficult to create stable in-year estimates of the funding required, and existing budgets proved insufficient given the number of schools that wished to convert.

1.9 A sharp growth in converter applications around March 2011 (Figure 5 on page 20) led the Department to significantly increase its forecast trajectory. By May 2011, it was forecasting a £500 million overspend on the Programme for 2011-12. The Department could not cover this pressure from within the schools settlement, and drew an additional £105 million from a separate contingency fund. It also ran a savings exercise, which redirected around £160 million[3] from previously allocated discretionary budgets. The largest single element was £95 million originally allocated to school improvement, which the Department transferred to the Programme on the basis that sponsored academies were now its main vehicle for school improvement.

1.10 HM Treasury agreed to provide up to £200 million to meet any remaining overspend, although this ultimately proved unnecessary as eventual numbers of conversions proved lower than the peak forecast. This, together with other savings, meant the Department recorded a small underspend in 2011-12.

1.11 In July 2011, one year into the Programme expansion, the Department established a combined Academies Funding Policy Unit to bring together the elements of the cost modelling work in order to support better forecasting and a more comprehensive understanding of costs. It now links improved cost estimates with forecast academy numbers based on historic patterns and current application numbers to understand the likely call on resources from fluctuating demand.

1.12 To avoid limiting the scale or pace of expansion, the Department has continued to prioritise the Programme by transferring funding from other budgets. In developing 2012-13 budgets, it transferred some £400 million, including over £100 million released because of lower-than-expected 16–19 participation, and a similar amount from funds for intervention in underperforming schools. The Department expects to exceed budgeted Programme cost in 2012-13, and to fund the difference from underspends on other budgets.

3 £84 million had been redirected in 2010-11 to meet similar pressures.

1.13 The Department does not publish assumptions about longer-term academy numbers or costs. Its spending plans from 2012-13 include a notional figure for academies which assumes no change in annual cost for the next three years. Thus where increased levels of funding are needed, this will have to come from savings within the Programme, or transfers from elsewhere in the Department's budget.

Managing supply and coping with demand

1.14 The Department elected to make the expansion largely demand-led, creating challenges around managing the pipeline of new academies. The Department succeeded in generating more interest from potential converters than initially expected, and has continued to create sponsored academies from underperforming schools. The Department and Agency put in place additional central resources to assess and process unpredictable numbers of conversion applications, and support the resultant academies after opening.

Managing supply

1.15 The Department has encouraged interest from potential academies and sponsors by marketing the prospective benefits of academy status. Our survey of 266 converters suggested that their most common reasons for becoming academies were to:

- obtain greater freedom to use their funding as they see fit (78 per cent);
- obtain more funding for front-line education (77 per cent); and
- be able to innovate in raising educational standards (65 per cent).

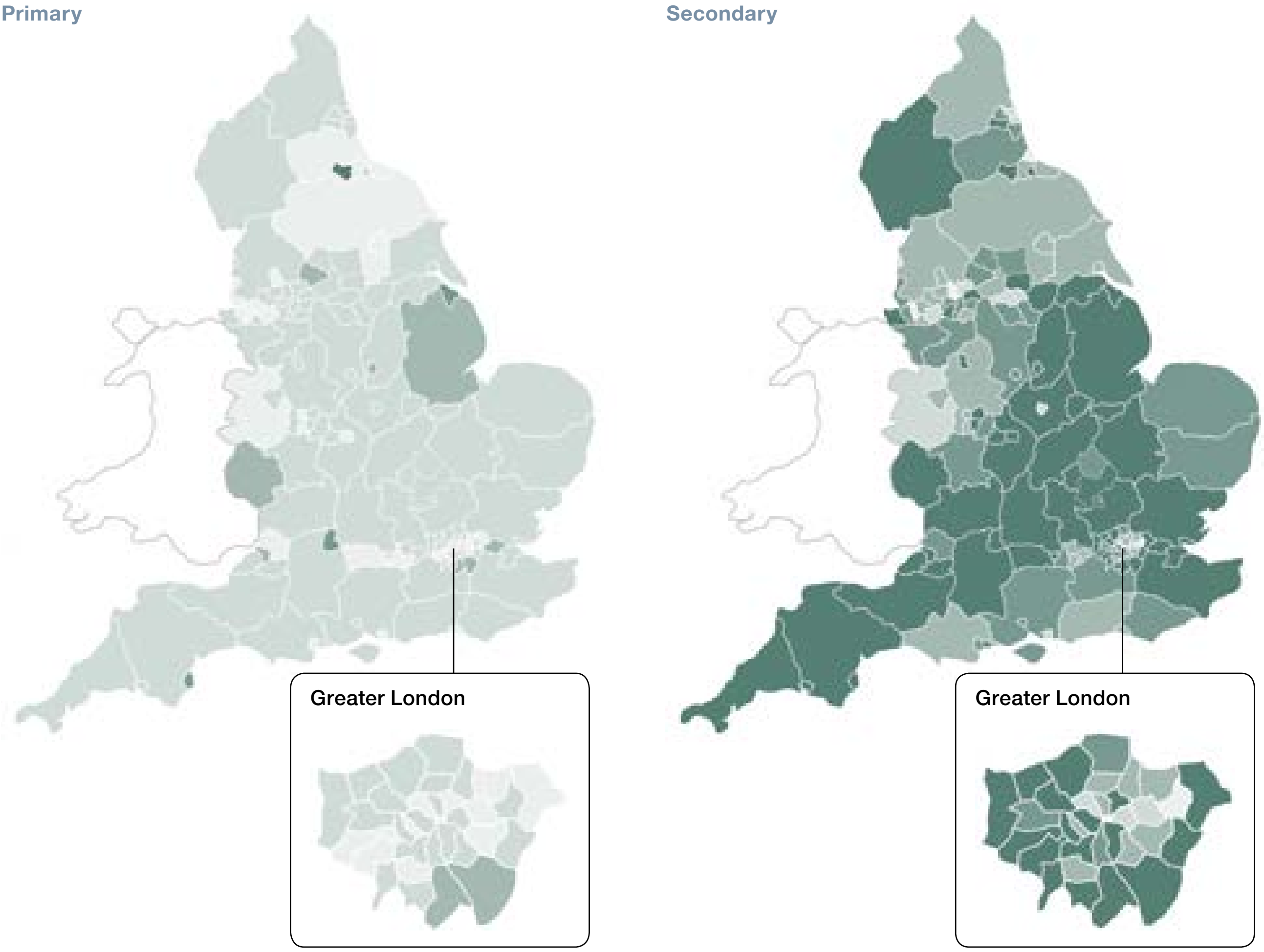
1.16 Although academy numbers have grown significantly, demand has varied greatly between local authorities and school types (**Figure 3** overleaf). As at September 2012, an estimated 48 per cent of all secondary school pupils were attending academies. In September 2012, the proportion of state secondary schools that were academies varied from none in some local authorities to 100 per cent in others. Primary schools have generally been slower to apply. After initially anticipating lower numbers in its Impact Assessment (paragraph 1.7), the Department forecast in July 2010 and June 2011 that around 600 primary schools would convert in 2011-12. The actual number was 325. As at September 2012, an estimated 5 per cent of primary pupils were attending academies.

1.17 The Department has stated its intention to focus on improving primary school underperformance, particularly in disadvantaged areas. It is creating over 300 new academies from primary schools which it considers to be underperforming, having initially focused on one local authority in each of the former government office regions. This approach is likely to address some of the variations outlined above. The Department is seeking to stimulate the supply of sponsors for primary academies by offering converters or other sponsors an additional £40,000 (in addition to the standard £25,000 conversion grant) to support improvement in a weaker primary school, which it expects will make the sponsor pipeline more predictable.

Figure 3

Proportion of primary and secondary schools in each local authority that are academies, as at September 2012

There have been large variations in take-up, both between local authorities and between school types



Percentage of schools which are academies

- 45.0–100
- 30.0–44.9
- 15.0–29.9
- 0.1–14.9
- 0

Source: National Audit Office analysis of Department for Education data

1.18 As at September 2012, the highest proportion of primary schools that were academies in any local authority was 55 per cent, with most areas 10 per cent or less. The Department will need to continue developing its approach to generating demand if it is to achieve its aim of a school system consisting mainly of academies.

Coping with demand

1.19 The expansion put the Department under considerable resource and time pressure, particularly in the first 18 months. It needed to recruit and train additional staff to assess and process conversion applications, a challenge exacerbated by a freeze on civil service recruitment in 2010-11. It managed the resultant pressures through a combination of temporary staff and transfers from within the Department and its arm's-length bodies. Since the expansion began, the Department has increased the number of staff working on academies by 133 per cent, from 120 in 2010-11 to 280 in 2011-12.

1.20 Despite the challenges, more than 70 per cent of converters responding to our survey rated the Department as 'quite good' or 'very good' in its handling of various aspects of their conversion, including providing information and guidance, being easily contactable and resolving queries quickly.

1.21 A few schools have faced particular challenges around conversion, which have increased conversion times and costs. For example, some conversions were initially delayed owing to uncertainty among Private Finance Initiative (PFI) contractors as to whether local authorities could legally continue to pay them in respect of academies' PFI contracts. Forty of the converters open as at September 2012 had PFI construction contracts. The average conversion time for these academies was 10.5 months (ranging from 3.1 to 17.5 months) compared to 5.3 months for all converters.

1.22 The Department has since clarified through a QC's opinion and the Education Act 2011 that local authorities can continue to make PFI payments for academies. It also pays converters with PFI contracts a grant of up to £12,000 towards resolving associated legal issues.

1.23 The YPLA and EFA have also faced resourcing challenges to keep pace with the expansion, particularly given their twin roles of administering funding and monitoring academies' finance and governance (see Part Three). In September 2010, the YPLA was resourced to support 300 academies. By April 2011, it had doubled its academies staff to 160 through internal transfers, and by September 2011 this had risen to 260. Our survey suggests that, despite this extra capacity, the YPLA and its successor have been unable to provide academies with consistently good service, leading to delays in agreeing and issuing funding (**Figure 4** overleaf). The EFA is seeking to address these issues by making more information available online, and by more efficient IT systems and processes for internal communications, enquiry handling and information sharing.

Figure 4

Open academies' views of support they have received from the YPLA and EFA since May 2010

Our survey suggests the Agencies have been unable to provide academies with consistently good service

Areas of performance	Percentage of academies choosing each rating		
	Good (%)	Not good (%)	Too early to say (%)
Calculating funding accurately	72	24	4
Issuing timely notification of funding	68	31	1
Providing timely answers to funding queries	40	56	4
Providing accurate answers to funding queries	60	33	7
Providing timely answers to other queries	46	46	9
Providing accurate answers to other queries	60	29	12

NOTES

1 Percentages may not sum to 100 owing to rounding.

2 Base: 396 academies, including pre-May 2010 openers (sponsored only) and post-May 2010 openers (sponsored and converters).

Source: National Audit Office survey of academies

Assessing and mitigating risk in potential academies

1.24 The Department has attempted to make academy conversion straightforward and non-bureaucratic. However, to minimize risks to subsequent financial and academic performance, the process must also provide appropriate scrutiny of applicant schools' capacity to cope with academy status.

1.25 The Department has so far largely managed these risks by tailoring assessment processes to schools' circumstances, and adopting a phased approach to the criteria for schools wishing to convert. Having initially prioritized schools rated 'outstanding' by Ofsted, in November 2010 the Department widened the criteria to include schools rated 'good' with 'outstanding' features, and in April 2011 to schools that were 'performing well'. 'Performing well' does not have a precise definition, but is based on:

- the last three years' exam results;
- latest Ofsted inspections, particularly capacity to improve, outcomes, and leadership;
- financial management, including any deficits; and
- any other evidence a school or the Department considers significant.

1.26 Depending on their performance against these criteria, schools will either proceed with conversion or be subject to further assessment. Schools not assessed as 'performing well' can still convert, but only as part of a chain. Schools below the floor standard[4] are normally referred for brokerage of a suitable sponsor, or for assessment of any partnership arrangements they are proposing.

1.27 Every school applying to be a stand-alone converter is expected to commit to supporting another named school in raising its performance. However, the Department does not monitor whether academies fulfil such commitments once they have converted.

1.28 The gradual widening of the conversion criteria has affected the volume and range of applicants (**Figure 5** overleaf). Seventy-six per cent of all applicants in 2010 were rated 'outstanding', dropping to 21 per cent in 2012. The proportion rated 'satisfactory' (a grade now replaced by 'requires improvement') has increased from under 5 per cent to 22 per cent over the same period.

1.29 By September 2012, 1,808 of 2,469 applicant schools had converted. As at November 2012, the Department had declined 26 of the remaining 661: 16 because of academic performance, three for financial performance, one for a combination of both, and six for other reasons. Thirty-seven had been transferred to apply as sponsored academies rather than converters, 77 had withdrawn their applications, 478 were being processed, and 43 were on hold.

1.30 Most schools applying to date have been 'outstanding' or 'good', and the limited data available on successful applicants since conversion suggests the Department has so far adopted a well-balanced approach to assessing risk. However, a very small proportion have experienced significant financial or academic decline:

- As at June 2012, 12 open converters were rated 'inadequate' by Ofsted.
- As at July 2012, 29 were being monitored for academic risk by the Office of the Schools Commissioner.
- As at September 2012, eight were being monitored for financial risk by the EFA.

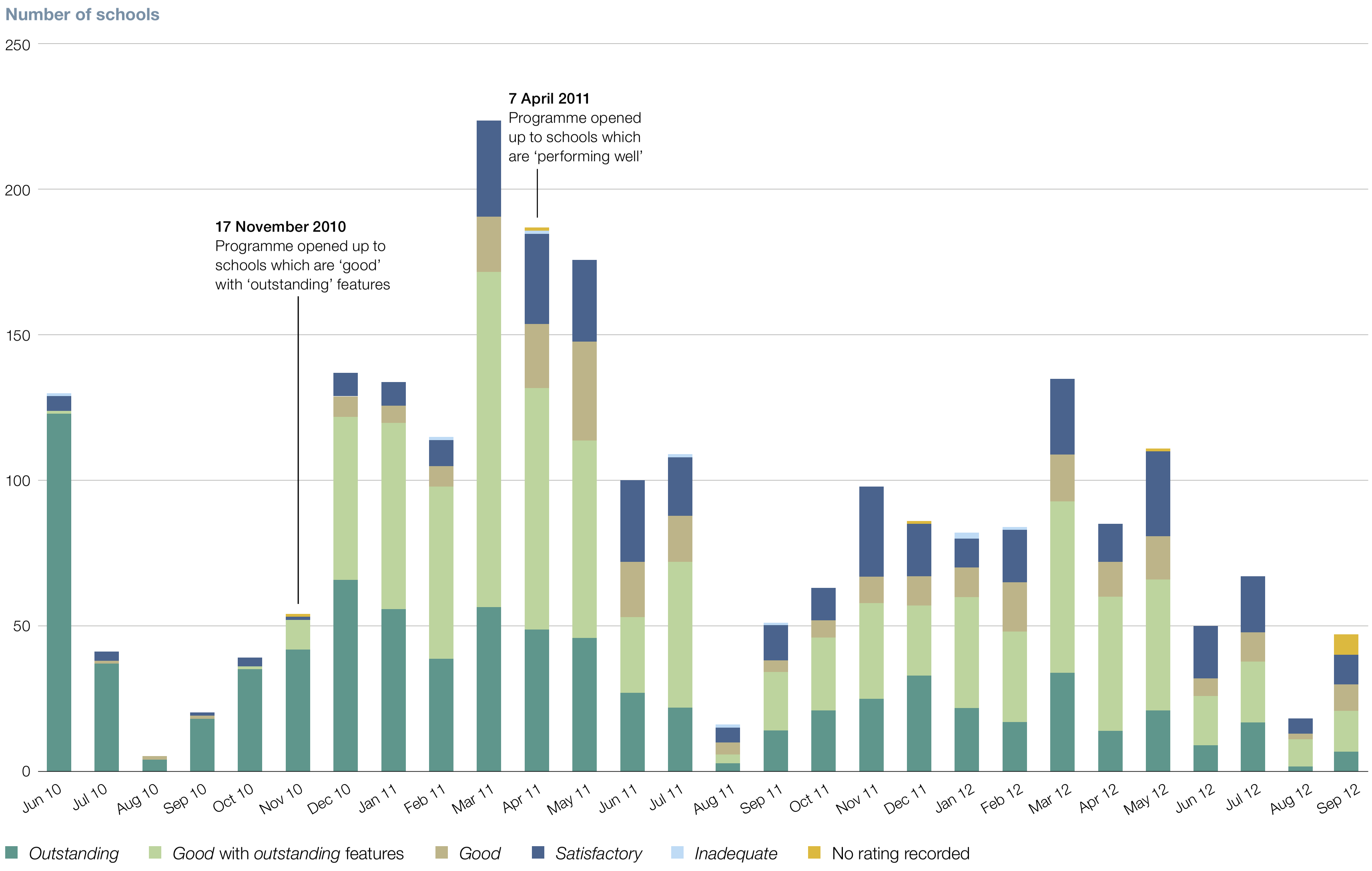
1.31 Of the 12 rated inadequate, nine were 'good' or ' outstanding' when applying. Ten were placed in the 'inadequate' category within one year of opening, and two within three months of opening. This suggests that even schools whose most recent overall inspection judgement (which may have been awarded several years earlier) indicates they are high-performing are at risk of decline if subsequent financial or performance issues are not identified and managed. The Department will need to periodically review assessment processes and the lessons arising from unforeseen risks, as future cohorts may include fewer 'outstanding' or 'good' schools.

4 In primary schools, the floor standard is 60 per cent of pupils at the end of Key Stage 2 achieving level 4 or above in English and maths, and national average percentage of pupils at the end of Key Stage 2 making expected progress in English and maths. In secondary schools, it is 40 per cent of pupils gaining five GCSEs A*–C (including English and maths). This will rise to 50 per cent by 2015.

Figure 5

Schools applying for conversion to academy status from June 2010 to September 2012, by Ofsted rating

The profile of schools applying to convert has become more diverse, with 'outstanding' schools no longer in the majority



Source: National Audit Office analysis of Department for Education data

Part Two

The cost of the expanding Programme

2.1 This part of the report examines the costs to the Department of operating and expanding the Programme since April 2010.

Introduction

2.2 The Department's gross expenditure on the Programme was £2.1 billion in 2010-11 and £6.2 billion in 2011-12. Of this £8.3 billion total, £6.4 billion was offset by money recovered from local authorities, or was distributed to schools on the same basis, irrespective of whether they were maintained schools or academies – for example sixth-form funding or the Pupil Premium for children from low-income families. The Department provided a further £0.9 billion directly to 103 academies for whose pupils it does not allocate any funding to local authorities, thus making recovery unnecessary.

2.3 The remainder – an estimated £1.0 billion over the two years from April 2010 to March 2012 – is additional cost which the Department has had to fund from its main 'Schools Settlement' or other budgets (see paragraphs 1.7–1.10 and Figure 7). **Figure 6** on pages 22 and 23 shows the main elements of this cost.

Main elements of the additional cost

Central costs of administering the Programme

2.4 These costs (**£49 million**) are extra resources to support and run the Programme, such as departmental and YPLA teams responsible for approving, funding and monitoring academies (paragraphs 1.20 and 1.23).

Figure 6
Estimated additional cost of the Programme to the Department between 1 April 2010 and 31 March 2012[1]

Cost description	Includes	Estimated additional cost, 1 April 2010 to 31 March 2011 (£m)	Estimated additional cost, 1 April 2011 to 31 March 2012 (£m)	Total estimated additional cost, 1 April 2010 to 31 March 2012 (£m)
Central costs of administering the Programme (paragraph 2.4)	Department for Education	8	15	**23**
	Young People's Learning Agency	8	18	**26**
		16	**33**	**49**
One-off transition costs for new academies (paragraph 2.5)	Pre-opening funding to converter academies	11	33	**43**
	Pre-opening and start-up funding to sponsored academies	157	121	**279**
	Funding for Transfer of Undertakings (Protection of Employment) Regulations (TUPE) and restructuring	8	8	**15**
		176	**162**	**338**
Payments to individual open academies (paragraph 2.6)	Insurance costs repaid to academies	28	63	**92**
	Financial support to academies in deficit	7	15	**22**
	Value Added Tax funding	67	1	**68**
	Other grants	17	13	**29**
		119	**92**	**211**
Costs arising from the funding system for academies (paragraphs 2.7–2.11)	Known differences in funding paid to academies and recovered from local authorities	107	163	**270**
	Residual difference in funding paid to academies and recovered from local authorities[2]	4	76	**80**
		111	**239**	**350**
Departmental decisions to protect funding (paragraphs 2.12-2.13)	Double-funding of local authority special education services	0	21	**21**
	LACSEG (see paragraph 2.9) protection	0	59	**59**
		0	**80**	**80**
Total estimated additional cost		**422**	**605**	**1,027**

NOTES
1 For definition of 'additional cost', see paragraphs 2.2 and 2.3.
2 Figures in this category are estimates and involve assumptions as to the apportionment of expenditure between cost categories and years.
3 Totals may not sum owing to rounding.

Source: National Audit Office analysis of Department for Education and Education Funding Agency data

One-off transition costs for new academies

2.5 **Academies received £338 million** of one-off transitional funding between 1 April 2010 and 31 March 2012, consisting of:

- **£43 million** to converters – mainly individual £25,000 grants to cover administration costs of conversion.
- **£279 million** to sponsored academies – these are larger grants paid both before and after opening, and covering a wider range of costs such as school improvement or diseconomies of scale whilst building pupil numbers. They often continue over several years. For example, academies opening in September 2010 had received average transitional funding of over £2 million each by August 2012; over 90 per cent of these academies will continue to receive transitional funding in 2012/13. The Department has been reducing the amount of such funding paid to each new opener, and plans further reductions for academies opening from April 2013. For example, sponsored secondary academies which opened in September 2010 received average post-opening funding of £810,000 in their first year; those that opened in September 2011 £410,000.
- **£15 million** to new academies to satisfy obligations under the Transfer of Undertakings (Protection of Employment) Regulations.

Payments to individual open academies

2.6 The Department makes a number of payments to academies to replicate benefits they would have received as maintained schools. Because these payments are not recovered from local authorities, they are additional costs to the Department:

- **Insurance** – Maintained schools obtain insurance through their local authority. Academies must purchase it themselves, and are potentially less able to benefit from economies of scale. The Department has chosen to refund them for the costs incurred, providing **£92 million** between April 2010 and March 2012. The Department is encouraging academies to reduce their insurance premiums by more cost-effective purchasing, for example through local authority arrangements or a contractor framework. It is reviewing academy insurance funding as part of planned reforms for 2013/14.
- **Deficit funding** – Maintained schools' deficits would normally be managed within local authority budgets. Academies do not have access to local authority funding, and those in financial difficulty have received direct financial support from central government at a cost of some **£22 million**.
- **VAT costs** – Maintained schools can recover their VAT costs from HMRC. Until April 2011, academies could not, and hence the Department provided them with funding to offset these costs. This amounted to **£67 million in 2010-11 and £1 million in 2011-12**.

- **Other grants** – The Department paid academies £29 million on a case-by-case basis to meet other one-off costs.

Costs arising from the funding system for academies

2.7 The Department funds maintained schools via grants to local authorities. which distribute this funding to their individual schools. Academies receive their funding directly from central government (Figure 1). This means that the Department effectively runs two funding systems side-by-side, and must transfer resources from one (maintained schools) to the other (academies) to reflect changes in the proportion of pupils in each.

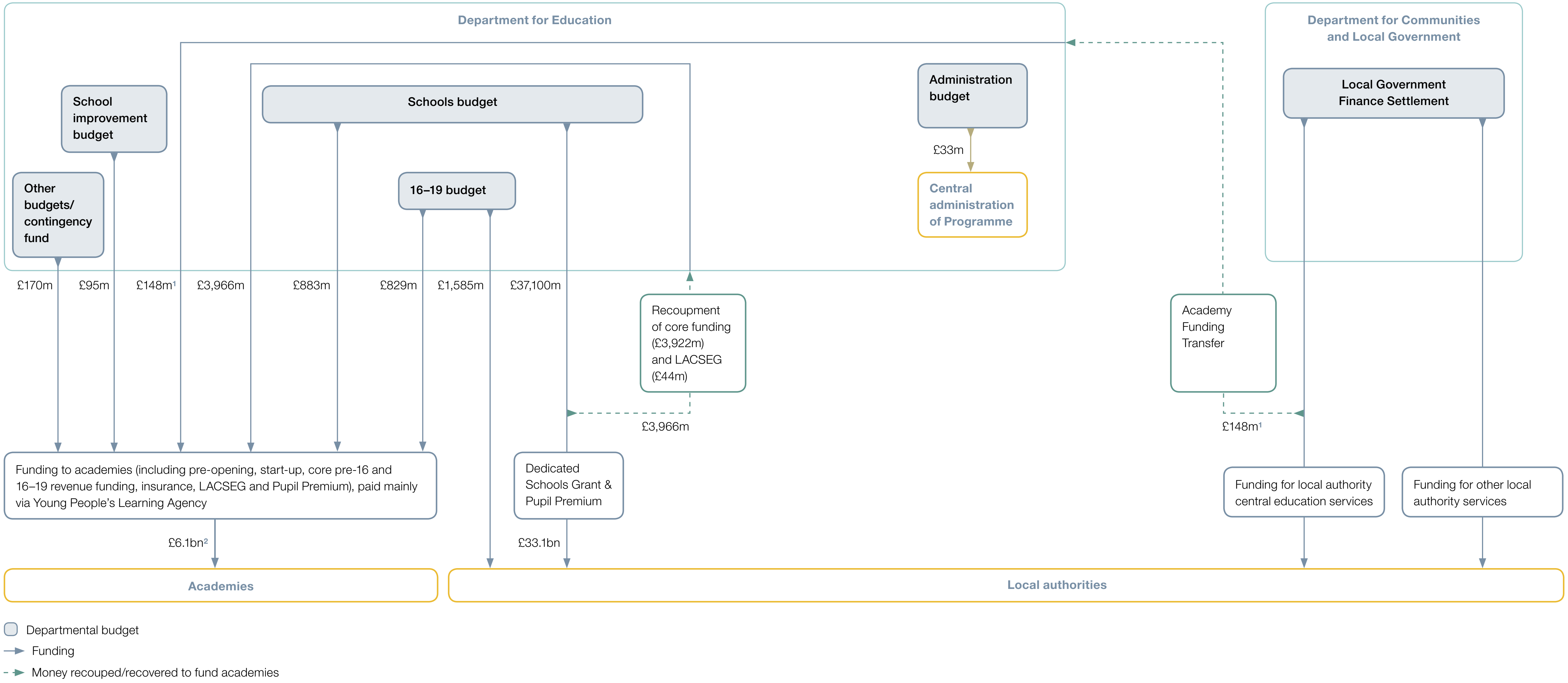
2.8 The Department aims to provide each academy with the equivalent core funding it would receive as a maintained school in the same area. For each academy the EFA 'replicates' the calculation used by the relevant local authority to fund its maintained schools. The EFA pays this replicated funding to academies directly, and aims to 'recoup' it from local authorities to avoid double-funding across the system.

2.9 Local authorities are funded by the Department for Education and the Department for Communities and Local Government to provide central services for maintained schools in their area, such as education welfare and school improvement. Unlike maintained schools, academies are not automatically entitled to most of these local authority services. They receive an additional 'Local Authority Central Spend Equivalent Grant' (LACSEG) to purchase such services from the provider of their choice.

2.10 As local authorities no longer automatically provide these services for academy pupils, their funding is reduced. In the case of Department for Education-funded services, this is done through recoupment. From 2011-12, a proportion of the funding provided by the Department for Communities and Local Government has been transferred to the Department for Education for redistribution to academies – a process known as the 'academy funding transfer' (**Figure 7** on pages 26 and 27).

Figure 7

Main academy-related costs and funding flows, 2011-12



NOTES

1 The Department agreed to refund local authorities £58 million of the £148 million transferred in 2011-12.

2 Excludes funding for city technical colleges and free schools.

Source: National Audit Office analysis of Department for Education data

Differences between funding paid to academies and funding recovered from local authorities

2.11 In theory, these transfers of resources from local authorities to academies should result in no additional cost. However, for a number of reasons this is not the case. We estimate the aggregate difference between funding paid to academies and funding recovered from local authorities between April 2010 and March 2012 (net of the £80 million cost of departmental decisions, see paragraphs 2.12 and 2.13) to be **£350 million**. This difference arises from several factors:

- There was no academy funding transfer in 2010-11, so the Department was not able to recover approximately **£107 million** paid to academies.
- When calculating the 2011-12 academy funding transfer, the Department underestimated how many academies would be open. It provided £253 million to academies, but recovered only £148 million from local authorities – leaving **£105 million** unrecovered.
- Some local authorities challenged the calculation basis of the 2011-12 academy funding transfer, which did not take account of actual proportions of pupils attending academies in each area. Of the £148 million recovered for 2011-12, the Department agreed to refund **£58 million**.
- The remaining **£80 million** is the residual figure once all calculable reasons for differences between funding and recovery have been accounted for. The Department attributes this to a number of factors, such as differences in the pupil data and formulae used to calculate amounts recouped from local authorities and funding paid to academies. The money remains within the school funding system, either with local authorities or with academies.[5]

Departmental decisions to protect funding

2.12 In 2010-11, local authorities expressed concerns that central services could become unsustainable as more and more LACSEG funding was recouped. In response, the Department decided in 2011-12 not to recoup for Special Educational Needs (at an estimated cost of **£21 million**) and admissions services (at a cost which cannot be separately identified).

2.13 The Department also decided to limit reductions in academies' funding arising from changes in local authorities' budgeting assumptions. Some authorities changed the proportion of their budgets apportioned to central services (which feed into calculations for academies' funding), leading to year-on-year volatility in academies' income. In 2011-12, the Department paid 'LACSEG protection' to at least 465 academies at an estimated cost of **£59 million**.

5 See Figure 6, note 2. The £80 million excludes a further £99 million which we estimate will be recovered in future years, and hence is not ultimately a cost to the Department. It is, however, a cash pressure which the Department has had to fund in this two-year period.

Annual growth in additional cost

2.14 The additional annual cost of the Programme has increased each year as the number of academies has grown. **Figure 8** overleaf shows that this increase has been driven chiefly by costs arising from the funding system. However, the additional recurrent cost to the Department of each open academy reduced by 53 per cent between 2010-11 and 2011-12, chiefly because the Department increased the percentage of funding recovered from local authorities and no longer refunds academies' VAT (paragraph 2.6). Around 43 per cent of LACSEG funding was recouped for 2011-12, compared to under 7 per cent for 2009-10.

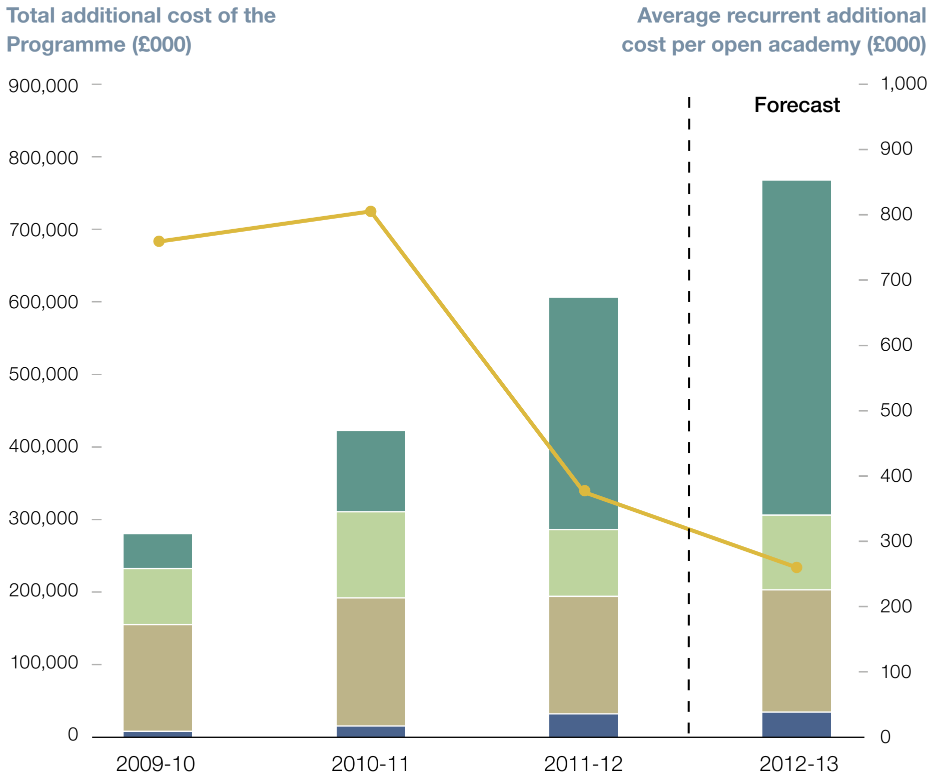
2.15 The Department's forecasts indicate that the total additional cost of the Programme will grow further in 2012-13, but that the additional recurrent cost per open academy will continue to fall.

2.16 The Department has recognised the scale of cost growth and its potential impact on the Programme's longer-term affordability. It intends to introduce a National Funding Formula to fund all schools on a more transparent and standardised basis, also removing the need for replication and recoupment. As an interim measure for 2013-14, the Department intends to simplify and standardise local authority funding formulae to make replication less complex, and reduce the challenge of estimating and recovering costs. It also plans to change the basis of the 'academy funding transfer' for 2013-14 in order to eliminate the current complex system of recovery.

Figure 8

Estimated additional costs of the Programme and per open academy, 2009-10 to 2012-13

The annual increase in additional cost has been driven chiefly by costs arising from the funding system. Additional recurrent cost per open academy has fallen over the same period



	2009-10	2010-11	2011-12	2012-13
Costs arising from the funding system for academies, and departmental decisions to protect funding (£000)	46,782	110,786	318,764	460,382
Payments to individual open academies (£000)	77,037	119,094	92,148	104,119
One-off transition costs for new academies (£000)	148,485	175,809	161,696	167,095
Central costs of administering the Programme (£000)	7,346	15,889	32,683	35,384
	279,649	**421,578**	**605,291**	**766,980**
Average recurrent additional cost per open academy (£000)	759	805	375	260

NOTES

1 Average recurrent additional cost per open academy excludes one-off transition costs (paragraph 2.5).

2 Figures in the blocks are partly based on estimates and involve assumptions as to the apportionment of expenditure between cost categories and years.

3 Totals may not sum due to rounding.

Source: National Audit Office analysis of Department for Education data

Part Three

Financial management, governance and oversight

3.1 This part of the report considers academies' financial management and governance, and the oversight and accountability regime for the academies sector.

Introduction

3.2 Our previous report on academies found that their greater independence brings risks to governance and accountability. We concluded that expanding the Programme would increase the scale of such risks, requiring rigorous programme monitoring and a systematic framework to secure good practice and compliance by all academies. In seeking to develop such a framework, the Department has sought to reconcile these challenges with its policy objective of autonomy for academies.

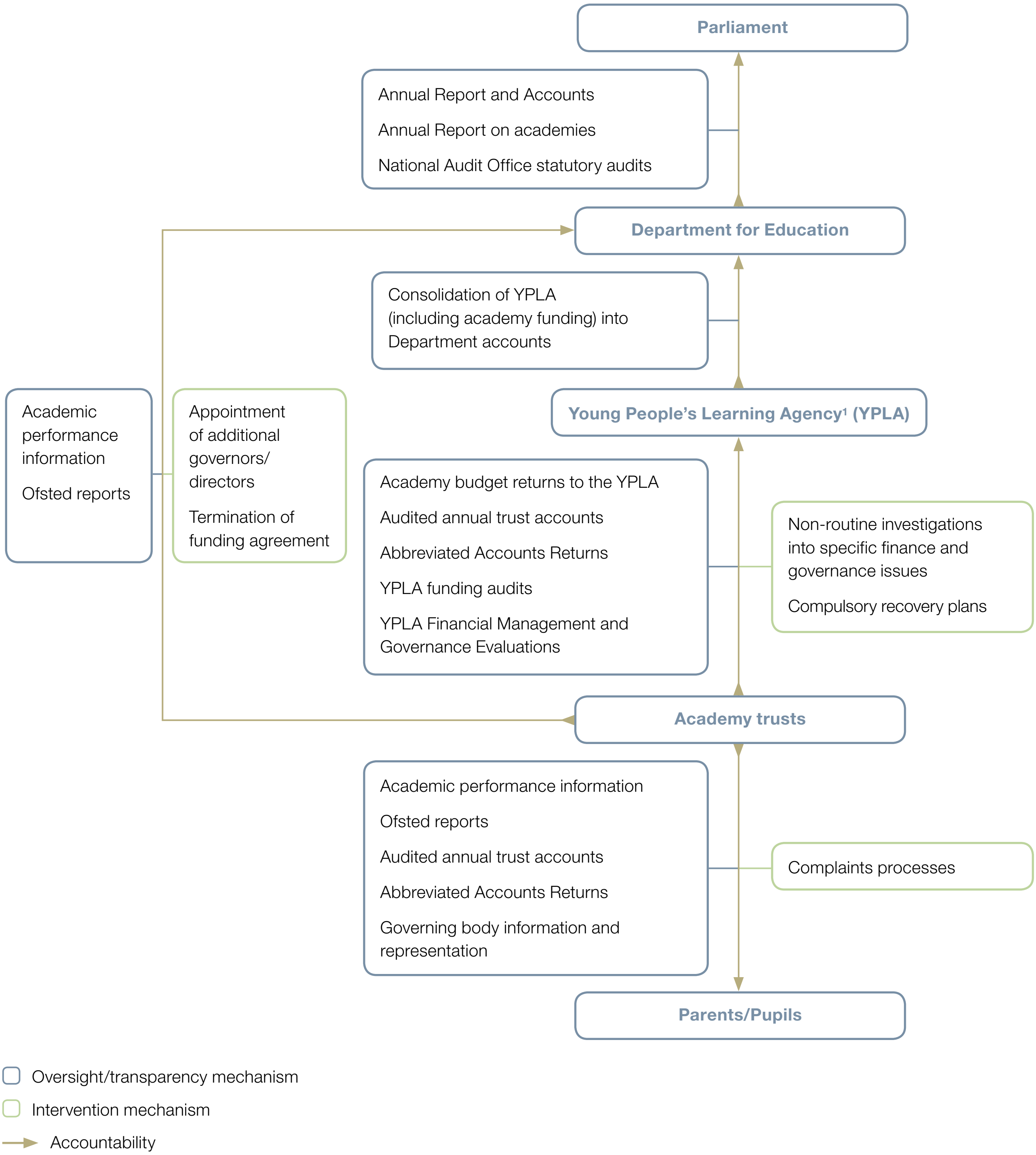
3.3 **Figure 9** overleaf shows oversight arrangements for the academies sector.

Academies' financial management and governance

3.4 The Department expects academies to take primary responsibility for their performance, and relies on them having sound financial management and governance. Academies are public bodies, and each academy trust must appoint an Accounting Officer (usually the Head or Executive Principal) with personal responsibility for ensuring public funds are properly used and deliver value for money.

3.5 Most available information suggests that academies' financial management and governance are good, although this information is largely self-reported. Ninety-nine per cent of academies responding to our survey are confident they have sufficient expertise in budgeting and financial management to meet the challenges of academy status. Sixty-nine per cent of academies assessed their own financial management and governance as good or outstanding in 2011-12. Validation of a sample of returns by YPLA reduced this to 60 per cent. After validation less than 1 per cent of academies were assessed as inadequate.

Figure 9
Academy oversight arrangements, 2011-12



NOTE
1 The YPLA was dissolved on 31 March 2012, and its remit with respect to academies taken on by the EFA.

Source: National Audit Office

3.6 Our survey also suggests most academies are complying with good practice in financial governance. For example:

- Around half of academies have an Audit Committee, compared to just over a third in 2010.
- Over 99 per cent of academies have either Internal Audit functions or Responsible Officers to provide financial assurance. Virtually no Responsible Officers are subject to conflicts of roles through chairing the Governing Body or Board of Trustees (16 per cent in 2010).

3.7 The proportion of academy Finance Directors with recognised accountancy qualifications has reduced since 2010, from 61 per cent[6] to 34 per cent. The Department no longer recommends that all academies should have qualified Finance Directors. However, its revised guidance requires trustees and managers to have the skills, knowledge and experience to run the academy trust.

3.8 The EFA and its predecessor have undertaken a few formal investigations into concerns over governance or financial management in academies, mainly in response to whistle-blowers or other local intelligence. Academy governing bodies may also commission similar investigations. On 30 March 2012, the Chief Executive of the Priory Federation of Academies Trust resigned; the EFA published a report of its investigation into the trust on 27 April 2012. The YPLA had previously validated the trust's self-assessment as outstanding. A further investigation is currently under way at Quintin Kynaston Community Academy.

3.9 In addition to their individual impact at academy level, failures in financial control and governance create risks of wider reputational damage to the Programme. In September 2012, the EFA issued new guidance clarifying its expectations of academy trust accounting officers and governing bodies.

Academies' financial position and cost base

3.10 In 2009/10, around 12 per cent of academies reported cumulative deficits, falling to around 6 per cent in 2010/11 – a similar proportion to the maintained sector. This reduction reflects changes in the profile of schools becoming academies during that period, with 95 per cent of converters having a surplus on conversion.

3.11 Schools can convert with deficits, although they must have an agreed recovery plan and the ability to pay back the deficit within two to three years. Some academies have required financial support to address pressures arising after they became academies. In 2011-12, the Young People's Learning Agency gave a total of £15 million in financial support to 110 academies, an increase from £7 million in 2010-11.

6 Comptroller and Auditor General, *The Academies Programme*, Session 2010-11, HC 288, National Audit Office, September 2010, page 36.

3.12 A school's cost base may change when it becomes an academy. Cost pressures may arise if individual academies lose economies of scale previously achieved through local authority group purchasing. Conversely, there may be opportunities to reduce costs, for example, by negotiating with a wider range of suppliers.

3.13 Comparable routine data on changes in schools' costs is limited, but our survey suggests converters have experienced increases in several areas. (**Figure 10**). Respondents ascribed some increases (including senior leadership pay) to decisions to spend more for higher quality, but attributed others to the requirements of academy status (**Figure 11** on page 36). Increases were most frequently cited in back-office areas such as finance and accountancy, and administrative staff and services. The Department pays academies LACSEG (see Part Two) to buy such services, although some academies report that cost pressures remain.[7]

3.14 In every category covered by our survey, some respondents have experienced cost increases and some decreases, suggesting there may also be potential for sharing good practice in reducing costs across the academies sector.

3.15 Staff costs typically account for around 80 per cent of schools' total expenditure. Although academies can set their own pay and conditions, available data suggests their teaching staff costs are broadly comparable with the maintained sector. The small number of academies reporting changes to these costs in our survey ascribed these mainly to decisions to adjust capacity.

Oversight and assurance

3.16 The Department and EFA are accountable to Parliament for academies' funding and overall value for money. They need adequate mechanisms to assess risks and support intervention, and to demonstrate that academies are making proper use of public money. Academy trusts' funding agreements with the Secretary of State allow him to compel them to correct underperformance; he can also appoint new governors or directors or, ultimately, terminate the agreement.

3.17 Effective oversight requires robust information about financial and academic performance, and the capability to act on assessed risks. The Department also needs to avoid unnecessary bureaucracy or costs. Academies' responses to our survey suggest some tension between their expectations of reduced bureaucracy and their subsequent experience:

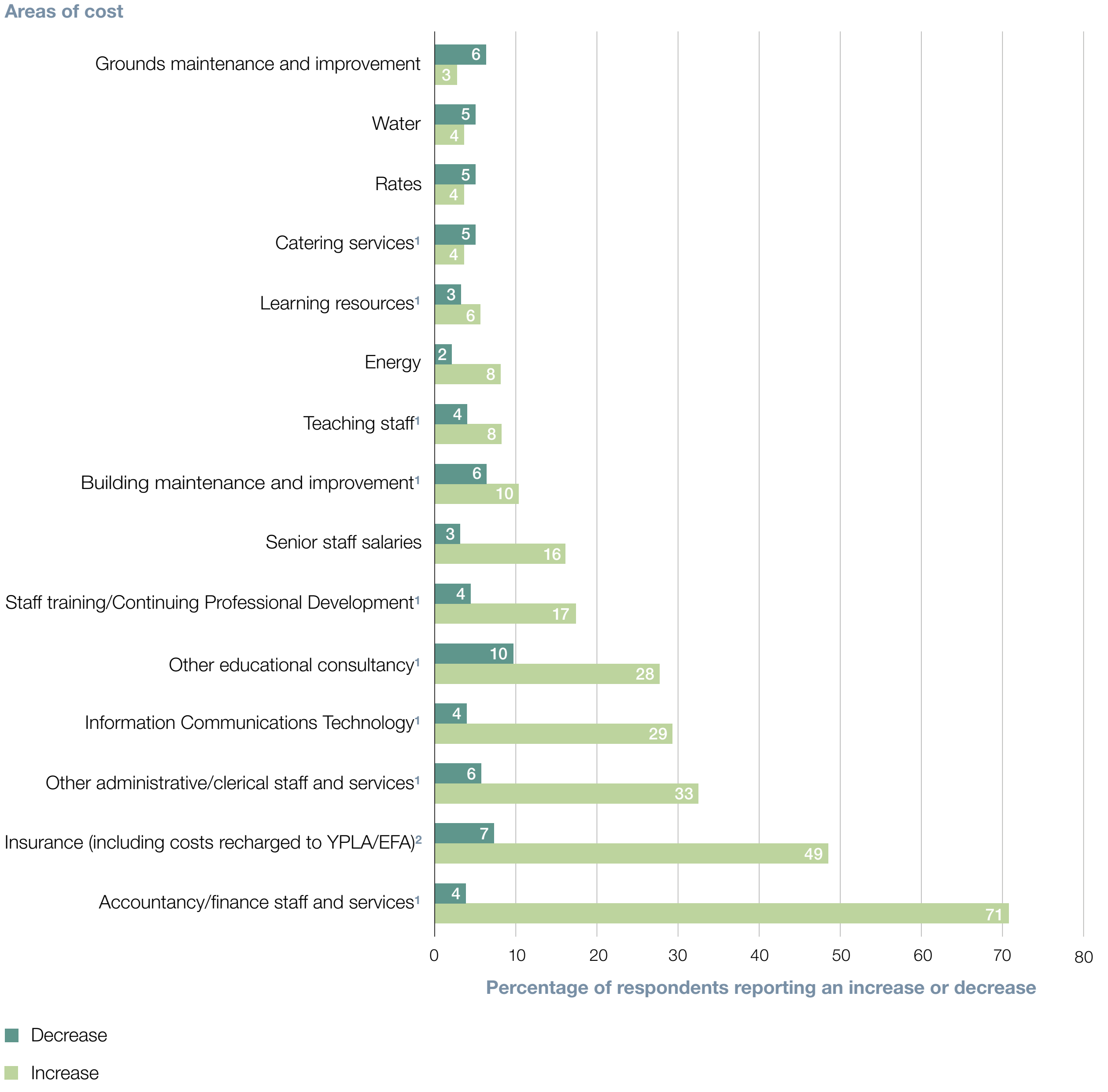
- Forty-seven per cent of converters feel less free from bureaucracy than they expected before conversion.
- Seventy-one per cent report increases in costs for accountancy/finance staff and services, mainly to meet the demands of the academy compliance and reporting regime. (Figures 10 and 11).

7 We asked respondents to report a cost increase in LACSEG-related categories where they felt the cost was greater than the LACSEG available to meet it. As academies do not receive a detailed breakdown of their LACSEG funding by cost category, these findings are indicative and should be treated with caution.

Figure 10

Percentage of converters reporting increases and decreases in different costs since conversion

Becoming an academy may affect a school's cost base



NOTES

1 Denotes cost areas which may be covered by LACSEG.

2 Insurance costs are refunded by the Department, but contribute to the overall cost of the Programme (paragraph 2.6).

3 Base: 266 converters opening between September 2010 and June 2012.

Source: National Audit Office survey of academies

Figure 11
Main drivers of cost increases in converters

The main drivers have been decisions to increase quality, capacity or usage, and differences between academy and local authority legal/compliance frameworks

Areas of cost increase	Base (number of academies reporting an increase in each cost category)	Reasons for cost increases, with percentage of base population ascribing their cost increase to that reason				
		Differences between academy and local authority legal/ compliance framework (%)	Deliberate decision to pay more for higher quality (%)	Deliberate decision to increase capacity or usage (%)	Less bulk purchasing power without local authority involvement (%)	Transitional costs (e.g. obligations under TUPE, transfer of software licences) (%)
Accountancy/finance staff and services	189	56	24	33	3	15
Insurance	127	48	6	3	39	4
Other administrative/ clerical staff and services	94	38	10	51	3	11
Information Communications Technology	75	19	9	17	19	44
Other educational consultancy	72	33	25	17	12	7
Staff training/Continuing Professional Development	51	27	25	21	15	5
Senior staff salaries	46	15	38	53	3	6

NOTE
1 Rows may not sum to 100 per cent, as some respondents did not state a reason for their cost increase, and others selected multiple reasons.

Source: National Audit Office survey of 266 converters opening between September 2010 and June 2012

Oversight of academic performance

3.18 The Office of the Schools Commissioner took over monitoring academies' academic performance from the YPLA in September 2011. Monitoring consists of:

- analysis of academies' performance against floor standards;[8]
- reviews of Ofsted ratings and exam trends; and
- site visits and other intelligence, for example from local authorities.

This information feeds into a risk rating, with red-rated schools receiving more detailed scrutiny and intervention.

3.19 The proportion of academies which the Office of the Schools Commissioner considers high risk is very small. As at July 2012, the Office was monitoring the academic performance of 166 academies, and classified 30 of these as giving particular cause for concern.

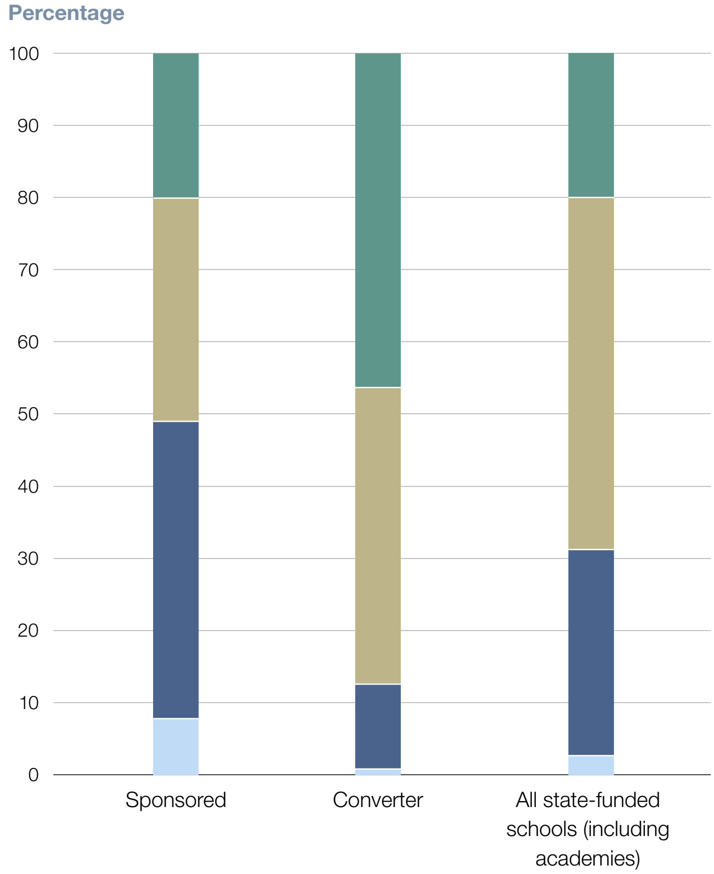
3.20 **Figure 12** overleaf and **Figure 13** on page 39 show academies' most recent Ofsted grades as at July 2012 and their 2011/12 exam performance. Thirteen per cent of converters are assessed as satisfactory or inadequate by Ofsted, compared to 49 per cent of sponsored academies. Sponsored academies' exam performance is also relatively weaker. Both measures reflect the fact that the Department invited schools rated 'outstanding' (and later 'good') by Ofsted to convert first, whereas sponsored academies have been created from weaker schools.

3.21 The Office of the Schools Commissioner relies chiefly on sponsor input – either from the existing sponsor or a new one – to rectify poor academy performance. As at September 2012, sponsors had replaced Principals at 22 academies where the Office of the Schools Commissioner considered poor leadership to have been impeding progress. The Office can issue notices to academies where it considers performance unacceptably low or sponsor improvement plans ineffective. To date, the Office has served eight 'pre-warning notices' and two full 'warning notices.'

8 In primary schools, the floor standard is 60 per cent of pupils at the end of Key Stage 2 achieving level 4 or above in English and maths, and national average percentage of pupils at the end of Key Stage 2 making expected progress in English and maths. In secondary schools, it is 40 per cent of pupils gaining five GCSEs A*–C (including English and maths). This will rise to 50 per cent by 2015.

Figure 12
Ofsted ratings of open academies as at June 2012

Converter ratings reflect the fact that 'outstanding' (and later 'good') schools were invited to apply for academy status first



	Sponsored	Converter	All state-funded schools (including academies)
Outstanding	41	702	4,183
Good	63	621	10,171
Satisfactory	84	179	5,972
Inadequate	16	12	555

NOTE

1 Ofsted treats converters as a continuation of the previous maintained school, and hence converters' ratings may date from before conversion. Data for sponsored academies does not include predecessor schools, since Ofsted considers them separate organisations. 'All state-funded schools' excludes pupil referral units and nurseries.

Source: National Audit Office analysis of Ofsted data

Figure 13
Academic performance of academies, 2011/12

Sponsored academies have been created from weaker or failing schools, and hence have lower exam results than the national average

Academy phase	Qualification level	Benchmark	Sponsored academies	Converter academies	National average for all state-funded schools[1]
Primary	Key Stage 2	Percentage of pupils at level four or above in English and maths	71	85	80
		Percentage of pupils making expected progress in English	84	90	90
		Percentage of pupils making expected progress in maths	84	90	88
Secondary	Key Stage 4	Percentage of pupils achieving five or more A*–C grade GCSEs or equivalent (including English and maths)	49	68	59
		Percentage of pupils achieving English Baccalaureate	6	26	16
	Key Stage 5	Percentage of students achieving two or more passes of A-level equivalent size	94	98	98
		Percentage of students achieving AAB or more passes at A-level	3	11	8

NOTES

1 National average includes local authority maintained schools, academies, free schools and city technology colleges for Key Stage 2 and 4. Key Stage 5 also includes maintained special schools and pupil referral units.

2 Key Stage 2 results cover 31 sponsored academies, 254 converters and 14,750 maintained schools.

3 Key Stage 4 results cover 130,952 pupils attending converters and 48,334 attending sponsored academies.

4 Key Stage 5 results cover 59,515 students attending converters and 11,478 attending sponsored academies.

Source: Department for Education Statistical First Releases

Oversight of governance and finance

3.22 The EFA monitors academies' governance and finance using:

- routine budget/outturn data;
- self-assessment returns;
- academy visits; and
- reviews of annual accounts.

As at October 2012, the EFA classified 37 academies (1.6 per cent) as causing financial concern, with 19 of these having a 'red' risk rating. The Office of the Schools Commissioner considered 4 of the 19 to be causing academic concern.

3.23 The YPLA and the EFA have experienced difficulties meeting staffing requirements for administering funding and monitoring academies' financial management and governance. Delays in recruiting staff have occurred since September 2011, and as at September 2012, 20 of 85 external assurance posts remained vacant. The Agencies have used secondees and temporary staff to cover the shortfall, but have still had difficulty fulfilling their planned schedule of monitoring visits. The EFA is introducing systems intended to allow greater focus on risk by increasing efficiency, and support further Programme expansion without equivalent growth in headcount.

3.24 The EFA's risk assessment relies partly on data provided by academies. Academies' compliance with submission deadlines has improved from previous years, but in 2011-12 over half of academies submitted their self-assessment returns late, and one-fifth of the 435 academy trusts with audited 2010/11 accounts failed to submit these to the YPLA by the 31 December 2011 deadline.

3.25 In 2011-12, the Comptroller and Auditor General qualified the accounts of the Department and the YPLA. This was because the YPLA could not confirm the extent of severance payments in academies in excess of contractual commitments, which should have been submitted for prior approval by HM Treasury. Following his report and recommendations, the Department and the EFA have made changes for 2012/13:

- The new *Academies Financial Handbook* sets thresholds below which academies can make payments that would previously have required prior HM Treasury approval.
- The Handbook identifies actions the EFA may take if academies do not submit returns on time.
- Academy trust accounting officers must confirm annually that they have discharged their responsibilities for regularity, propriety, compliance and value for money.
- Academy auditors will provide a regularity opinion, which will be supported by optional guidance developed with the EFA by the Institute of Chartered Accountants in England and Wales.

3.26 In 2012-13, the Department and the EFA will consolidate academy trusts into their annual financial statements for the first time. This will present challenges owing to the large number of academies, and the fact that their audited finance data is not available in time for the Department and EFA year-end.

Supporting accountability and choice

3.27 Transparent and comparable information on performance, funding and governance helps to support public scrutiny and parental choice.

3.28 Detailed information on individual academies' exam performance is available on the Department's website in a standard format which allows comparisons with other academies and maintained schools. Almost 80 per cent of academies responding to our survey reported that they publish their exam results on their website, with a similar proportion publishing Ofsted reports (**Figure 14** overleaf). From September 2012, the Department has made it compulsory for maintained school and academy websites to contain a range of information on academic performance, admissions and curriculum.

3.29 Transparent information on academies' governance and finances is less consistently available. Academies established since July 2010 are required by their funding agreements to publish their accounts online. Earlier academies are not, and according to our survey only 16 per cent of academies established before May 2010 publish accounts on their own or their sponsor's website. There is no requirement for academies to publish other governance and finance information such as minutes, memoranda and articles of association or funding agreements, and they are exempted by HM Treasury from several public-sector transparency requirements. The Department publishes all academy funding agreements on its website, and since 13 November 2012 has also published academy trust annual accounts.

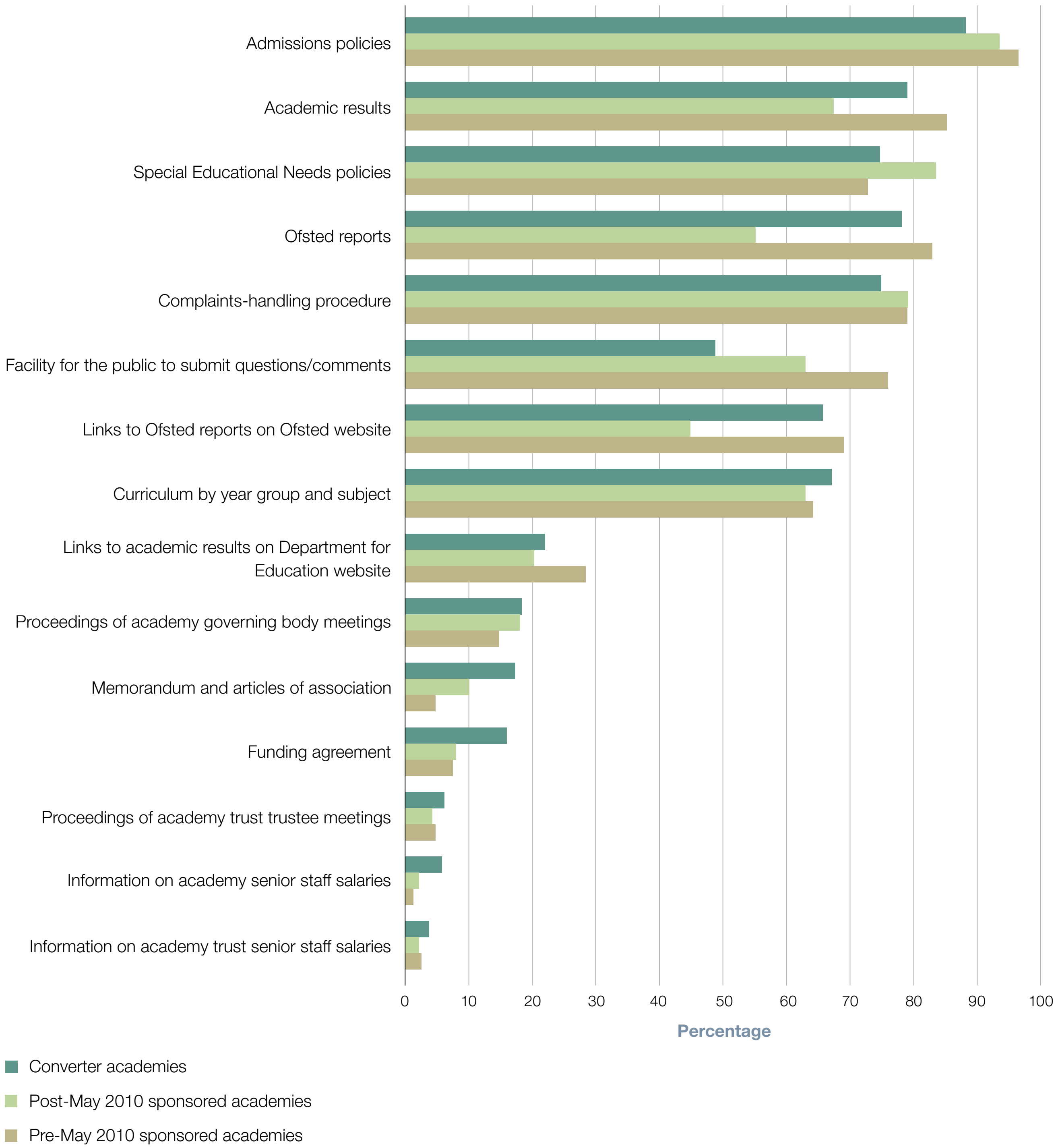
3.30 Some information on senior staff salaries is included in academy trust accounts, but not always in a complete or consistent form. Five per cent of academies responding to our survey report that they disclose senior staff salaries separately on their websites. Available data suggests that, on average, academy senior leaders are paid more than their maintained school counterparts, although it is not clear how far this is due to differences in responsibilities, levels of challenge or school types:

- In 2011/12, secondary Academy Principals earned around £6,600 more on average than maintained secondary headteachers.
- Ten per cent of secondary Academy Principals had salaries above the maximum point on the leadership pay scale in their region, compared to 4 per cent of maintained secondary headteachers.
- In 2010/11, six senior leaders in multi-academy trusts earned over £200,000.[9] Such roles can extend to oversight of 20 or more academies, and their salaries do not generally appear in routine workforce data.

9 Source: 2010/11 academy trust accounts.

Figure 14
Percentage of academies publishing different types of information on their websites

Most academies publish comprehensive information on academic matters, but far fewer on finance and governance



NOTE

1 Base: 396 academies, including 81 pre-May 2010 openers (sponsored only) and 315 post-May 2010 openers (sponsored and converters).

Source: National Audit Office survey of academies

Comparability of financial information

3.31 The Department has made progress in publishing data on academies' income and expenditure. In July 2012, it published academy trusts' first set of 'Abbreviated Accounts Returns', setting out detailed income and expenditure from academy trusts' 2010/11 statutory accounts.

3.32 These returns are similar to 'Consistent Financial Reporting' for maintained schools, but are not directly comparable. Academies' expenditure is not classified using the same categories, and their income includes, but does not separately identify, capital funding and grants such as LACSEG (see Part Two) which do not feature in maintained school figures. The next round of Abbreviated Accounts Returns, covering 2011/12, will present academy figures in a format more comparable with those of maintained schools.

3.33 Abbreviated Accounts Returns show data at academy trust, rather than individual academy, level. The figures are therefore a composite of all academies within the trust, each of which may serve a different community in a different part of the country. In 2010/11, of the 319 individual academies included in the data, 133 (42 per cent) belonged to one of the 29 multi-academy trusts producing such composite accounts, and hence did not have individual academy-level data. Abbreviated Accounts Returns for 2011/12 will continue to show data at academy trust level, although the Department has recently improved the transparency of individual academies' income by publishing academy-level funding allocations on its website.

Evaluating value for money

3.34 Our 2010 report on the Programme found that existing academies had performed impressively in delivering intended improvements, but that their performance to date was not necessarily a predictor of future impact, particularly given the changing population of schools making up the Programme. We recommended that the Department state its objectives for the expanded Programme, and how it would measure success against them.

3.35 In September 2012, the Department published high-level value-for-money principles for academies and maintained schools within its revised *Accountability System Statement*. It is also developing a more detailed value-for-money framework for academies. This sets out how financial inputs might be analysed against educational outcomes, but does not yet specify baselines, how the Department is comparing data on improvement and costs to support ongoing programme implementation, nor when it intends to measure progress. These points need clarifying so that the Department and others can understand how the Programme is progressing and, in the longer term, whether it delivers value for money.

Appendix One

Our audit approach

1 This report examines how the Department for Education has implemented the expansion of the Academies Programme since May 2010, and considers the adequacy of the funding and oversight frameworks in the expanding academies sector. We reviewed:

- the Department's implementation of the programme, including the challenges posed by rapid expansion;
- the costs to the Department of operating the Programme since the expansion began; and
- academies' financial management and governance, and the Department's oversight and accountability regime for the academies sector.

2 We developed an analytical framework with evaluative criteria to consider what arrangements would have been optimal for the expansion of the Programme. By 'optimal' we mean the most desirable possible, while acknowledging expressed or implied restrictions or constraints. Restrictions or constraints in this context are:

- the policy imperative to rapidly create academies; and
- the devolved and autonomous nature of the academy model.

3 We used financial data from the Department for Education, the Young People's Learning Agency (YPLA) and the Education Funding Agency (EFA) to estimate the additional cost to the Department of expanding and operating the Programme in the two years from April 2010 to March 2012. Additional cost is defined as the Department's total expenditure on the Programme (excluding capital funding and money paid to city technology colleges and free schools, where identifiable), net of money which it:

- recovered from local authorities;
- distributed to schools on the same basis, irrespective of whether they were maintained schools or academies; or
- provided directly to 103 academies for whose pupils it does not allocate any funding to local authorities, thus making recovery unnecessary.

We estimate this cost to be £1.0 billion. As our analysis covers only two financial years, with a maximum of one further year either side for baseline or forecast figures, we have not adjusted for inflation.

4 Our audit approach is summarised in **Figure 15** overleaf. Our evidence base is described in Appendix Two.

Figure 15
Our audit approach

The objective of government

An autonomous, self-improving, self-supporting school system consisting mainly of academies.

This will be achieved by

In the Department's view, international evidence suggests that academies combine autonomy and accountability in a way which has raised standards in other education systems around the world. The Department is therefore encouraging maintained schools to apply for academy status.

Our study evaluates

The Department's implementation of the Programme expansion since May 2010 (including an estimate of costs) and the adequacy of the funding and oversight framework across the whole academies sector (including academies established before May 2010).

Our evaluative criteria

Within the constraints of the policy context, robust planning and forecasting of demand and resultant resource requirements.

Effective management of supply and demand in the academy pipeline.

Full understanding and management of costs of the Programme.

Strategy for managing potential cost pressures as the expansion proceeds.

Strong financial management and governance in academy trusts.

Effective and proportionate oversight and accountability regime for the academies sector.

Our evidence

(see Appendix Two for details)

We assessed Programme implementation by:

- interviewing departmental and YPLA/EFA officials;
- reviewing published and internal client documents;
- interviewing stakeholder organisations;
- analysing survey responses from academies; and
- conducting a process review of academy conversions.

We estimated the additional cost to the Department of Programme expansion by:

- interviewing departmental and YPLA/EFA officials;
- reviewing published and internal client documents; and
- analysing financial data from the Department, its agencies, local authorities, and academy trusts.

We assessed financial management and governance in academies, and the oversight and accountability regime for the academies sector by:

- analysing survey responses from academies;
- interviewing departmental and YPLA/EFA officials;
- reviewing published and internal client documents; and
- reviewing other NAO work, including previous value-for-money reports and financial audit work.

Our value-for-money conclusion

The Department has delivered a fundamental change in the nature of the Academies Programme, through a rapid ten-fold increase in the number of academies since May 2010. This is a significant achievement, although it is too early to conclude on whether this expansion will ultimately deliver value for money.

Our previous report suggested that expanding the Programme would increase the scale of risks to value for money. In practice, the Department was unprepared for the financial implications of rapid expansion. Funding arrangements have not operated as anticipated, driving over one-third of the £1.0 billion additional cost of the Programme since April 2010. Rapid cost growth has led to ongoing pressures on the Department's wider financial position, requiring it to transfer funding from other budgets to manage the resultant risks.

In seeking to resolve the tension between academies' autonomy and public accountability through a light-touch oversight regime, the Department needs to weigh carefully the impact that relatively few failures in governance and control may have on the Programme's reputation. It needs to build on its increased efforts to address accountability and funding issues in order to reduce risks to value for money as the Programme continues to expand.

Appendix Two

Our evidence base

1 Our conclusion on value for money was reached following analysis of evidence collected between April and November 2012.

2 We applied an analytical framework with evaluative criteria to consider what would be optimal, both in terms of rapid expansion of the Programme, and of the funding, oversight and accountability arrangements for academies. Our audit approach is outlined in Appendix One.

3 **We examined how the Department planned and forecast demand, sourced and allocated internal resources, and managed the academy pipeline:**

- We **conducted semi-structured interviews** with departmental and YPLA/EFA officials to understand the context and constraints of policy on their ability to plan and forecast numbers, costs and timescales, and to find out their current and changing systems and processes for managing the Programme.
- We **reviewed internal departmental documents and published evidence** to establish historical planning, forecasting and risk assessment of the Programme, and ongoing management of the changing numbers and types of schools becoming academies.
- We **conducted unstructured interviews** with stakeholder organisations, including the Local Government Association, Freedom and Autonomy for Schools – National Association and the Independent Academies Association, to triangulate our findings with their experiences and insights.
- We **carried out a survey of open academies** to obtain data on how well the Department handled conversions to academy status, and how well the Education Funding Agency (previously the Young People's Learning Agency) provided support to open academies. We sampled 619 academies from a population of 1,805 as at May 2012, and achieved a response rate of 63 per cent. We stratified the population into three categories:
  - pre-May 2010 sponsored academies;
  - post-May 2010 sponsored academies; and
  - converter academies (all post-May 2010).

- We applied a systematic random sample to the sub-populations in each of these three categories, oversampling sponsored academies and converter primary academies to ensure sufficient representation in the achieved sample. Published survey results have been weighted to adjust for oversampling. The unweighted base is provided in the notes to each figure.

4 We used quantitative analysis of financial data to establish the additional cost to the Department of the Programme expansion. We also examined how the Department intends to manage these costs as the Programme continues to expand:

- We **analysed financial data** from the Department, the YPLA, the EFA, local authority annual financial returns and audited financial statements from academy trusts to understand system funding and costs.

5 We examined financial management and governance in academies, and the funding, oversight and accountability regimes for the academies sector:

- We **carried out descriptive analysis of the survey data,** to compare the percentage of academies reporting cost increases and decreases since converting, and academies' views as to the causes of any changes reported. We also analysed respondents' approaches to transparency and local accountability.
- We **conducted semi-structured interviews** with departmental and YPLA/EFA officials to establish roles and responsibilities of all bodies in the academy system, from central government to local delivery, and current finance and governance arrangements in academies.
- We **reviewed published and internal client documents** to understand:
  - how academies are spending the resources allocated to them, including how many are experiencing financial difficulties; and
  - processes for assessing risk in open academies, and responding to financial or performance decline.
- We **drew on previous NAO work,** including our 2010 value-for-money report on the Programme, and the Comptroller and Auditor General's report on his qualification of the 2010-11 YPLA accounts, to evaluate the extent to which the Department has implemented our recommendations, and to compare current and previous survey data on governance and financial management.

Report by the Comptroller and Auditor General

Managing the expansion of the Academies Programme

HC 682 Session 2012-13

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CORRECTION

Paragraph 12 (page 8) of the report was produced in error.

12 **Large variations in take-up suggest that the Department needs to continue developing its approach to generating demand.** In January 2012, an estimated 48 per cent of secondary-school pupils in England were attending academies, but only 5 per cent of primary pupils. The proportion of schools with academy status also varies across local authorities. In September 2012, this ranged from none to 100 per cent for secondary schools, and none to 55 per cent for primary schools (paragraphs 1.16–1.18).

Please see the corrected paragraph below:

12 **Large variations in take-up suggest that the Department needs to continue developing its approach to generating demand.** In September 2012, an estimated 48 per cent of secondary-school pupils in England were attending academies, but only 5 per cent of primary pupils. The proportion of schools with academy status also varies across local authorities. In September 2012, this ranged from none to 100 per cent for secondary schools, and none to 55 per cent for primary schools (paragraphs 1.16–1.18).

BACK

Paragraph 2.6 (page 25) of the report was produced in error.

2.6 The Department makes a number of payments to academies to replicate benefits they would have received as maintained schools. Because these payments are not recovered from local authorities, they are additional costs to the Department: [...]

- Other grants – The Department paid academies £16 million to cover the cost of appeals against admissions decisions, an expense which local authorities pay for maintained schools. £13 million was provided to academies on a case-by-case basis to meet other one-off costs.

Please see the corrected bullet point below:

- Other grants – The Department paid academies £29 million on a case-by-case basis to meet other one-off costs.

BACK

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