National Audit Office

Report
by the Comptroller
and Auditor General

Department for Education and the Education Funding Agency

Performance and capability of the Education Funding Agency

HC 966 SESSION 2013-14 29 JANUARY 2014

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

National Audit Office

Department for Education and
the Education Funding Agency

Performance and capability of the Education Funding Agency

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 27 January 2014

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act

Amyas Morse
Comptroller and Auditor General
National Audit Office

23 January 2014

HC 966 London: The Stationery Office £16.00

This report examines the Education Funding Agency's role and performance to date and considers its capability to meet future challenges.

Printed in the UK for The Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office

2618805 01/14 PRCS

Contents

The National Audit Office study team consisted of:
Mark Bisset, Paul Dodimead, Maria-Christina Eskioglou and Amelia Willis, under the direction of Linda Mills and Julian Wood.

This report can be found on the National Audit Office website at www.nao.org.uk/2014-education-funding-agency

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Enquiries: www.nao.org.uk/contact-us

Website: www.nao.org.uk

Twitter: @NAOorguk

Key facts

£51bn	7,900	14.6%
funding distributed by the Agency in 2012-13	customers of the Agency in 2012-13	target reduction in the Agency's annual recurring administration costs between 2013-14 and 2015-16

Over £50 million	administration costs of the Agency in 2012-13
£26 million	budget to improve the Agency's IT systems between 2012-13 and 2015-16
36 per cent	of customers rated the Agency's services as good or excellent in January 2013
2,108	academy trust financial statements consolidated into the Agency's 2012-13 financial statements
Around 50 per cent	increase in the Agency's customers between 2012-13 and 2015-16
Over 10 million	learners funded by the Agency

In this report, dates in the format '20xx–xx' refer to central or local government financial years (1 April to 31 March). Dates in the format '20xx/yy' refer to academic years (1 September to 31 August).

Summary

1 The Education Funding Agency (the Agency) provides funding for the education of over 10 million learners between the ages of 3 and 19, or up to 25 for those with learning difficulties and disabilities. It also funds and manages building and maintenance programmes for maintained schools, academies (including free schools) and sixth-form colleges.

2 The Agency is an executive agency of the Department for Education (the Department) and was established on 1 April 2012. The Department's aim is to reform the education system so that it raises standards, closes achievement gaps and supports all children and young people, particularly the disadvantaged. To support the Department's reforms, the Agency has four stated objectives, which are to:

- ensure that revenue and capital funding allocations are accurate and on time;
- ensure that funding agreements are in place and payments are made accurately and on time;
- deliver effective programme management and evaluation of strategic capital programmes that will improve the condition of existing buildings and support the creation of new places for pupils and learners; and
- ensure the proper use of public funds through financial assurance undertaken by the Agency, or by others.

3 The Department created the Agency as part of its arm's-length body reform in April 2012 to improve efficiency, accountability and transparency in the education sector. The Agency took over the responsibilities of the Young People's Learning Agency, Partnerships for Schools, and the Department's distribution of funding to local authorities.

4 Since it was established, the scale and scope of the Agency's activities have grown. For example, during its first year the number of academies almost doubled, from 1,664 to 2,826. The Agency has also taken on more responsibilities and delivered some major outputs for the first time, such as consolidating academy accounts and simplifying the funding system for schools.

5 The rate and pace of growth in demand for the Agency's services is set to continue. The Department forecasts that the number of pupils aged up to 16 will increase by 235,000 between 2012-13 and 2015-16. Based on past trends, the Agency is projecting that the number of education providers will increase by around 50 per cent in the same period to almost 12,000, of which nearly 7,000 will be academies. At the same time, the Agency will be reducing its administration costs.

6 **Figure 1** shows that the Agency distributed £51 billion in 2012-13 to local authorities, academies, further education institutions and other education providers. It is accountable to the Department for the funding it distributes; in turn, the Department is accountable to Parliament for ensuring regularity, propriety and value for money in the work that it and the Agency undertake, as well as in the education system as a whole. Other organisations also played a role in providing funding and assurance in 2012-13:

- The Skills Funding Agency, an agency of the Department for Business, Innovation & Skills, provided £3.7 billion of funding for adult further education and skills training in England, including traineeships and apprenticeships. To reduce the audit burden, it worked with the Education Funding Agency to undertake assurance in institutions that both agencies fund.
- Local authorities distributed funding to local authority-maintained education providers and provided assurance to the Agency for this funding. Local authorities have statutory responsibility for the overall adequacy and sufficiency of local education provision.
- Academies, sixth-form colleges and other providers were directly accountable to the Education Funding Agency for the public funding they received.

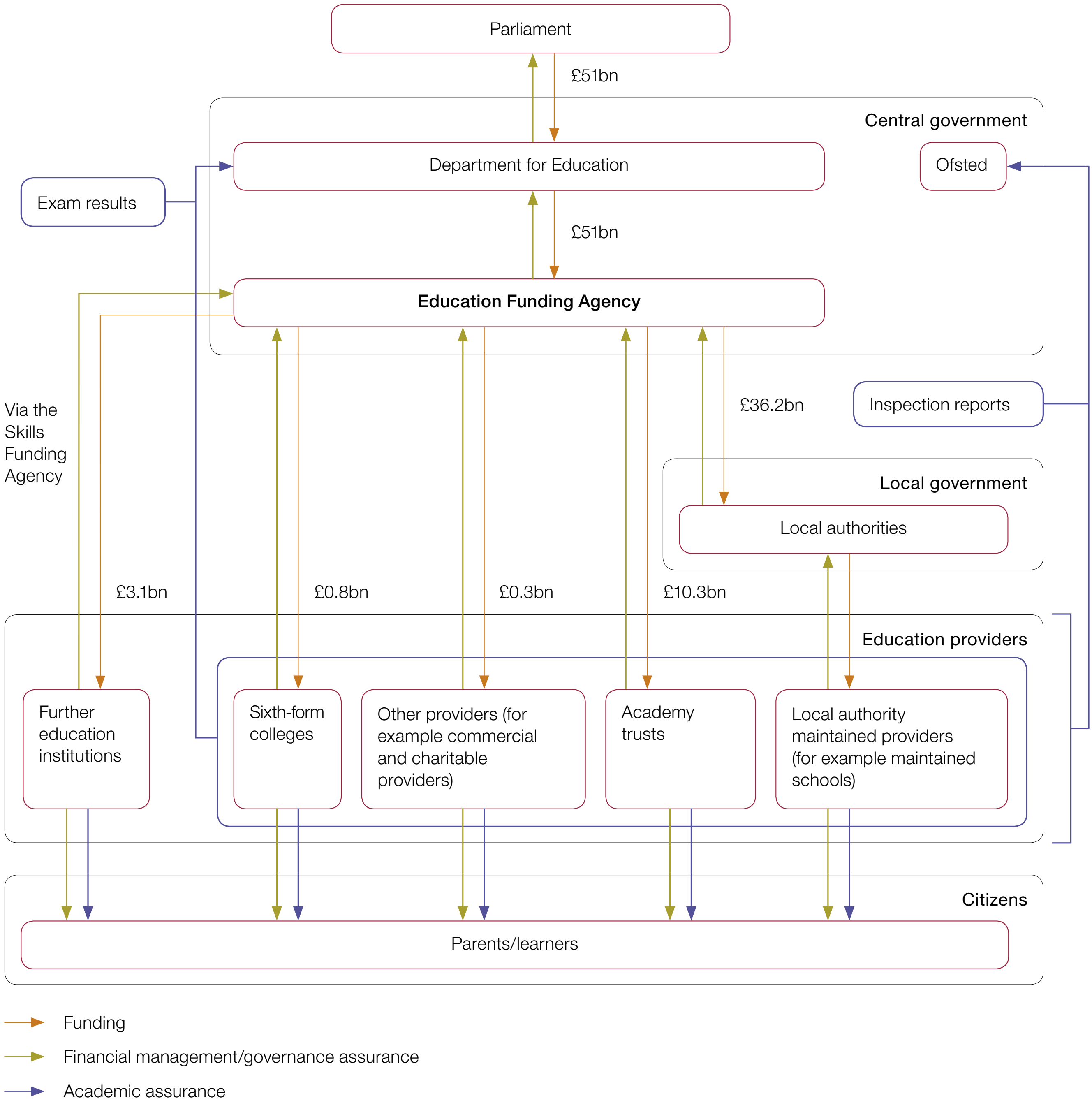
Scope of the report

7 This report examines the Agency's role and performance (Part One) and its future capability (Part Two).

8 The report also covers the Department's relationship with the Agency, as it is responsible for holding the Agency to account for its performance. The report does not assess the performance of other organisations involved in funding and overseeing education and training. We conducted fieldwork between May and December 2013.

Figure 1

How the Agency distributed funding and received assurance in 2012-13



Note

1 Funding does not sum exactly due to rounding.

Source: National Audit Office

Key findings

The Agency's role and performance

Meeting the Department's objectives

9 There was a clear rationale for the Department creating the Agency in 2012. The Department set up the Agency to support its reform of the education system by bringing policy and delivery closer together; and to increase efficiency, accountability and transparency in the education sector (paragraph 1.2).

10 The Department has extended the Agency's role compared with its predecessors, although it is not clear how the Department has assessed the Agency's capability and capacity to take on new responsibilities. The Department transferred funding and assurance responsibilities to the Agency from its predecessors, along with some new responsibilities such as the management of capital programmes. After the Agency opened in April 2012, further responsibilities were added. These included implementing the Youth Contract for 16- to 17-year-olds from September 2012, and funding learners aged 14 to 16 in further education and sixth-form colleges from September 2013 (paragraphs 1.5 to 1.6, Figure 3).

11 The two organisations work increasingly closely in support of their objectives, but the Department has had limited information on the Agency's performance to assess and manage the Agency's contribution to departmental objectives. The two bodies' operations have become closer where they have overlapping responsibilities or dependencies on each other. For example, while the Department invites and evaluates applications for new free schools and decides which should open, the Agency is responsible for acquiring premises for those that are approved, and it has provided support for assessments of financial viability. However, overall, the Department has not had sufficient high-quality data to analyse the Agency's performance in matching the departmental objectives. The Agency has work under way to improve its performance framework (paragraphs 1.7 to 1.9, 1.11, Figure 4).

The Agency's performance in achieving its own objectives

12 The Agency monitors and reports its performance using measures of activity and outputs from its activities. However, a few of these metrics are incomplete and poorly defined. The Agency monitors its performance in delivering allocations, payments, capital programmes and financial assurance against a set of key metrics. The Agency has a project to improve its management information and the use of this information, so that it is better placed to understand its efficiency and effectiveness (paragraphs 1.10 to 1.11, Figure 5).

13 Between April 2012 and the end of 2013, the Agency managed operational challenges to meet most of the limited performance indicators it had set, and delivered additional activities (Figure 5):

- In 2012-13, the Agency made allocations and payments accurately and on time. It confirmed allocations on time for academies, which almost doubled in number from 1,664 to 2,826, and for some 2,800 institutions providing education and training for students aged 16 to 19. At the same time, it reformed funding systems for local schools, making processes simpler for customers (paragraphs 1.12 to 1.13).
- In 2012-13, the Agency completed 88 per cent of 85 capital projects on time relating to academies, free schools, university technical colleges, and studio schools (paragraph 1.16).
- For 2012-13, the Agency provided assurance over the use of public funds and developed a more structured approach to oversight, and the proportion of returns made on time improved. For example, the Agency received 87 per cent of academy accounts for 2011-12 by 31 December 2012, compared with 83 per cent in December 2011 (paragraphs 1.21 to 1.35).
- By the end of 2013 and despite initial challenges in raising private finance, the Agency had started to improve some of the 261 worst-condition schools in England, through the Priority School Building Programme. By December 2013, 16 schools were under construction, and procurement was under way for a further 43 (paragraph 1.17).

14 However, in some areas, the Agency's performance did not meet expectations. The Agency planned to complete a survey of the school estate by a challenging deadline of October 2013, although a review of education capital in 2011 had recommended that this should be done over five years. Due to inconsistent data received from local authorities, the Agency did not meet its deadline and still needs to survey 8,000 schools at a cost of £6 million. Not receiving the data on time has affected future capital funding decisions. The Agency also faced challenges in implementing plans for high-needs funding and had to introduce temporary funding arrangements in response to concerns from specialist providers (paragraphs 1.14, 1.18 to 1.19).

The Agency's future capability

Future challenges facing the Agency

15 **The Agency faces growing demand for its services and increasing expectations from the Department, for which it needs to implement a new operating model if it is to be properly resourced.** Based on past trends, the Agency is projecting that customer numbers will increase by around 50 per cent to almost 12,000 between 2012-13 and 2015-16. Based on planned staff numbers, this will mean that the ratio of customers to each staff member could rise from 10:1 to 13:1, suggesting that the Agency's operations will need to become more efficient. The Agency also expects the Department to demand a swifter response in the future to meet policy demands (paragraphs 2.3 to 2.5, 2.10, Figure 6).

16 **The Agency faces cost pressures, but due to a high level of vacancies it is forecasting an underspend in 2013-14.** The Agency has a target to reduce its recurring administration costs by 14.6 per cent, from £53.6 million in 2012-13 to £45.8 million in 2015-16. For 2013-14, it forecasts an underspend of £1.3 million, mainly due to a high level of staff vacancies. Although the situation is improving, in November 2013, 5 per cent of positions were vacant. The Agency has had difficulties in filling vacancies, due to its changing demand for skills and the fact that the skills it now requires, such as in construction and IT, are in short supply (paragraph 2.8, Figure 7).

17 **The Agency relies on others including local authorities to provide assurance, information and services, but authorities also face cost and demand pressures.** As we have reported previously, local authority capacity, and access to schools' financial information, is set to decrease, with a number of authorities planning to reduce the amount of staff time spent on monitoring school finances. There is also evidence that authorities are under pressure to meet statutory duties. In October 2013, the Department wrote to 12 local authorities to remind them of their duty to collect information on 16- to 18-year-olds' participation in education or training (paragraphs 2.6 to 2.7).

The Agency's plans to improve its capacity and capability

18 **To meet its need to reduce costs and manage growing demand, the Agency will need to transform its operations, but it has yet to implement a fully integrated future operating model.** The Agency has a business plan up to 2014-15, but this did not include a future operating model. In the absence of such a model, the Agency has not been clear on how to integrate its activities to support cost reduction and more effective working. The Agency has a number of cross-cutting plans in place to deliver cost reduction and business transformation. However, it has not robustly identified interdependencies between the plans or put contingencies in place for any risks arising due to critical milestones being missed, such as the delivery of self-service. In September 2013 it began to develop a model, which it finalised in January 2014 (paragraphs 2.13 to 2.15).

19 The Agency is improving its approach to risk management, following late identification of some significant risks during its first 18 months of operations. Due to a lack of ‘horizon scanning’, the Agency has been vulnerable to missing risks that it could not directly manage but that could affect its operations or reputation. For example, it did not initially recognise the risk of receiving inconsistent data from local authorities as part of the Property Data Survey Programme. Since September 2013, the Agency has started to change its approach to risk management, carrying out strategic horizon scanning and linking its risk management more to the Department’s approach. The Agency seeks to align its risk appetite with the Department, but it has recognised that it needs to have a more explicit risk appetite in place for some areas of its operations, such as on fraud and error (paragraphs 2.16 to 2.18).

20 The Agency is implementing plans to improve customer service but also needs customers to do more for themselves. Although customers rate the Agency’s staff highly, they are generally less satisfied with the level of service provided by the Agency. To improve customer service, the Agency published its first customer charter in January 2013, which sets out the standard of service that customers can expect from the Agency, and started to develop a customer strategy in September 2013 so that it can understand and address their needs. To manage growing demand, reduce costs and meet the Department’s objective of creating a self-supporting school system, the Agency is also planning to introduce tools and guidance for customers to use online (paragraphs 2.19 to 2.25, Figure 10).

21 Information is critical to the Agency’s business, and although it does not yet have an approved information strategy, it is developing one. To deliver its activities, the Agency requires a wide range of data from education providers including numbers and types of student, and data on the size and condition of properties for capital funding. These data need to be collected at low cost and with minimum burden. Recognising the benefits of a strategy, the Agency produced a draft data plan at the end of 2013 which will also meet Cabinet Office requirements for departments (paragraphs 2.39 to 2.40).

22 The Agency made slow progress initially on improving its IT, compromising its ability to reduce costs and to improve information and customer service. However, its plans are now accelerating. The Agency has a three-year IT investment plan to spend £26 million on updating its IT systems. Since the appointment of a Chief Information Officer in May 2013, the Agency has made faster progress and is moving towards providing self-service for customers, which is essential for reducing costs and meeting growing demand. However, it has more to do to improve its processes and information needs, although it has plans in place (paragraphs 2.11, 2.30 to 2.34).

Conclusion on value for money

23 The Department had a clear rationale for creating the Agency but it did not sufficiently define what it expected the Agency to achieve, nor has it fully considered the Agency's capacity when increasing its responsibilities. The Agency has fulfilled most of its day-to-day funding and assurance responsibilities, developed new approaches to capital programmes, and is on track to meet its required cost savings. However, it also faces an expanding remit, a rapidly growing customer base, and further required reductions in operating costs. The Agency must now bring together its existing improvement plans and rapidly implement a scalable operating model capable of coping with these challenges. Our experience of bodies with similar roles in other sectors suggests that the Agency may otherwise become overloaded, increasing risks to its own performance and, given its responsibility for £51 billion of funding, risks to value for money within the wider education system.

Recommendations

24 The Agency needs to:

a **Implement a scalable operating model to 2015-16 and beyond, to help set a roadmap for change.** The Agency needs flexibility to manage programmes that are demand-led. It also needs to articulate to staff and stakeholders an agreed and consistent roadmap for change, so that they are clear about their roles and responsibilities in the future.

b **Publish and embed its information strategy, which should set out its approach to collecting and using data.** Neither the Agency nor the Department has an approved strategy, which is a requirement of the Cabinet Office. Information is critical to the Agency in making funding decisions, providing assurance and managing capital programmes effectively.

c **Continue to improve customer service in line with a clear customer strategy.** Customers do not rate the Agency's customer service highly, and the government's objectives depend on creating an autonomous and independent academy sector.

d **Strengthen its approach to risk management, including a greater focus on 'horizon scanning' and on identifying provider-level risks within its overall assurance framework.** There is a risk that the Agency fails to spot and respond to some strategic risks, which could damage its and the Department's reputation or have financial impacts.

e **Increase the pace of organisational change to meet current and growing demand, including the introduction of self-service.** The Agency may not achieve sustainable cost reduction unless it improves its customer services, processes, IT and systems at a faster pace, given the growing rate of demand. However, it also needs to develop a better understanding of how individual plans for change fit together.

25 The Department and the Agency need to:

f **Continue to develop a stronger performance measurement framework to support delivery of both their priorities, and demonstrate value for money.** After one year's operation, the Agency's work to develop its performance data and analysis means that the Agency (with the Department) should be in a better position to provide information on its performance so that the Department can hold it to account and ensure that the Agency's activities support the delivery of departmental objectives.

g **Jointly assess the capacity of the Agency before the Department allocates new responsibilities, to prevent overburdening the Agency.** The Agency faces a number of challenges including an expanded role, the need for faster policy implementation, and significant cost reduction, while also maintaining business as usual.

Part One

The Agency's role and performance

1.1 This part examines the role of the Education Funding Agency (the Agency) and its relationship with the Department for Education (the Department), as well as its performance in meeting its objectives.

Meeting the Department's objectives

1.2 The Department's overall aim is to reform the education system so that it raises standards, closes achievement gaps and supports all children and young people, particularly the disadvantaged. There was a clear rationale for the Department creating the Agency in 2012: to bring policy and its delivery closer together; and to increase efficiency, accountability and transparency in the education sector, as part of its arm's-length body reform.

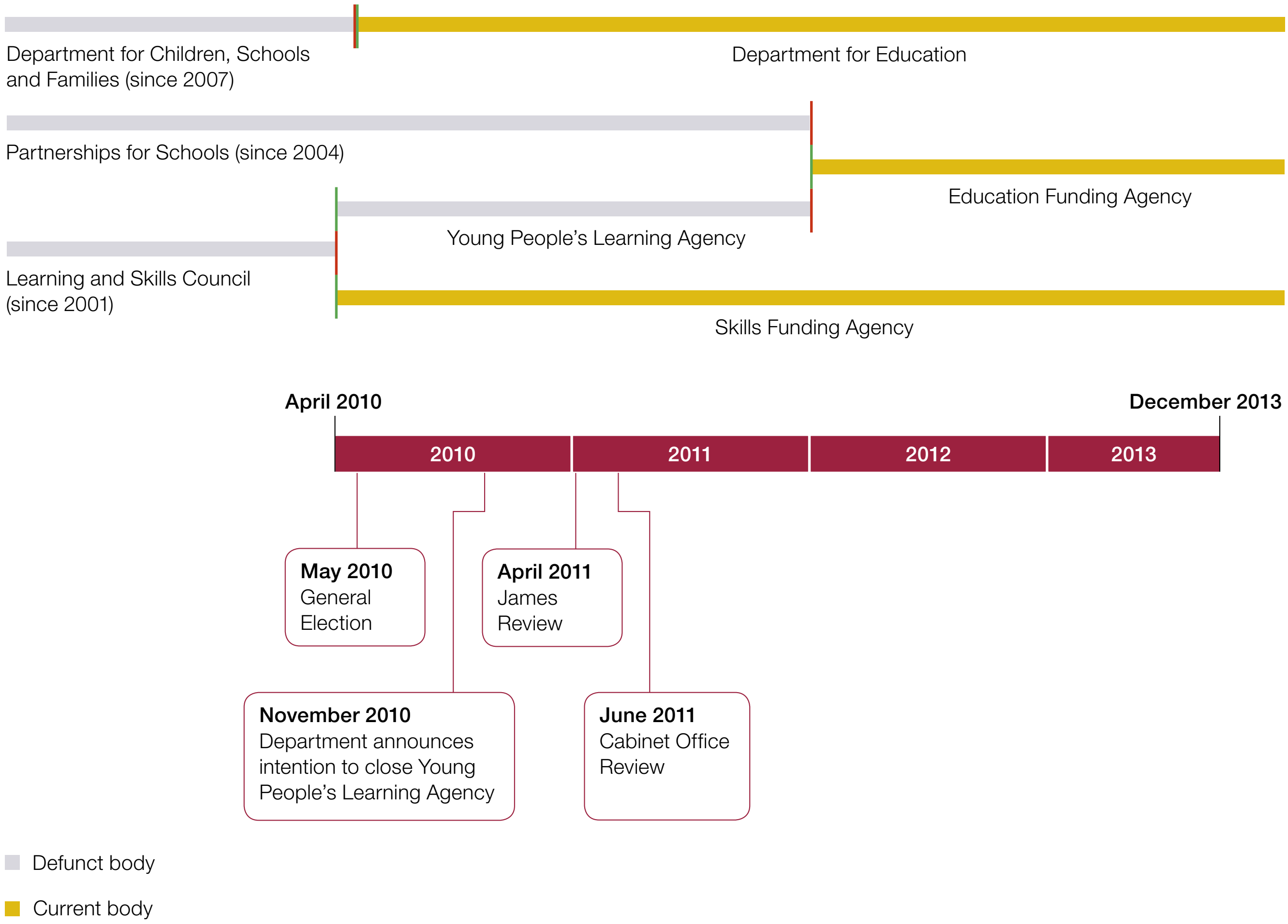
1.3 The funding and oversight of education has been subject to considerable change in recent years. **Figure 2** shows the restructuring of bodies responsible for funding and oversight between April 2010 and April 2012 and other key events. In particular:

- In March 2010, the Learning and Skills Council closed. The Department for Children, Schools and Families created the Young People's Learning Agency to fund academies[1] and education and training for 16- to 19-year-olds, and the Department for Business, Innovation & Skills created the Skills Funding Agency to fund adult further education and training.
- In November 2010, following a change of government, the Department for Education announced plans to close the Young People's Learning Agency. It also announced plans to set up the Education Funding Agency as an executive agency to take on the responsibilities of the Young People's Learning Agency, as well as the Department's responsibility for distributing funding to local authority maintained schools.
- In June 2011, the Department announced plans to bring together revenue and capital funding of education, and the delivery of capital programmes, into the Education Funding Agency. As a result, Partnerships for Schools, which managed school capital programmes, closed in March 2012, and transferred its responsibilities to the Agency.

1 The term 'academies' includes converter and sponsored academies, university technical colleges, free schools, and some studio schools.

Figure 2

Changes in education funding and oversight (2010 to 2012)



Notes

1 The Education Funding Agency funds education providers for learners aged 3 to 19, and up to 25 for those with learning difficulties and/or disabilities.

2 Partnerships for Schools was a non-departmental public body created to manage school capital investment programmes.

3 The Young People's Learning Agency was a non-departmental public body created to fund the education and learner support of young people in a variety of education settings.

4 The Learning and Skills Council was a non-departmental public body created to fund education and training for over-16s, except for higher education.

5 The Skills Funding Agency (an agency of the Department for Business, Innovation & Skills) was created to fund adult further education and skills training in England.

6 The Review of Education Capital (more commonly referred to as the James Review) considered how the Department for Education spent capital, and made recommendations on the future delivery models for capital investment for 2011-12 onwards (S James, *Review of Education Capital* (James Review), Department for Education, April 2011).

7 The Cabinet Office Review set out the principles and processes by which departments should review their non-departmental public bodies (Cabinet Office, *Guidance on reviews of non-departmental public bodies*, June 2011).

8 The Education Funding Agency includes the Department's responsibility for distributing funding to local authorities.

Source: National Audit Office

1.4 The Department recognised the challenges in closing two organisations and opening the new Agency, and the need for business continuity. In setting up the Agency, it therefore worked to manage risks, including keeping business-critical systems running, such as payment systems. However, the Agency had to make use of contingency arrangements to access its business-critical systems throughout its first year. This meant that the Agency did not start to transfer to its long-term systems until early 2013, which diverted its resources from developing its systems. The chief executive of the Young People's Learning Agency also became the chief executive of the new Education Funding Agency, which supported the transfer of operations.

1.5 As **Figure 3** shows, the Department has extended the Agency's role to include a number of additional responsibilities to its predecessors, such as managing capital programmes. After the Agency opened in April 2012, further responsibilities were added, including:

- the Youth Contract for 16- to 17-year-olds, which was implemented in September 2012 (an extended cohort was announced and delivered in January 2013);
- carrying out training provider visits for the National College for Teaching and Leadership by June 2013; and
- funding learners aged 14 to 16 in further education and sixth-form colleges from September 2013.

1.6 It is not clear how the Department assessed the Agency's capability to take on new responsibilities, or whether it had the skills, systems and financial resources to deliver new services.

Governance and accountability

1.7 The Department's Permanent Secretary is the Agency's sponsor, a role delegated in practice to the Department's Director General of the Infrastructure and Funding Directorate. In line with Cabinet Office guidance for sponsors,[2] he is responsible for:

- advising ministers on the strategic direction of the agency in the context of departmental objectives;
- setting the Agency's performance indicators and administration budget, and agreeing business plans;
- monitoring the Agency's performance;
- ensuring that the Agency conforms to policy and has the delegations and authorities necessary for effective and efficient delivery and continuous improvement; and
- advising the Permanent Secretary on whether the Agency's financial management systems and processes comply with government standards, and ensuring that the Agency operates with propriety and regularity and uses its funds for the purposes intended.

2 Cabinet Office, *Executive agencies: a guide for departments*, October 2006, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/80076/exec_agencies_guidance_oct06_0.pdf

Figure 3

The scale of the Agency's activities compared to its predecessors

Education Funding Agency 2012-13	Young People's Learning Agency 2011-12	Partnerships for Schools 2011-12	Department for Education 2011-12	New service
Funding				
£51bn	£12.1bn	£5.2bn	£33.3bn	
Services				
Allocating funding and making payments to:				
academies	✔			
local authority maintained schools for pupils up to age 16			✔	
learners aged 16 to 19 (25 for those with learning difficulties and disabilities)	✔			
learners aged 14 to 16 in further education and sixth-form colleges				✔
Ensuring funding agreements are in place and scrutinised				✔
Managing and delivering capital programmes				
Distributing funding	✔	✔		
Managing capital programmes	✔			✔
Collecting, quality assuring, analysing and publishing data				✔
Delivery of projects				✔
Delivering policy initiatives				
Funding education for learners up to age 18 in youth custody	✔			
Funding Youth Contract (16- to 17-year-olds)				✔
Providing assurance to Parliament				
Reporting on financial management and governance in academies, sixth-form colleges, further education colleges and other providers	✔			
Reporting on financial management and governance in local authority maintained schools			✔	
Reporting underperformance in sixth-form colleges	✔			
Consolidating academy trusts into financial statements				✔
Supporting the Department to convert schools to academy status, and create free schools	✔			

Source: National Audit Office

1.8 The Permanent Secretary agreed the Agency's framework document before it opened in April 2012, which set out the Agency's arrangements for governance, accountability, financing, staffing, operations and financial delegations. In line with the Department's operating model, the Agency's day-to-day operations sit within the Department's Infrastructure and Funding Directorate. We reviewed governance and accountability arrangements between the Department and the Agency (see **Figure 4**). The two organisations have a close relationship and the Agency's governance structure links with the Department, with clear lines of reporting from the Agency into the Department. We found that the creation of the Agency had improved the flow of local information to the Department from the Agency's local offices, which have links with providers and local authorities.

1.9 The Department, however, requires greater transparency of the Agency's performance so it is better placed to assess and manage the Agency's contribution to departmental objectives. The two bodies work closely together, which is important given overlapping responsibilities and their dependency on each other. For example, while the Department invites and evaluates applications for new free schools and decides which should open, the Agency is responsible for acquiring premises for those approved, and for the funding and oversight of financial management and governance. Overall, the Department has not had sufficient information to assess fully the Agency's performance in meeting departmental objectives and the Agency has work under way to improve its performance framework.

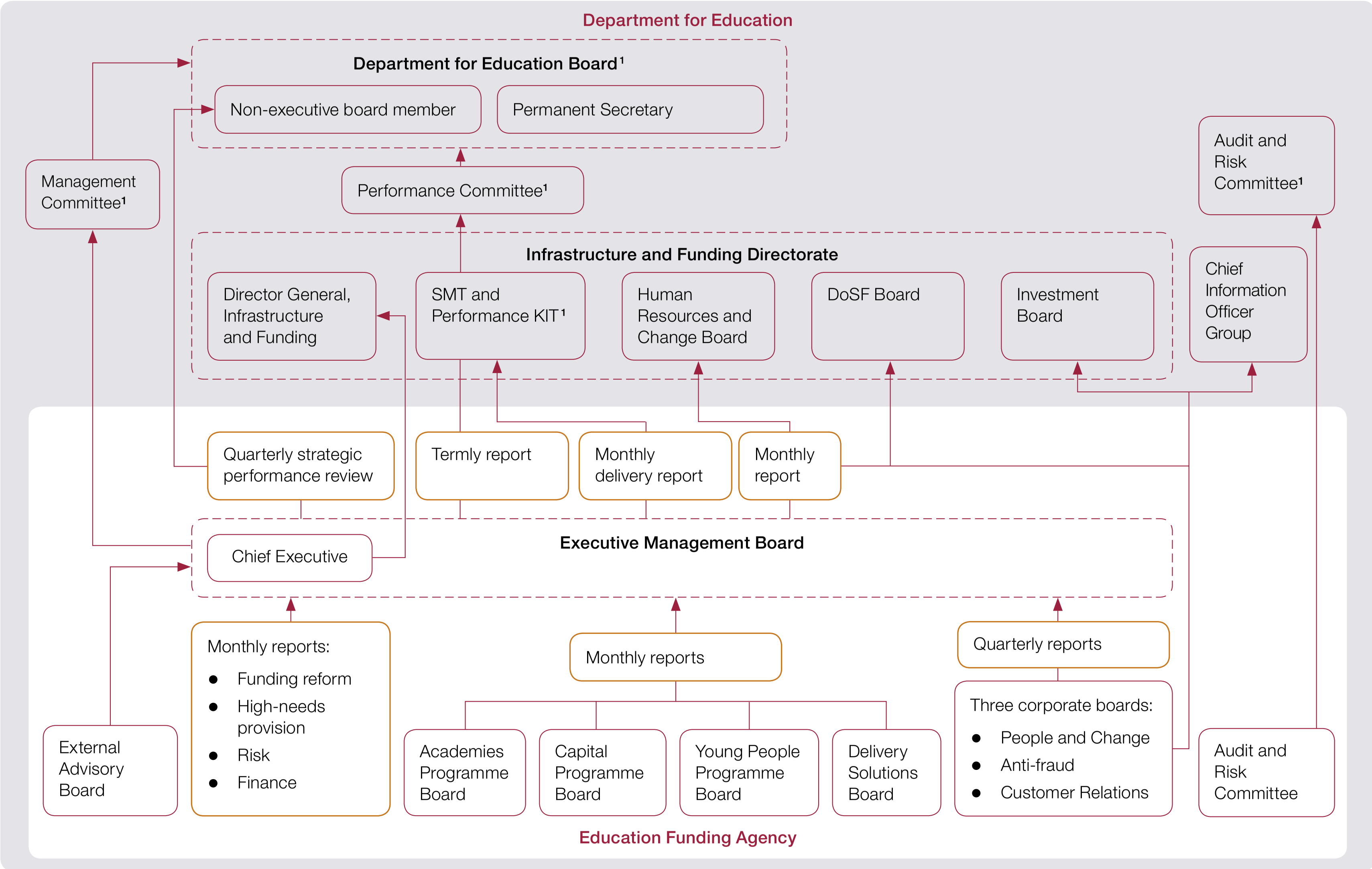
The Agency's performance against its objectives

1.10 The Agency monitors and reports on its performance in delivering allocations, payments, capital programmes and financial assurance against a set of key metrics. **Figure 5** on page 20 sets out the Agency's performance against these metrics in 2012-13.[3] Reporting is mainly against measures of activity and some outputs from activities, although a few of these are incomplete and poorly defined.

1.11 In its second year, the Agency has a project under way to improve its management information. It is developing a set of management information that will allow it and the Department to monitor and report on the Agency's efficiency and effectiveness, and contribution to value for money. The Agency is also considering how it can benchmark its performance. For example, it is planning to work with the Institute of Customer Service to benchmark its performance and is looking for other suitable benchmarks against which to compare its performance.

3 Education Funding Agency, *Annual Report and Financial Statements for the period 1 April 2012 to 31 March 2013*, HC 920, January 2014.

Figure 4
Accountability and governance between the Department and the Agency



Note

1 The Agency's Chief Executive is also a member of the Department's Management, Performance, and Audit and Risk committees; and the SMT and Performance KIT, and Department for Education Board.

Source: National Audit Office

Figure 5

Performance against key metrics (2012-13)

Key metric	Outcome 2012-13
Allocations	
Proportion of allocations made accurately and on time	
Accurately: On time:	99.5 per cent 99.6 per cent
Payments	
Proportion of payments made accurately and on time	
Accurately: On time:	100 per cent 94.9 per cent
Capital	
Percentage of academy, free school, university technical college and studio school projects completed on time	88 per cent (of 85 projects) The ten projects not completed on time were all deferred free schools
Progress on delivery of Priority School Building Programme (PSBP)	Construction work expected to start on first PSBP school in May 2013
Progress on delivery of Building Schools for the Future	Fifty business cases approved; one in review and 22 left to receive
Progress on securing up-to-date information on the condition of the nation's schools	Of 19,384 surveys required: • 8,357 existing surveys have been supplied by local authorities for validation • of the remaining 11,027 almost 7,000 were complete at the end of March Interim milestone was to complete 7,400 surveys by the end of March 2013
Financial assurance	
Timely receipt, and where relevant consolidation, of all financial returns from academies, sixth-form colleges and local authorities	Timely receipt: • sixth-form colleges 100 per cent (of 188) • local authorities 100 per cent (of 152) • academies 83 per cent (of 8,263) Two consolidation exercises: • Whole of Government Accounts 2011-12 submitted to HM Treasury in February 2013 • Consolidation of academy accounts into the Agency and departmental accounts 2012-13 project completed in 2013-14
External assurance visits undertaken to academies and sixth-form colleges in line with the external assurance plan	• 236 audit visits • 37 support visits (to opening academies)
Percentage of academy accounts 2011-12 (financial statements) received by 31 December and by 31 March	As at 31 December 2012: 87 per cent As at 31 March 2013: 98 per cent
Percentage of financial management and governance self-assessments being completed by all new academies within four months of conversion (target 90 per cent)	88 per cent

Source: Education Funding Agency *Annual report and accounts 2012-13*

Accurate and timely allocations and payments

1.12 In 2012-13, the Agency made 95 to 100 per cent of allocations and payments accurately and on time (Figure 5) and distributed £51 billion (£47 billion revenue and £4 billion capital) to nearly 8,000 customers.

1.13 In the same year, the Agency also successfully implemented funding reforms. These included simplifying the local funding system for 2013-14, and changing the funding methodology for 2,800 institutions that provide education to 1.4 million 16- to 19-year-olds.

1.14 In April 2013, the Agency also introduced new arrangements for allocating funds for the education of students with learning difficulties and disabilities in schools, colleges and specialist providers. However, in response to concerns from specialist institutions against reductions in their student numbers, in July 2013 the Agency confirmed that providers would receive transitional protection for two years to 2015-16, to cover their high-needs funding. This was because it envisaged that the Children and Families Bill, once enacted, would give parents and young people stronger rights to state a preference for where they wanted to study, and that there was a need to protect the supply of places.

Managing and funding capital programmes

1.15 In 2012-13, the Agency provided capital funding of £4.2 billion to improve the condition of existing buildings and expand the capacity of the school estate. The Agency spent £2.7 billion on devolved capital programmes (64 per cent of the annual capital budget) including funding for new pupil places. It also provided funding directly to academies for capital projects.

1.16 As shown in Figure 5, in 2012-13 the Agency:

- completed 88 per cent of 85 projects on time relating to academies, free schools, university technical colleges, and studio schools (the ten projects not completed on time all related to deferred free schools);
- made progress on delivering the Building Schools for the Future programme; and
- made progress on delivering the Priority School Building Programme and began construction on the first school in May 2013.

1.17 In May 2012, the Department announced that 261 schools would be funded through the Priority School Building Programme. This was due to start immediately and be completed by 2017, with the first school opening in September 2014. The Department planned to fund 219 schools through private finance and 42 schools from its capital budget. The Agency considered that market conditions during 2012-13 made it challenging to raise private finance at a cost representing value for money. Therefore, in May 2013 the Department announced that 46 schools would be redeveloped using £700 million of private finance. The remaining schools would receive capital funding, and HM Treasury allocated a further £1.3 billion to the Programme in the June 2013 Spending Review. By December 2013, 16 capital-funded projects were under construction, and procurement was under way for a further 43. The Agency considers that the cost of new school builds has fallen by 40 per cent on average and that the procurement process is quicker.[4] The switch from private to public funding for this Programme has meant that the Agency is beginning work earlier than planned. For example, it plans to engage with all schools by the end of 2014 rather than June 2015, and to start construction work on 150 schools earlier than originally planned.

1.18 The Agency also collects, quality-assures, analyses and publishes data on maintained schools, academies and sixth-form colleges. It is responsible for the Property Data Survey Programme, through which it planned to collect data on the condition of around 23,000 schools by October 2013, to support future capital spending decisions. The Agency commissioned surveys for 57 per cent of schools, and relied on local authority data for the remainder.

1.19 In September 2013, the Agency identified inconsistencies in the data supplied by local authorities. This led to the Secretary of State announcing in November 2013 that the Department planned to commission surveys for the 8,000 schools covered by the local authorities' data. This will cost the Agency £6 million in unplanned spending, potentially diverting resources from other projects. The delay in collection means that the data will not be available as planned to inform capital maintenance funding allocations in December 2014.[5] This suggests that the Agency may have been over-optimistic in its planning assumptions around the consistency of local authority data.

1.20 In 2013, the Agency also built or improved nearly 200 schools and found sites and buildings for 150 new free schools. The Agency is reducing the costs of building new schools and speeding up the procurement process. For example, the average construction costs for free schools have been approximately 45 per cent lower than costs in previous school-building programmes.[6]

4 Education Funding Agency, *Annual Report and Financial Statements for the period 1 April 2012 to 31 March 2013*, HC 920, January 2014.
5 Hansard HC, 8 November 2013, vol. 570, col. 23WS.
6 Comptroller and Auditor General, *Establishing Free Schools*, Session 2013-14, HC 881, National Audit Office, December 2013.

Assurance over the use of public funds

Academies

1.21 As shown in Figure 5, in 2012-13 the Agency received 83 per cent of all financial returns from academies on time. It also received 88 per cent of financial management and governance self-assessments from academies within four months of conversion, against a target of 90 per cent.

1.22 As well as reviewing financial returns, as part of the Agency's oversight of academies' financial management and governance, it monitors funding agreements and handles complaints about academies' admission policies:

- Between April 2012 and April 2013, the Agency recorded 411 breaches of funding agreements, of which 339 (82 per cent) related to a failure to submit financial returns on time.[7] Failure to comply with a funding agreement can lead to fines, or the termination of the agreement.

- Parents or guardians can complain to the Agency about academies' admissions appeals processes, and the Agency will investigate the complaint if it considers that there are sufficient grounds to do so. In 2012-13, the Agency received 174 complaints and investigated 128, of which 19 were subsequently withdrawn. The Agency investigated the remaining 109 complaints, and in 15 cases it required academies to establish fresh appeal panels to hear the cases.

1.23 As academies are autonomous, the Agency's oversight is intended to be 'light touch', and proportionate to the risks involved as the number of academies grows. For example, it assigns a named officer to each new free school. To support its oversight, the Agency provides advice and guidance to academies. The *Academies Financial Handbook* is a key source of guidance that also sets out academies' financial obligations.[8]

1.24 Without access to good information, the Agency faces a challenge in predicting risks in academies. Since taking over the responsibility for oversight of academies, it has developed and improved its assurance framework so that it can rely on academies' external auditors for assurance. However, some 200 firms conduct external audits of academy trust financial statements and provide a regularity opinion on expenditure, so some inconsistency is inevitable.

1.25 The Agency reports monthly to the Department on academies at risk due to poor financial management, governance or academic performance. In December 2013, there were 30 academies of national concern, equivalent to 0.9 per cent of open academies at that time. If academies have serious issues, the Agency can intervene and carry out an investigation or issue a 'financial notice to improve'. The Agency has often relied on whistleblowers to raise concerns. In 2012-13 the Department investigated alleged financial management and governance issues at Kings Science, E-Act and Quinton Kynaston. It is currently investigating alleged financial irregularities at Al-Madinah.

7 Hansard HC, 25 April 2013, vol. 561, cols. 1159W–60W.
8 *Academies Financial Handbook 2013*, available at: www.gov.uk/government/publications/academies-financial-handbook-2013

Consolidation

1.26 For 2012-13, the Agency consolidated all operational academy trusts as at 31 March 2013 (2,108 academy trusts operating 2,823 academies) into its own financial statements. This was a complex and unprecedented consolidation and presented the Agency with a number of issues, as academy trusts had different year ends and different accounting frameworks to the Agency. It also received poor-quality data from academies, which resulted in a significant level of corrections and missing or late returns; but overall, the timeliness of academy returns is improving.

1.27 The Agency received 87 per cent of academy accounts for 2011-12 (financial statements) by 31 December 2012 (Figure 5). This compares with 83 per cent of academy accounts for 2010-11 received by December 2011. Of the 1,474 accounts received for 2011-12:

- twenty-nine were qualified, mainly due to the fact that accounts did not disclose the salaries of teachers who were also charity trustees of the academy trust;
- one received an adverse opinion relating to pension liability valuations and disclosure; and
- thirty-five identified regularity issues, mostly relating to unauthorised ex-gratia and severance payments.

1.28 The Comptroller and Auditor General qualified his opinion on the Agency's 2012-13 financial statements on a number of grounds. One qualification related to the assurance framework over regularity of spending, although there is no evidence of widespread or material levels of irregular spending. However, although the Comptroller and Auditor General considered that the assurance framework had not provided sufficient assurance for 2012-13, it was designed to provide sufficient assurance in the future and he welcomed the steps taken to strengthen guidance and engagement with academies and their auditors. Nonetheless, given continued growth in numbers, he recognised that the Agency faces a challenge in delivering robust, yet proportional assurance over the regularity of academies' expenditure and may not have sufficient capability and capacity to meet its objectives. He also considered that although the Agency had developed a process for presenting academy data to Parliament, providing new levels of transparency over its spend, the exercise may not be sustainable at current levels so that some challenges to overcoming the causes of qualification remain.[9]

9 The Report of the Comptroller and Auditor General to the Houses of Parliament on *The Education Funding Agency's financial statements 2012-13,* January 2014.

Local authorities and sixth-form colleges

1.29 As shown in Figure 5, in 2012-13 the Agency received 100 per cent of financial returns from sixth-form colleges and local authorities on time.

1.30 In relation to spending by local authorities, the Agency received substantial assurance over spending for three capital funding streams: the Local Authority Capital Maintenance fund (£687 million), the Basic Need fund (£1,312 million), and the Short Break scheme (£40 million). However, it had some concerns, as this funding is neither time-bound nor ring-fenced, and the terms and conditions of grant made it difficult to assure the extent to which the funding was used for the intended purposes.

1.31 The Agency relies on assurance from sixth-form colleges' external auditors. The Agency can intervene if necessary in poorly performing colleges, including those in poor financial health. In 2012-13, it issued no financial notices to improve. The Agency maintains a register for the Department on providers at risk of failure. It also monitors and reports on academic performance in colleges to the Department for Education and the Department for Business, Innovation & Skills.

Assurance on other spending

1.32 The Agency also received assurance on spending by other providers. It conducted funding audits at a sample of six of the 71 independent specialist providers from which it contracts services. Five providers received a 'satisfactory' rating, and one an 'unsatisfactory' rating. The 'unsatisfactory' rating related to the use of funds, and internal controls. The Agency recovered £24,000 from this provider.

1.33 The Agency conducted funding audits at a sample of 13 of 431 commercial and charitable providers from which it contracts services. Twelve providers received a 'satisfactory' rating, and one an 'unsatisfactory' rating. The 'unsatisfactory' rating related to the provider's use of funds, as it was unable to justify funding claimed for learners. The Agency also conducted financial health assessments at 177 providers to inform contract renewals.

1.34 The Agency provided substantial assurance over spending on the Youth Contract. It validated prime contractors' self-assessed risks and controls to manage key risks relating to funding. The Agency recommends that prime contractors regularly monitor subcontractor provision, and review documentation to ensure it is complete and accurate before it is submitted to the Agency to support a funding claim. The Agency also conducted four funding audits.

1.35 In 2012-13, the Agency received assurance from the Skills Funding Agency on spending in institutions primarily funded by the Skills Funding Agency. The two agencies have agreed that just one will normally audit a college or private training organisation, to reduce audit burden.

Part Two

The Agency's future capability

2.1 This part sets out future challenges and risks facing the Education Funding Agency (the Agency). It considers whether the Agency's plans are sufficiently ambitious, developed, and on track to give it the capacity and capability it requires to reduce costs and respond to growing demands.

Future challenges

2.2 The Agency faces some conflicting challenges. It will need to meet growing demand and expectations from customers, while at the same time reducing costs and transforming its operations.

Meeting growing demand and expectations

2.3 The Department for Education (the Department) aims to create an autonomous, self-improving, self-supporting school system consisting mainly of academies. There are also other changes in policy – for example, relating to young people and high needs – to which the Agency will need to respond. The Agency considers that the Department will expect swifter action from it in the future and ministers, for example, will require an increased level of information.

2.4 Based on past trends, the Agency is projecting that the number of education providers will increase by around 50 per cent, from 7,905 in 2012-13 to almost 12,000 by 2015-16 (see **Figure 6**). Around 7,000 providers in 2015-16 are likely to be academies. For the Agency this means that its funding role and particularly its assurance role will become more challenging and the risks for the Agency will grow, for example in spotting risks of poor financial management or governance, or the mis-use of public funds. At the same time:

- as the Academies Programme is demand-led, the precise level of demand up to 2015-16 will depend on the timing of the opening of new schools or the conversion of maintained schools to academies and is not certain; and
- following an election in 2015, demand could change if policy changes.

Figure 6

The type and number of providers in 2012-13 and the Agency's projections for 2013-14 to 2015-16 based on past trends

		Projections based on past trends		
	2012-13	**2013-14**	**2014-15**	**2015-16**
Academies	2,826	c.4,000	c.5,200	c.6,500
Voluntary-aided schools	4,055	3,892	c.3,800	c.3,700
Commercial and charitable providers	431	550	c.620	c.620
General further education, and specialist colleges	239	239	239	239
Local authorities	152	152	152	152
Sixth-form colleges	93	93	93	93
Other	109	209	c.350	c.350
Total	**7,905**	**c.9,100**	**c.10,400**	**c.11,600**

Notes

1 'Other' includes: other 16-19/learner support; higher education institutions; forensic units/other specialist providers; city technology colleges; non-maintained schools, and non-maintained special schools; and independent schools. Increases in the 'other' category in 2013-14 to 2015-16 reflect projections of non-maintained schools and special schools, and independent schools.

2 The Agency's projections for future numbers of providers are based on past trends; approximate figures are labelled circa 'c.'.

Source: Education Funding Agency data

2.5 Effective financial oversight of a growing sector means that as part of the Agency's assurance framework, it will need to rely on academies' awareness of their obligations, and their skills and capacity to meet these obligations. This presents challenges because as well as growing in number, new customers are likely to have different needs.

- By September 2013, the Department had opened 174 free schools and had selected a further 116 proposals to open by September 2015. The Agency recognises the additional risks associated with newly opened free schools and provides more support. For example, it assigns a named officer to each school, who can follow up on non-compliance and other issues identified by the Agency, school or others.[10]
- More primary schools will become academies (as of December 2013, 10 per cent of primary schools and 57 per cent of secondary schools were academies) and compared with secondary schools, primary schools are likely to have fewer financial and administrative resources.
- Not all academies meet their obligations in relation to making financial returns, although the position is improving.

10 Comptroller and Auditor General, *Establishing Free Schools*, Session 2013-14, HC 881, National Audit Office, December 2013.

2.6 To meet customer needs, the Agency relies on others including local authorities, but there are challenges here. The Agency distributes £36 billion to local authorities to distribute to locally maintained schools and relies on them to provide assurance over the use of funds. As we reported in 2011, local authority capacity, and access to schools' financial information, were set to decrease, and some authorities were planning to reduce the amount of staff time spent on monitoring school finances.[11]

2.7 In 2013/14, the responsibility for high-needs post-16 funding transferred from the Agency to local authorities. In 2013, we found that increasing financial uncertainty meant more local authorities were facing challenges to avoid financial difficulties while meeting their statutory responsibilities.[12] The Agency has had concerns about local authorities being prepared for, or fully committed to, commissioning and funding places for high-needs students. There is evidence to suggest that authorities may not be meeting their statutory duties. In October 2013, the Department wrote to 12 local authorities that were failing to properly track 16- to 18-year-olds' participation in education or training, to remind them of their duty to collect information.

Reducing costs

2.8 The Agency has a target to reduce its annual recurring administration costs by 14.6 per cent, from £53.6 million in 2012-13 to £45.8 million in 2015-16 (**Figure 7**). It aims to achieve this by reducing its salary costs. In 2013-14, the Agency is forecast to meet its savings target, but it is also likely to underspend on its salary budget of £43.9 million by £1.3 million, due to staff vacancies. Although the situation is improving, in November 2013, 5 per cent of positions were vacant. The Agency has had difficulties in filling vacancies due to its changing demand for skills and the fact that the skills it now requires, such as in construction and IT, are in short supply. The Agency is also seeking to reduce costs by reducing the number of sites it occupies from eleven to six.

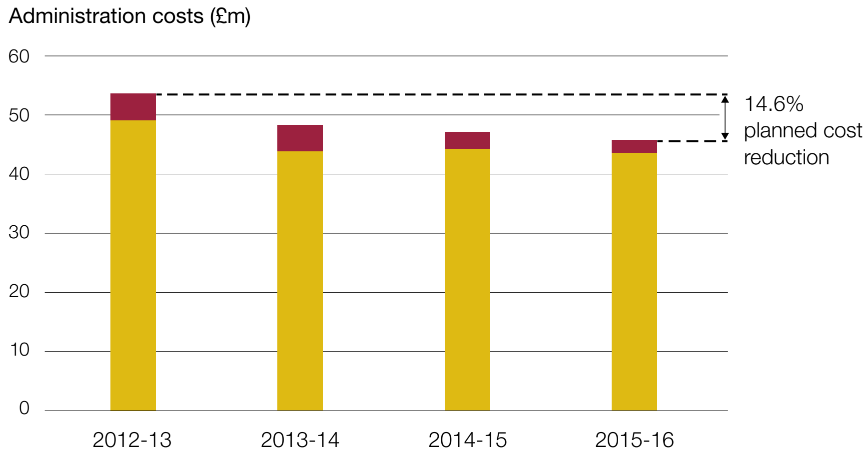
2.9 **Figure 8** shows that the Agency plans to reduce its administration staff from 796 full-time equivalent (FTE) staff in 2012-13, to 763 staff by 2015-16. It also shows that, in order to meet growing demand and the extra responsibilities placed on the Agency, it plans to increase the number of programme staff by 135, so that its total staff will increase from 796 to 898 by 2015-16. The Agency records staff and contractor costs associated with the Free Schools and Priority School Building programmes as capital programme spending, rather than administration spending, as these costs relate directly to the delivery of these programmes.

11 Comptroller and Auditor General, *Oversight of financial management in local authority maintained schools*, Session 2010–2012, HC 1517, National Audit Office, October 2011.

12 Comptroller and Auditor General, *Financial sustainability of local authorities*, Session 2012-13, HC 888, National Audit Office, January 2013.

Figure 7

Plan to reduce recurring administration costs by 2015-16



	2012-13	2013-14	2014-15	2015-16
Non-salary	4.6	4.5	2.8	2.2
Salary	49.1	43.9	44.3	43.6
Total	**53.6**	**48.4**	**47.2**	**45.8**

Note

1 Costs refer to net costs.

Source: Education Funding Agency data

Figure 8

Plan for increasing full-time equivalent staff (2012-13 to 2015-16)

	2012-13 (Actual)			2015-16 (Target)		
	Administration staff	**Programme staff**	**Total staff**	**Administration staff**	**Programme staff**	**Total staff**
Senior Civil Service	32	0	32	30	0	30
Grades 6 and 7	280	0	280	278	135	413
Senior and Higher Executive Officer	336	0	336	340	0	340
Executive Officer	60	0	60	82	0	82
Administration Assistant	37	0	37	33	0	33
Contractors	50	0	50	0	0	0
Secondees	1	0	1	0	0	0
Total	**796**	**0**	**796**	**763**	**135**	**898**

Note

1 Senior Civil Service represents the most senior members of staff, Administration Assistants the most junior.

Source: National Audit Office analysis of Education Funding Agency data

The Agency's plans to transform its operations

2.10 The scale of cost reduction and the need to meet growing demands means that the Agency will need to look beyond short-term cost-cutting measures and make organisational changes to improve efficiency. As Figure 8 shows, the Agency plans to increase the number of staff from 796 in 2012-13, to 898 by 2015-16. However, the Agency had 7,905 customers in 2012-13 and it is assuming that this number will rise to almost 12,000 by 2015-16 (Figure 6). This means that the ratio of customers to each staff member will rise from 10:1 to 13:1. If the Agency continued to operate in the same way as in 2012-13, it would potentially need some 1,200 staff to meet demand. This level of resource is not affordable, however, given the Agency's need to reduce costs and it will need to become more efficient.

2.11 The Agency recognises the challenges it faces and the need for major changes, and it has started to develop and implement plans. The Agency has three key priorities to:

- build its culture, values and ethos, to secure the best possible customer service and to understand the needs of ministers;
- build its capacity and invest in its people so that staff have the right skills to meet the challenges ahead; and
- improve its IT systems – including a move towards greater self-service – so that it becomes a more effective and efficient organisation.

2.12 **Figure 9** on pages 32 and 33 shows our understanding of the Agency's operations around which its plans are based. The figure sets out the Agency's customers, the services it delivers and how these are supported by its processes and IT systems at the end of 2013. We examined the Agency's plans to assess whether they were sufficiently ambitious, developed, and on track to give it the capacity and capability it requires to reduce costs and manage growing demand. Given the challenges the Agency faces, it has identified sensible priorities to focus on, although given the rate and speed of growth in demand, there is a need for the Agency to speed up implementation of its plans. During our fieldwork, we carried out an operational assessment of the Agency that highlighted other priorities for it to address. These included the need for it to develop a target operating model and to improve its approach to risk management.

Target operating model

2.13 We found that although the Agency had a business plan to 2014-15, it did not include a long-term vision, articulated as a target operating model. For an organisation to transform its operations and make sustainable cost reductions, it needs to define its future operating model, and its vision for how the whole organisation can work differently to deliver its objectives at lower cost.[13]

13 Comptroller and Auditor General, *Cost reduction in central government: a summary of progress*, Session 2010–2012, HC 1788, National Audit Office, March 2012.

2.14 As shown in Figure 9, the Agency's operating structure comprises four self-contained business units: young people, academies and maintained schools, capital, and finance and performance. This reflects the functions of the Agency's predecessors and therefore fits its operational needs. These groups, however, have their own individual plans. We consider that in the absence of a target operating model, the Agency has been unable to set out an integrated vision across its activities. The Agency has a number of cross-cutting plans in place for cost reduction and business transformation. However, it has not robustly identified interdependencies between the plans or put contingencies in place for any risks arising due to it missing critical milestones, such as the delivery of self-service.

2.15 In response to findings from our assessment of the Agency's operations, by the end of 2013 the Agency had developed a target operating model, which it finalised in January 2014. Our report, *Financial management in government*, recommended that a model could act as a roadmap to set out transformation plans in a coherent way for staff.[14]

Risk management

2.16 Effective risk management can improve an organisation's performance against its objectives by contributing to more efficient use of resources, reduced waste, reduced fraud and better service. We found that during 2012-13, although the Agency monitored and reviewed risks, it focused more on operational rather than strategic risks, and these were not clearly articulated.

2.17 The Agency is improving its risk management, following late identification of some significant risks during its first 18 months of operations. Due to a lack of 'horizon scanning', the Agency was vulnerable to missing risks that it could not directly manage but that could affect its operations or reputation. One such risk was receiving inconsistent data from local authorities as part of the Property Data Survey Programme.

2.18 In September 2013, the Agency began to change its approach to risk management: it started to carry out strategic horizon scanning and to link its risk management to the Department's approach. Although the Agency seeks to align its risk appetite with the Department, it has recognised that it needs to have a more explicit risk appetite in place for some operational areas, such as for fraud and error.

14 Comptroller and Auditor General, *Financial management in government*, Session 2013-14, HC 131, National Audit Office, June 2013.

Figure 9
The Agency's operations (2013)

Customers

- Academies, academy trusts and academy sponsors (2,826)
- Local authority maintained schools (18,734)
- Local authorities (152)
- Further education colleges (239)
- Sixth-form colleges (93)
- Learners, parents and carers

Channels

- Paper
- Telephone
- Email

Services

- Allocating funding and making payments
- Delivering policy initiatives
- Managing and delivering capital programmes

Processes

Academies and local authority maintained schools

- Allocating funds for all academies
- Allocating funds for local authority maintained schools
- Ensuring compliance with academy funding agreements

Capital

- Processing applications for capital funding
- Approving capital projects, and allocating funds
- Managing capital programmes

Department for Education group systems

Education Funding Agency systems

- Academy and Young People funding allocations (**The Store**)
- Academy capital applications (**ACMF**)
- Capital grant allocations and management (**NAV, VASIS**)
- School estate condition data (**Asset Management System**)
- Local authority maintained school funding, and assurance over academy spending (**Spreadsheets**)
- Management Information collection and reporting (**Capital Portal**)
- Relationship management (**CRM**)

Department for Education systems

- Local authority; school, pupil and workforce data collection (**Collect Portal**)
- Register of educational establishments (**Edubase**)

Data and information from other organisations internal to the education sector (such as Ofsted)

Source: National Audit Office

- Commercial and charitable providers (431)
- Independent specialist providers (71)

External stakeholders

- Parliament
- Representative bodies
- Citizens

- Face to face
- Social media/Internet
- Information exchange portals

- Providing assurance to Parliament
- Supporting Department to convert schools to academy status, and create free schools

---

Young people

- Allocating funds to education institutions
- Allocating funds to support students
- Allocating funds for the engagement of young people (Youth Contract)

Finance and performance

- Strategic and business planning
- Making payments
- Accounting and management information reporting
- Obtaining assurance over revenue and capital spending
- Identifying and intervening in providers where financial management/governance issues exist

---

External systems

IM Services (Department for Business, Innovation & Skills, and Skills Funding Agency)

- FE Student data collection (**OLDC & DCFT**)
- Payments (**CODA**)
- Contract management (revenue spending) (**CCM**)
- Data Exchange (**IM Portal**)

Department for Work & Pensions – Shared Services centre

- Resource planning (**ERP**)

Data and information from organisations external to the education sector (such as the Department for Communities and Local Government)

Securing best customer service

2.19 The Agency has made improvements to customer service including the following:

- In 2012 and 2013, it surveyed its customers to understand their needs better.
- In January 2013, it published its first customer charter, setting out the standard of service that customers can expect from the Agency, which it updated in September 2013.
- In September 2013 it began to develop a customer strategy, following work already under way to understand customer needs.
- As part of its governance arrangements, it has a customer board to support customer improvements (Figure 4).

2.20 The Agency is relying on improvements to IT so that it can introduce self-service for customers, in line with the Cabinet Office's digital-by-default agenda. The Agency's aim is to become more efficient and to manage the growing number of customers. It will also support the government's policy for education providers to become more independent.

2.21 To date, the Agency has developed an online tool for academies to reclaim insurance and rates costs, so that it can improve its customer service and reduce errors and the cost of processing claims. The quality of information the Agency now receives from academies has improved, as it validates the data as part of its data collection process.

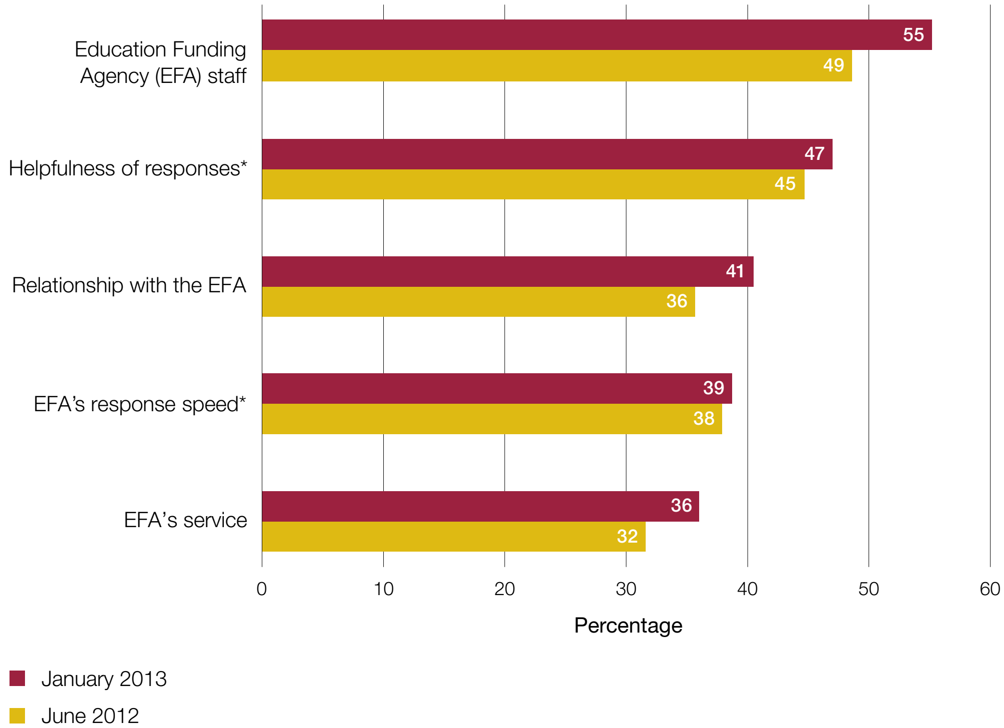
2.22 However, the Agency needs to do more to improve customer satisfaction. **Figure 10** shows the proportion of customers who rated the Agency's services as good or excellent when responding to its customer surveys in 2012 and 2013. Although the survey results are not directly comparable (as different organisations responded to the two surveys), taken together they suggest that across all aspects of customer service, customers rate the Agency's staff most highly, but are less satisfied with the overall level of service provided by the Agency and its speed of response. The Agency plans to survey its customers again in April 2014.

2.23 Stakeholders we interviewed were also positive about the Agency's staff, operating in what some described as "difficult circumstances". However, they were also critical of some aspects of the Agency's customer service, particularly a lack of clarity on the roles and responsibilities of the Department and the Agency, and the time taken to respond to queries. These findings suggest that the Agency needs to address other aspects of customer service, rather than the skills of its staff, in its plans to improve customer service, such as the timing and helpfulness of its responses.

2.24 The Agency plans to work with the Institute of Customer Service to improve service and to benchmark its performance against others. The Agency is also developing tools for customer relationship management and case management, which should help it to deliver more casework more efficiently. The first phase of its customer relationship management system went live in November 2013.

Figure 10

Customers rating aspects of the Agency's service as good or excellent (January 2013 and June 2012)



Notes

1 Number of responses (all respondents answering the question) varied between 555–565 for June 2012 and 425–451 for January 2013. Questions marked '*' were only asked of respondents who had made contact with the Agency in the given academic year: for these, the number of responses varied between 444–445 in June 2012 and equalled 347 in January 2013.

2 Respondents include a mix of academies, free schools, further education colleges, independent or charitable providers, independent specialist providers, local authorities, maintained schools, parents, professional bodies, sixth-form colleges, and voluntary aided bodies or schools.

Source: National Audit Office analysis of Education Funding Agency customer survey data

2.25 To respond to the Department's policy to make schools more independent and autonomous and to reduce costs, there is a clear rationale for the Agency reducing face-to-face or telephone support for customers. In September 2012 it stopped providing individual named contacts to academies, unless they were new free schools, and introduced a web enquiry service – the academy enquiry service. During 2013, the Agency received 3,100 enquiries a month on average. In its customer charter the Agency states that it aims to deal with the majority of enquiries within five working days, and in 2013 it responded to 52 per cent within one working day and 71 per cent within five working days.

Building capacity and investing in people

2.26 Employee engagement, defined as how proud employees are of their organisation, and whether they would recommend it as a great place to work, is one way of measuring staff morale. In the 2012 *Civil Service People Survey*, 55 per cent of Agency staff were considered engaged, compared with 56 per cent at the Department and 58 per cent for the civil service average.[15] The 2013 survey reported similar levels of engagement: 56 per cent for the Agency, 51 per cent for the Department, and 58 per cent for the civil service as a whole.[16]

2.27 To meet the challenges the Agency faces, it is important that it has plans to resource its future operating model. The Agency published a people strategy in September 2013 containing its plans for performance management, learning and development, and recruitment and resourcing. The Agency requires new skills and capability such as in business analysis, property, building, construction, customer service and IT.

2.28 The Agency has faced challenges in recruiting staff, due to its changing demand for skills and the fact that the skills it now requires, such as in construction and IT, are in short supply and has had to employ temporary contractors in some areas. For example, the Agency has had to use contractors to work on capital, including on project management, as more free schools open and more projects get under way on the Priority School Building Programme.

2.29 The Agency is relying on improvements to its processes and IT systems so that it can move staff from working on funding processes to casework, to help improve its service to customers. It is also looking to develop its capacity to carry out assurance work through outsourcing. For example, it is considering outsourcing its funding audit, which checks the numbers of pupils in schools against the funding data.

Improving IT systems

2.30 The Agency inherited IT systems from its predecessors, which could not be scaled to meet new demands without incurring significant costs. Most of the systems it uses are hosted by the Department or IM Services, a division of the Skills Funding Agency. There were also risks to the Agency, as not all systems had robust policies in place covering security, access control and disaster recovery. In 2013, the Department's internal audit raised concerns over the resilience of the systems and their capability to recover in an emergency. The Department and the Agency have worked together to address these concerns and to ensure that all systems have the appropriate arrangements in place.

15 *Civil Service People Survey 2012*, available at: www.civilservice.gov.uk/about/improving/employee-engagement-in-the-civil-service/people-survey-2012

16 *Civil Service People Survey 2013*, available at: www.civilservice.gov.uk/about/improving/employee-engagement-in-the-civil-service/people-survey-2013

2.31 The Agency plans to spend £26 million on improving its IT systems over the three years to 2015-16. Both the Department and the Cabinet Office approved the plans, which should enable the Agency to improve business processes, generate good management information, improve customer service and reduce costs. However, the Agency initially made slow progress in implementing the plan.

2.32 In April 2013, an internal audit review raised concerns that the Agency lacked the leadership, appropriate governance and capability to deliver its IT plan. The Agency has responded to these concerns and in May 2013 appointed a Chief Information Officer to lead the plan's implementation. He has focused on restructuring and strengthening the IT team and is aiming to complete the plan a year earlier than planned. He has also improved communications and engagement with the rest of the business. A further internal audit review of the plan in September 2013 confirmed the progress made, and internal audit revised its overall risk rating on the plan from red/amber to amber/green. The Agency plans to have a further review of progress.

2.33 Our findings support internal audit's view that the Agency has started to make progress against the plan. For example, it has developed a roadmap with fixed milestones to enable it to monitor progress more effectively, and is focusing on filling remaining vacancies to support its IT plan. However, given the recruitment issues highlighted above, it could face challenges in recruiting staff.

2.34 A lack of suitable and reliable IT has compromised the Agency's ability to generate good management information and improve customer service. With the appointment of the new Chief Information Officer, the Agency is now making progress in these areas. In October and November 2013, the Agency implemented some significant outputs from the IT investment plan, as a direct result of the changes it had made for business and systems transformation. These included moving the customer relationship management system from the legacy estate into the Department, and the first release of improved functionality of customer relationship management.

Improving business processes

2.35 We found that the Agency had managed to perform day-to-day processes, even though some had initially relied on manual spreadsheets, such as those to calculate funding allocations or to carry out data analysis. However, this approach was not efficient because it took time and was at risk of error. The Department's internal audit had also identified some weaknesses in the Agency's payment controls, including individuals authorising payments above delegated limits and a lack of authorising officer checks on changes to standing data. We also found a lack of central management of processes, which is necessary to support continuous improvement.

2.36 Good process management or 'continuous improvement' is a way for departments and agencies to respond to current delivery challenges. As Figure 9 shows, the Agency has 14 core processes, including allocating and paying out funding and approving capital projects. A number of other corporate business processes sit within the Department for Work & Pensions' Shared Services centre.

2.37 To achieve cost savings, meet changing demand and improve services, the Agency plans to standardise and rationalise processes and introduce automation wherever possible, so that processes are faster, cost less, and errors are reduced. Since opening, the Agency has automated the majority of academies' funding calculations so that it can calculate allocations on a larger scale with fewer staff. The only calculations it now carries out on spreadsheets are those where it believes it makes sense to do so, such as those relating to local, small or bespoke situations.

2.38 Another example of process improvement is the Enabling Funding to Payments project, through which the Agency aims to rationalise three different payment systems into one single system. This is at a feasibility stage and is due to be fully implemented in December 2016.

Generating good management information

2.39 Information is critical to the Agency's business. The Agency relies on information and IT systems hosted by others to provide services to customers and to respond to ministers. Using different systems hosted by different organisations has meant, however, that the Agency has found it challenging to establish a 'single version of the truth', as data were held across a diverse sets of applications, systems and spreadsheets.

2.40 The Agency relies on information such as data from education providers on the numbers and types of student, financial budgets and statements, and the size and condition of properties for capital funding. These data need to be collected at low cost and with minimum burden. An information strategy is a Cabinet Office requirement for departments. Recognising that a strategy would support its approach to collecting and using data, the Agency produced a draft data plan at the end of 2013. It is also starting to implement a number of other plans for improving its information. These include:

- creating a master database of providers, to allow consistent use and reporting of data on providers across multiple systems; and
- automating the collection and analysis of information and improving business reporting. The Agency plans to improve its business analytics capability over the next year, to help it identify and monitor financial and governance risks, such as those academies that it needs to monitor closely.

Appendix One

Our audit approach

1 This report examines the performance and capability of the Education Funding Agency (the Agency) since April 2012, and assesses whether it is well placed to manage risks in the education system now and in the future. We reviewed:

- the Department for Education's (the Department's) *Accountability system statement for education and children's services*,[17] which details the accountability and assurance mechanisms between Parliament, the Department, the Agency, and education providers;
- the Agency's governance, performance, and staffing; and
- the Agency's plans and its risk management processes.

2 We applied a set of evaluative criteria to consider what arrangements would be optimal, both in terms of the Agency's performance since 2012, and whether it is well placed to manage risks in the education system in the future.

3 Our audit approach is summarised in **Figure 11** overleaf. Our evidence base is described in Appendix Two.

17 Department for Education, *Accountability system statement for education and children's services*, September 2012.

Figure 11
Our audit approach

The objective of government

The government's objective is for the Agency to contribute to the delivery of the Department's objective to reform the education system so that it raises standards, closes achievement gaps and supports all children and young people, particularly the disadvantaged.

How this will be achieved

Ensuring that the Agency makes allocations and payments accurately and on time; manages capital programmes; and provides assurance over the use of public funds.

Our study

Our study evaluates the performance and capability of the Agency since April 2012, and assesses whether it is well placed to manage risks in the education system now and in the future.

Our evaluative criteria

Effective and efficient provision of services to customers including:

- making accurate and timely allocations and payments;
- managing capital programmes; and
- providing assurance over the use of public funds.

Strong organisational performance in relation to the Agency's:

- strategy;
- governance;
- implementation;
- service management;
- people (staff capacity and capability);
- processes; and
- technology.

Full understanding and management of risks in the education system.

Strategy for managing potential risks as the provider sector expands and diversifies.

Our evidence

(see Appendix Two for details)

We assessed the Agency's services to customers, and organisational performance by:

- interviewing departmental and Agency officials;
- conducting workshops with Agency officials;
- reviewing published and internal departmental and Agency documents; and
- interviewing stakeholder organisations.

We assessed the Agency's capability and capacity to successfully respond to current and future challenges by:

- interviewing departmental and Agency officials;
- conducting workshops with Agency officials;
- reviewing published and internal client documents;
- analysing financial data from the Agency;
- reviewing the results of the Agency's customer and staff surveys;
- interviewing stakeholder organisations; and
- reviewing other NAO work, including previous value-for-money reports and financial audit work.

Our value-for-money conclusion

The Department had a clear rationale for creating the Agency but it did not sufficiently define what it expected the Agency to achieve, nor has it fully considered the Agency's capacity when increasing its responsibilities. The Agency has fulfilled most of its day-to-day funding and assurance responsibilities, developed new approaches to capital programmes, and is on track to meet its required cost savings. However, it also faces an expanding remit, a rapidly growing customer base, and further required reductions in operating costs. The Agency must now bring together its existing improvement plans and rapidly implement a scalable operating model capable of coping with these challenges. Our experience of bodies with similar roles in other sectors suggests that the Agency may otherwise become overloaded, increasing risks to its own performance and, given its responsibility for £51 billion of funding, risks to value for money within the wider education system.

Appendix Two

Our evidence base

1 We reached our conclusion on value for money following analysis of evidence collected between May and December 2013.

2 We applied an analytical framework with evaluative criteria to consider what would be optimal, both in terms of the Agency's performance since 2012, and its capability to manage risks in the education system now and in the future. Our audit approach is outlined in Appendix One.

3 We examined financial and governance assurance arrangements as set out in the Department's *Accountability system statement for education and children's services*, identifying management and governance, funding, oversight and accountability regimes for the education sector.[18] We used this information to map the accountability and governance arrangements between the Department and the Agency.

4 We conducted process mapping with departmental and Agency officials to identify organisations that provide funding and assurance in the education system and the risks to the Agency arising from current processes.

5 We conducted semi-structured interviews with departmental and Agency officials to understand the Agency's governance, strategy, performance, risk management and resource management.

6 We reviewed internal departmental and Agency documents and published evidence to understand the Agency's planning, forecasting, risk assessment, and resource management – in the context of increasing numbers and diversity of education providers.

7 We reviewed Agency financial and performance data to determine progress towards meeting its planned reductions in recurring administration costs, and its performance against published key metrics.

8 We applied a detailed evaluative set of criteria (a business analysis toolkit) to the Agency's current business model and its future plans to assess strategy, governance, implementation, service management, people (staff capacity and capability), processes, and technology. Our findings are reported under the following headings: target operating model; risk management; securing best customer service; building capacity and investing in people; and improving IT systems.

18 Department for Education, *Accountability system statement for education and children's services*, September 2012.

9 We conducted unstructured interviews with stakeholder organisations to ensure we were aware of wider experiences and insights in formulating our findings and recommendations. We interviewed the SSAT, the Sixth Form Colleges Association, the Local Government Association, the National Association of School Business Management, the Association of National Specialist Colleges, and the Association of Colleges.

10 We drew on our previous work to evaluate how the Agency has performed relative to its predecessor bodies, and how it has responded to NAO and Committee of Public Accounts recommendations. This included:

- our 2012 value-for-money report, *Managing the expansion of the Academies Programme*;[19]
- the Comptroller and Auditor General's report on his qualifications of the 2011-12 Young People's Learning Agency accounts;[20] and
- the Comptroller and Auditor General's report on his qualifications of the 2012-13 Education Funding Agency accounts.[21]

19 Comptroller and Auditor General, *Managing the expansion of the Academies Programme*, Session 2012-13, HC 682, National Audit Office, November 2012.

20 The report of the Comptroller and Auditor General to the Houses of Parliament on *The Young People's Learning Agency's financial statements 2011-12,* July 2012.

21 The report of the Comptroller and Auditor General to the Houses of Parliament on *The Education Funding Agency's financial statements 2012-13,* January 2014.

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C001648

This report has been printed on Evolution Digital Satin and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.

Design and Production by
NAO Communications
DP Ref: 10338-001

National Audit Office

Published by TSO (The Stationery Office)
and available from:

Online
www.tsoshop.co.uk

Mail, telephone, fax and email
TSO
PO Box 29, Norwich NR3 1GN
Telephone orders/general enquiries: 0870 600 5522
Order through the Parliamentary Hotline
Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
Email: customer.services@tso.co.uk
Textphone: 0870 240 3701

The Houses of Parliament Shop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/general enquiries: 020 7219 3890
Fax orders: 020 7219 3866
Email: shop@parliament.uk
Internet: http://www.shop.parliament.uk

TSO@Blackwell and other accredited agents

£16.00

ISBN 978-0-10-298747-8