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Department for Education and
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Managing the expansion of the Academies Programme

Key facts

2,309
number of academies as at September 2012

1,037%
growth in the number of academies between May 2010 and September 2012

£8.3bn
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.

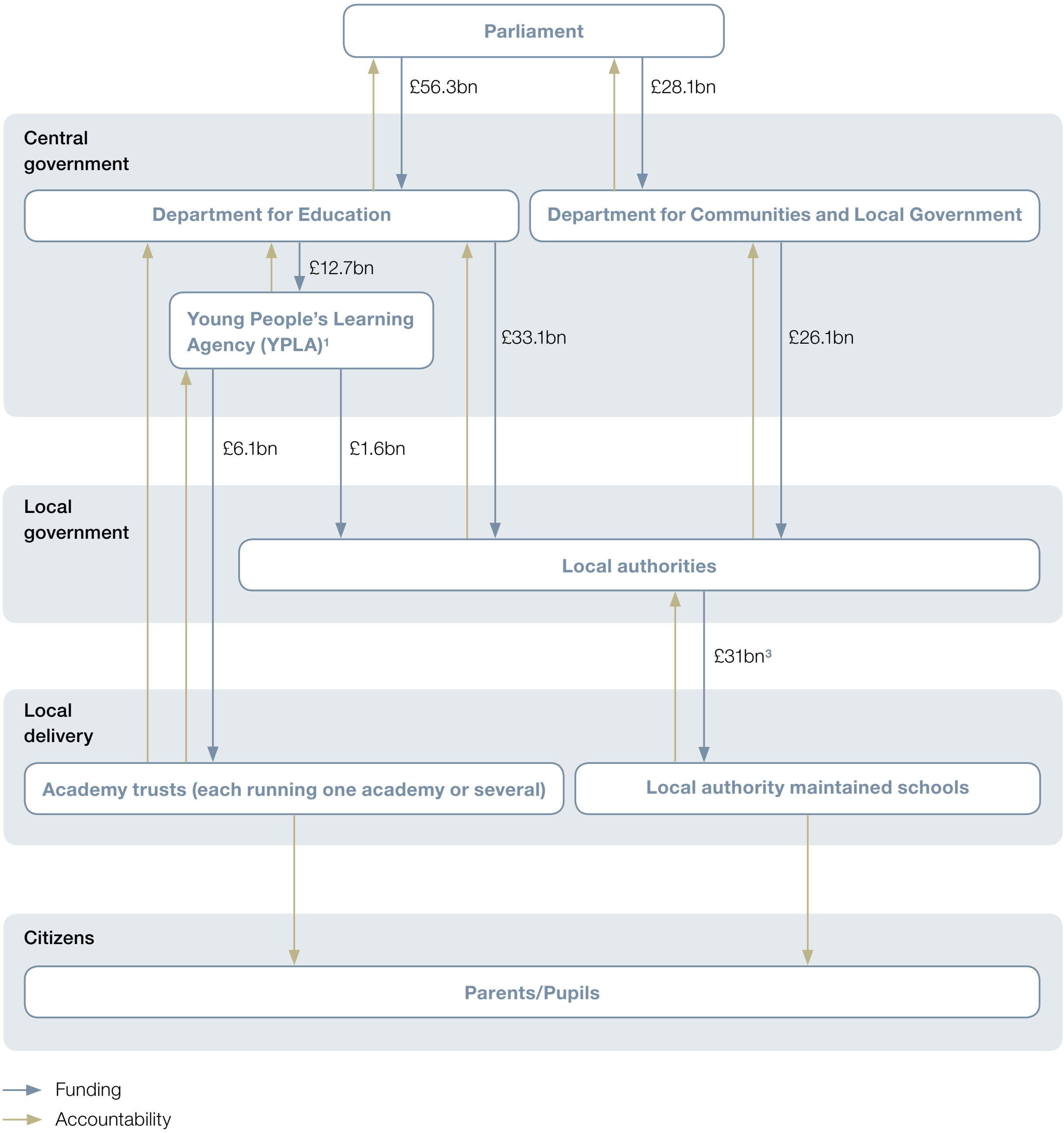
8 The Department considers that international evidence suggests academies combine autonomy and accountability in a way which has raised standards in other education systems around the world. Its long-term aim is an autonomous, self-improving, self-supporting school system consisting mainly of academies.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

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).

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.