



National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

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Department for Education

Capital funding for new school places

Key facts

256,000

estimate of new primary and secondary school places needed in England by 2014

£4.3bn

in capital funding being allocated by the Department to local authorities for new school places in England from 2010 to 2014, excluding March 2013's Targeted Basic Need Programme

12,000

National Audit Office's estimate of additional pupils in reception classes in England each year to 2014

- 5 per cent** fewer primary school places available in 2010 than 2004, in response to falling school rolls
- 16 per cent** increase in the number of four-year-olds starting reception classes between 2006/07 and 2011/12
- 20.4 per cent** of primary schools were full or over capacity, at May 2012
- 29 per cent** of local authorities were funded less than the Department had assessed they needed for new school places in 2012-13 using authorities' own forecasts for pupil numbers

In this report:

2011-12 refers to the financial year (April to March)

2011/12 refers to the academic or school year (September to August)

Summary

Introduction

1 In 2011/12, 6.8 million 4- to 16-year-olds attended state-funded schools in England, 3.9 million were in primary schools, 2.8 million in secondary schools, and 78,000 in special schools. Around 600,000 children start reception classes in primary school each year.

2 The number of children starting school fluctuates annually, increasing if the birth rate and inward migration grow. New school places may be needed to meet increases in demand, initially in reception classes and later in other primary and secondary classes. A lack of sufficient places can create local 'hotspots' where demand outstrips places available within a local area, even though the local authority may not have an overall shortage of places.

3 **Figure 1** overleaf shows roles and responsibilities for providing school places. The **Department for Education** (the Department) is responsible for the policy and statutory framework. It aims to give parents "the choice of a good local school" for their children, and "to use available capital funding to best effect to provide sufficient places in schools parents want to send their children to". The Department makes a substantial financial contribution to local authorities' costs in delivering places, and is accountable for overall value for money delivered from its funding.

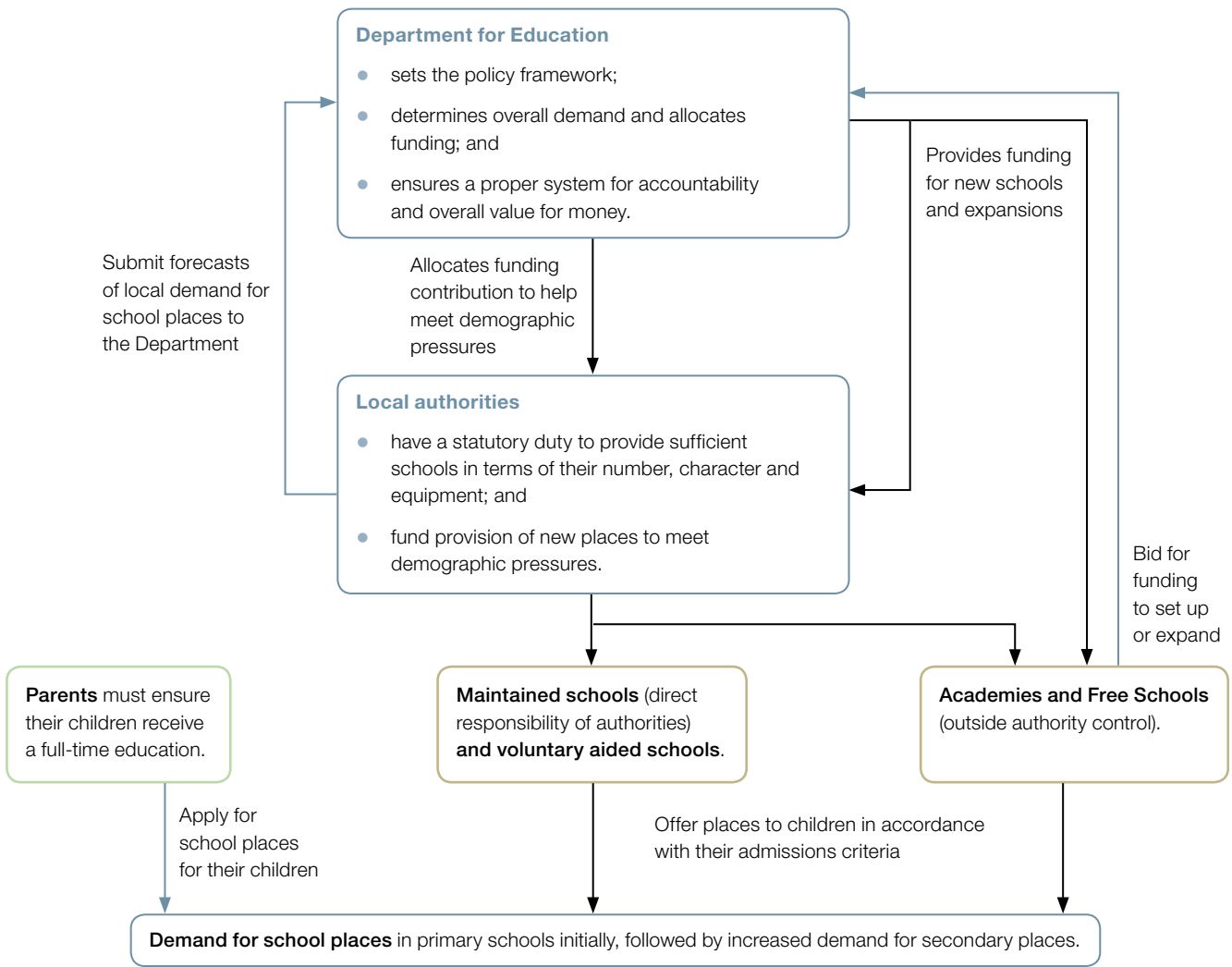
4 **Local authorities** are statutorily responsible for ensuring that there are sufficient schools, and therefore school places. Authorities assess demographic changes, plan and finance new school places, including using funding provided by the Department. There is a range of possible solutions to provide new places, mainly:

- building new schools;
- permanent or temporary extensions; or
- converting existing spaces for use as classrooms.

5 Local authorities rely on cooperation from individual **schools** to expand existing provision. An authority can direct the expansion of community and voluntary controlled schools, but not others. There are legal limits on the size of certain primary classes, and space on existing school sites may be constrained. For children required to travel more than either two or three miles, depending on their age, to school, authorities must arrange transport at no charge to parents.

Figure 1
Roles and responsibilities in providing school places

The Department is responsible for the policy framework and overall value for money. Local authorities are responsible for delivering sufficient schools



- Funding body → Information flow
- Funded school → Funding flow
- Parents

Source: National Audit Office analysis of Department for Education documents and legislation

Scope of the report

6 This report assesses whether the Department is securing overall value for money, including:

- how far the Department's objectives are being achieved (Part One);
- how well it determines its financial contribution to local authorities (Part Two); and
- how well it allocates funding to areas that have the greatest need (Part Three).

7 The report covers school places for 4- to 16-year-olds. It does not assess the educational impact of different types of building programmes, or judge how well local authorities deliver new places.

Key findings

Achievement of the Department's objectives

8 **The rise in children born in England between 2001 and 2011 was the largest ten-year increase since the 1950s and increased demand for primary school places.** Between 2001 and 2011, live births rose by 22 per cent to 688,000. Between 2006/07 and 2011/12, the number of children starting in reception classes in primary school increased by 16 per cent to 606,000. Previously, many local authorities faced falling school rolls and had reduced primary places by 5 per cent nationally between 2003/04 and 2009/10 (paragraphs 1.8 and 1.9).

9 **At May 2012,¹ there was an estimated national surplus of primary places of 10 per cent.** However, 13 per cent of local authorities (19) had less than the minimum 5 per cent surplus the Department assumed in its planning as necessary to support operational flexibility and some parental choice, with 16 of these in London. The Department adopted this planning assumption in the context of a challenging Spending Review when preparing its funding bid. It recognises that it needs to undertake work to identify levels of surplus which realistically enable parental choice (paragraphs 1.16 to 1.18).

10 **Despite a net increase of almost 81,500 primary places from 2010 to May 2012, 256,000 new school places are still needed from May 2012 by 2014/15. Forecasts of future need are inevitably uncertain but the demand for school places is projected to increase beyond 2014/15.** 240,000 of the places required by 2014/15 are primary places, of which 37 per cent are in London. In 2010, the Department had estimated that 324,000 additional places would be needed by 2014/15. In 2012, the Department expected demand to continue to rise, and 400,000 further places could be required by 2018/19. The Department is undertaking work to consider the uncertainty in these long-term estimates (paragraphs 1.14, 1.20 and 1.23).

¹ The Department published May 2012 data in March 2013.

11 The Department considers that all local authorities have so far met their statutory duty to provide sufficient schools. There are, though, indications of stress on school places. In May 2012, 20.4 per cent of primary schools were full or had more pupils than their capacity. Numbers of children in infant classes (up to age seven) of 31 or more pupils have more than doubled in five years, from 23,200 in 2007 to 47,300 in 2012. Thirty-four per cent of authorities responding to our survey in August 2012 reported that rising demand for places has had a significant impact on children's average journey times to school. Appeals as a percentage of primary school admissions to infant classes increased from 1.7 per cent in 2004/05 to 4.8 per cent in 2010/11 (paragraphs 1.19, 1.21 and 1.22, and Figures 6 and 7).

The Department's funding for new school places

12 The Department's assessments of funding required to meet expected demand are based on incomplete information. Local authorities' costs in providing places vary depending on the mix of solutions they use, and local prices. In 2010, the Department initially estimated the cost of delivering 324,000 places at £5 billion, covered by the Department's funding and financial contributions from authorities. This figure was based on 2007 data, inflated to 2010 prices, and did not include, for example, the cost of land acquisition for new schools. The Department assumed that the majority of new places would be delivered as extensions to existing schools. The Department is revising its estimates to create more up-to-date costings, including considering the impact of standardised designs for schools announced in October 2012. These indicate potential for reducing building costs for new schools by 30 per cent. Developing a more robust estimate of funding needs is vital for the Department to respond efficiently to the forecast increase in need (paragraphs 2.14 to 2.16 and 2.19).

13 The Department has supplemented its 2010 spending settlement to increase its contribution to local authorities for new school places to around the level it originally estimated. The 2010 Spending Review settlement reduced the Department's overall capital spending in real-terms by 60 per cent. Within this, the Department increased its specific funding for new places to £3.2 billion up to 2014-15. Subsequent injections of funding from savings on other programmes and from HM Treasury increased this to £4.3 billion by November 2011. The Department's effective funding contribution per place had thus increased from £9,875 to £13,780. As the Department has yet to update its estimate of the total cost of places required, it is not yet clear whether this level of funding represents an accurate assessment of the resources required to meet forecast need. In addition, a further £982 million capital funding for schools was announced in December 2012. The Department has invited bids from local authorities which will determine how much of this is for delivery of new places in 2014-15 and how much for 2015-16. It is therefore not yet clear how much funding in total the Department will be providing for the delivery of places by 2014/15 (paragraphs 2.4, 2.7 and 2.8, and Figure 9).

14 Local authorities report that they made a higher funding contribution in 2012-13 than the Department's original assumptions implied, although the Department has subsequently increased its funding. The Department assumes that authorities meet any difference between actual costs and the funding it provides. Local authorities' required contribution therefore varies depending on the level of the Department's funding and the actual costs of providing places. The Department initially assumed that local authorities would contribute 20 per cent towards the cost of new places. This planning assumption was not evidence-based and was not communicated to authorities. In our survey, authorities reported making an average contribution in 2012-13 of 34 per cent. Most authorities drew on other sources of funding to finance new places, including maintenance funding provided separately by the Department (64 per cent), potentially storing up future costs by deferring repair work (paragraphs 2.17 and 2.18, and Figure 12).

15 The Department's capital priorities have changed since 2010 and new capital programmes will deliver some additional places by 2014/15. The Department has changed its capital priorities since 2010, including cancelling many Building Schools for the Future projects and the Primary Capital Programme. These programmes were primarily aimed at enhancing the quality of school buildings and the Department has not estimated how the total number of school places available may have been affected. The Free Schools Programme has been allocated capital funding of £1.7 billion to 2014-15. It is expected to increase the number of available places, although this is not the primary purpose of the programme. We estimate that Free Schools opened in September 2012 could provide up to 24,500 places, 58 per cent in local authorities with a shortage of places. However, only 8,800 of the 24,500 places are in primary schools and most Free Schools will not be operating at their full capacity by 2014/15 (paragraphs 2.5 and 2.6).

The Department's allocation of funding

16 The Department's funding framework for new school places could be better aligned with its objectives. The Department adopted a planning assumption about the scale of surplus places required to support some degree of operational flexibility and parental choice. However, local authorities' statutory duty for providing sufficient schools does not oblige them to maintain a surplus of places for parental choice, nor does the Department set expectations about the assumed level of surplus required (paragraph 1.17).

17 The Department has used four different methods to allocate funding for school places since 2007, although its current approach provides a clearer focus on the areas of greatest need. It has moved gradually to a method which most closely reflects local authorities' need for new places, and, until 2012-13, its data was insufficiently detailed to enable it to identify 'hotspots' of demand within individual authorities. The Department has yet to decide how its future allocations will reflect the places authorities expect to deliver using the funding they have already received in prior years. Uncertainty over future levels of funding from the limited duration of allocations and changes in the Department's allocation methods has increased planning uncertainty for authorities (paragraphs 3.4, 3.5, 3.9, and 3.18, and Figure 14).

18 For 2012-13 only, the Department sought to provide local authorities with some funding stability, and consequently allocated some £56 million (7 per cent of core funding) away from authorities with most need. The Department introduced a transitional mechanism to afford authorities some protection as it changed the method of allocating core funding. As a result, 57 per cent of authorities received more funding than the Department assessed them to need according to authorities' own forecasts of pupil numbers, while 29 per cent received less. These forecasts were not at a detailed enough level to identify demand 'hotspots' (paragraphs 3.14 and 3.15, and Figure 16).

19 The Department lacks sufficient information about the local impact of its funding, and has limited feedback to assure itself that overall the system for new school places is achieving value for money. In 2012, the Department collected more detailed data by planning area within local authorities and data on forecast capacity to identify local need and potential 'hotspots'. It also intends to collect more information on the use made of its funding. However, it currently lacks a full understanding of the impact its spending is having on the number of places created, and how funding is being used (paragraphs 2.19, 3.17, and 3.19).

Conclusion on value for money

20 Delivering value for money in providing new school places requires effective partnership working, while the scale of future need is inherently uncertain. The Department has ambitious objectives to provide sufficient places and an effective choice for parents. There was a net increase of almost 81,500 primary places by May 2012 and the Department has increased funding to 2014-15 to over £4.3 billion. However, a further 256,000 new school places are still required by 2014/15 and, despite a national surplus, there are indications of real strain on school places.

21 To improve value for money, the Department needs to build on the incremental improvements to the information it uses to make its funding allocations. It needs a better understanding of costs, clarity about how it will allocate funding to areas of need, and a better understanding of the impact its funding contribution is having on the ground.

Recommendations

- 22** The Department should:
- a** **Clarify the costs of new places and the scope of its funding contribution to local authorities to better inform its future decisions on the total amount of funding it should contribute.** The Department needs an updated understanding of costs. It does not make clear to local authorities the scale of its financial contribution or the extent to which it is intended to enable parents to choose schools.
 - b** **Consider how its funding allocations reflect the places which local authorities already expect to deliver.** The Department needs to ensure that its chosen method is underpinned by robust data to support accurate funding allocations.
 - c** **Monitor the impact of reforms to the school system on the delivery of new places.** Local authorities increasingly have less direct control over the provision of new places, given the growth of Academies and Free Schools.
 - d** **Develop its assurance framework to better understand whether it is achieving value for money in its distribution of funding.** There is a lack of coverage of capital spending in the Department's Accountability Statement and the Department lacks information to support benchmarking of authorities' cost per place.