



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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**Department for Education and  
the Education Funding Agency**

# Performance and capability of the Education Funding Agency

## Key facts

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**£51bn**

funding distributed by  
the Agency in 2012-13

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**7,900**

customers of the  
Agency in 2012-13

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**14.6%**

target reduction in  
the Agency's annual  
recurring administration  
costs between 2013-14  
and 2015-16

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**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.

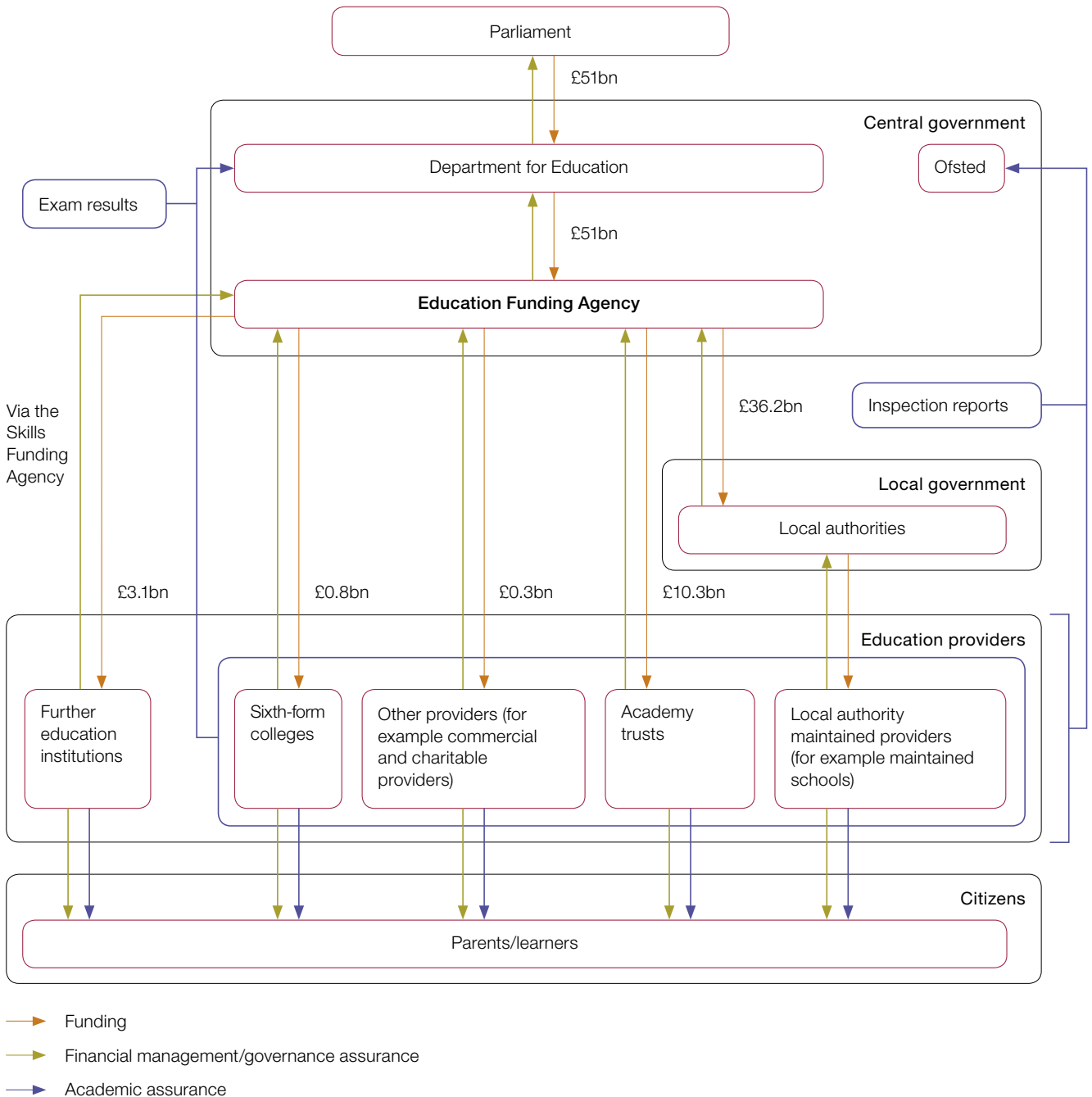
### **Scope of the report**

**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.