NAO Podcast on Financial Sustainability of Schools transcript

[Suzanne Goldberg] Hello and welcome to the National Audit Office Podcast. The NAO has just published its report into the Financial Sustainability of Schools. I'm joined today by Mark Parrett, one of the Audit Managers who worked on the report.

Thank you very much for joining us today Mark. Could you start by giving us some background behind your report and what it covers?

[Mark Parrett] Funding for schools has been relatively protected compared with most areas of public spending. Following the 2015 Spending Review, schools are now entering a period of reduced real terms funding per pupil. And the Department [of Education] is aiming to support schools to ensure that by 2020 schools they have the skills, capabilities and tools to manage the pressures on their budgets without affecting their ability to deliver good quality educational outcomes. This report examines whether the Department is actually well placed to do that. So we looked at:

- Challenges to schools financial sustainability and what those are.
- The Departments understanding of and support for schools financial sustainability, and,
- How the Department actually identifies and addresses the risk of financial failure in schools should that occur.

What type of schools are we talking about here?

So, the report covers state funded primary and secondary schools in England and we've looked at the overall budget and cost pressures for all schools. And we've then gone on to look at the financial sustainability and support for all mainstream schools, so that excludes alternative provisions in special schools.

And what does your report show?

I guess the first thing is the Department's overall School Budget is protected in real terms, but that doesn't provide for funding per pupil to increase in line with inflation. In the 2015 Spending Review, Government increased the overall schools budget to an extent that includes inflation. But, the Department estimates that pupils will rise over the same period, so the funding per pupil that schools actually receive goes up by a relatively small amount, so from £5,447 for 2015/16 to £5,519 in 2019/20, and this is a real terms reduction in the per pupil funding once inflation is taken into account.

As a consequence of that, the Department estimates that the mainstream schools have to find savings of £3 billion in total, that's 8% of the Schools Budget in 2019/20, and that's to counteract the cumulative cost pressures such as pay rises, higher employment contributions to National Insurance and the Teachers Pension Scheme. It expects schools will need to make efficiency savings through better procurement and also by using their staff more efficiently, but the Department hasn't clearly communicated that to schools. The Department has been, and continues to, develop and publish guidance and advice to help schools improve their financial management and achieve efficiency savings. Some of this exists already, such as benchmarking and efficiency tools and access to framework contracts, but the Department hasn't yet completed its work that's going to help schools secure those crucial procurement and workforce savings, and without that there's a risk that schools may already be making poor decisions about how to cope with the financial pressures.

Are there specific schools which are suffering more in regards to financial sustainability?

In our report, our analysis shows that the financial position of primary schools has been relatively stable, but there are signs of financial challenges in secondary schools. So the proportion of maintained secondary schools, that's those looked after by local authorities, who are spending more than their income has increased and the size of their deficits, for those in deficit, has also increased. And similarly, in secondary academies the proportion of those spending more than their income has risen. And the Department doesn't know with certainty why schools are overspending or indeed underspending to build up reserves, or how long that is sustainable. But the impact of a real terms reduction to funding per pupil will be affected by a new national funding formula that the Department plans to introduce in 2018/19 and this could result in the budgets of schools which currently have high levels of funding being reduced and more poorly funded schools having their budgets increased.

Is there an overseeing body that is supposed to be monitoring this?

Yes, the Education Funding Agency oversees the financial management of schools on the departments behalf, and has a set of criteria which it uses to judge whether or not to intervene and that's in local authorities, which in turn oversee maintained schools, and in academies which the agency overseas more directly. We concluded that using its criteria, the Agency should intervene earlier and more often with local authorities when it has financial concerns about maintained schools. The Agency also has a process for assessing financial risk in academies, but its records made it difficult for us to gain assurance that all academies which are potentially high risk, have been dealt with consistently. It has also not evaluated the impact of its different interventions, so whether or not it's actually improved academies long term financial sustainability or indeed which interventions it's taken are most effective. The Agency is strengthening its oversight and developing a preventative approach with a new tool to support academy trusts at risk of getting into financial difficulty.

So the big question is: Is the Department for Education providing Value for Money?

Well, we concluded that the Department for Educations approach to managing risks to financial sustainability of schools cannot be judged to be effective or providing value for money until progress has been made. It is clearly reasonable that the Department should look to schools to make efficiencies, but it's important to understand the implications of the way it's going about it. Real terms funding per pupil will drop over the coming years and the uncertain part is how schools are able to respond based on their particular circumstances. This could be by making the desirable efficiencies that the department judges are feasible, or schools could make spending choices that could put educational outcomes at risk. In our experience in other parts of government, the approach the department is taking involves serious risk that need to be actively managed.

And finally what recommendations did your report make?

Well we made a series of recommendations in the report. Firstly that the Department should publish, as soon as possible, its assessment of financial challenges to be faced by schools over the next few years, and to keep this up to date so it's absolutely clear what schools should be preparing for. Then to provide the leadership to support schools and stakeholders to be open to the opportunities to efficiencies, while being realistic about what can be achieved in terms of timescale and cost savings. It needs to move faster to set out how it actually envisages schools are going to achieve savings of £3 billion by 2019/20 through economies and efficiencies in procurement and workforce, together with the information on how schools are going to do that. It needs to work with schools to make sure it can assure parliament that these cost savings can be achieved without adversely impacting educational outcomes. And then in terms of the oversight arrangements and the Education Funding Agency, there's 2 things: the forward looking, predictive tool that its developing is going to be quite important to help the Agency spot financial risk in academies before they happen and to help those academies and secondly to improve its record keeping to provide assurance that the interventions are taking place and also to learn from what works.

Thanks Mark

If you would like to find out more about this report, the full report and an executive summary are available on our website, www.nao.org.uk. Or you can follow us on twitter @NAOorguk or on Facebook www.facebook.com/NAOorguk/

Thank you for listening