



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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**Department for Education**

# Capital funding for schools

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Department for Education

# Capital funding for schools

Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB  
Comptroller and Auditor General  
National Audit Office

20 February 2017

This report examines how well the Department for Education has used its capital funding for schools, covering the use of money both to provide new school places and to keep school buildings in good condition.

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## Key facts

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**£4.5bn**

of capital funding for schools in 2015-16

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**599,000**

net increase in the number of school places between 2010 and 2015

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**£6.7bn**

estimated cost of returning all school buildings to satisfactory or better condition

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**420,000**

number of new school places needed between 2016 and 2021

**62 million square metres**

estimated internal area of the school estate's 21,200 schools

**60%**

estimated percentage of the school estate built before 1976

**178**

number of schools in poor condition that the Department for Education replaced by February 2017 under the Priority School Building Programme

**883**

number of free schools that the Department for Education expects to have opened by September 2020

**270,000**

estimated number of free school places that the Department for Education will fund between 2016 and 2021

# Summary

**1** In England there are approximately 21,200 state-funded schools, which educate 7.9 million pupils aged between four and 19. There are an estimated 62 million square metres of internal floor space in these schools, an area equivalent to approximately 9,600 football pitches. The school-age population has been growing. The number of five- to ten-year-old pupils in primary schools increased by 446,000 (13%) between 2010 and 2016.

**2** Local authorities are legally responsible for making sure there are enough places for all children to attend good schools. The Department for Education (the Department) allocates capital funding and oversees the provision of school places. In 2015-16 it allocated £4.5 billion to maintain and improve the quality and capacity of the school estate, and to provide greater choice to parents.

**3** There are seven main sources of capital funding for schools, reflecting differing objectives and the need for both national and local approaches. This capital funding aims:

- to provide more school places both to meet demand and to increase choice; and
- to improve the condition of existing school buildings.

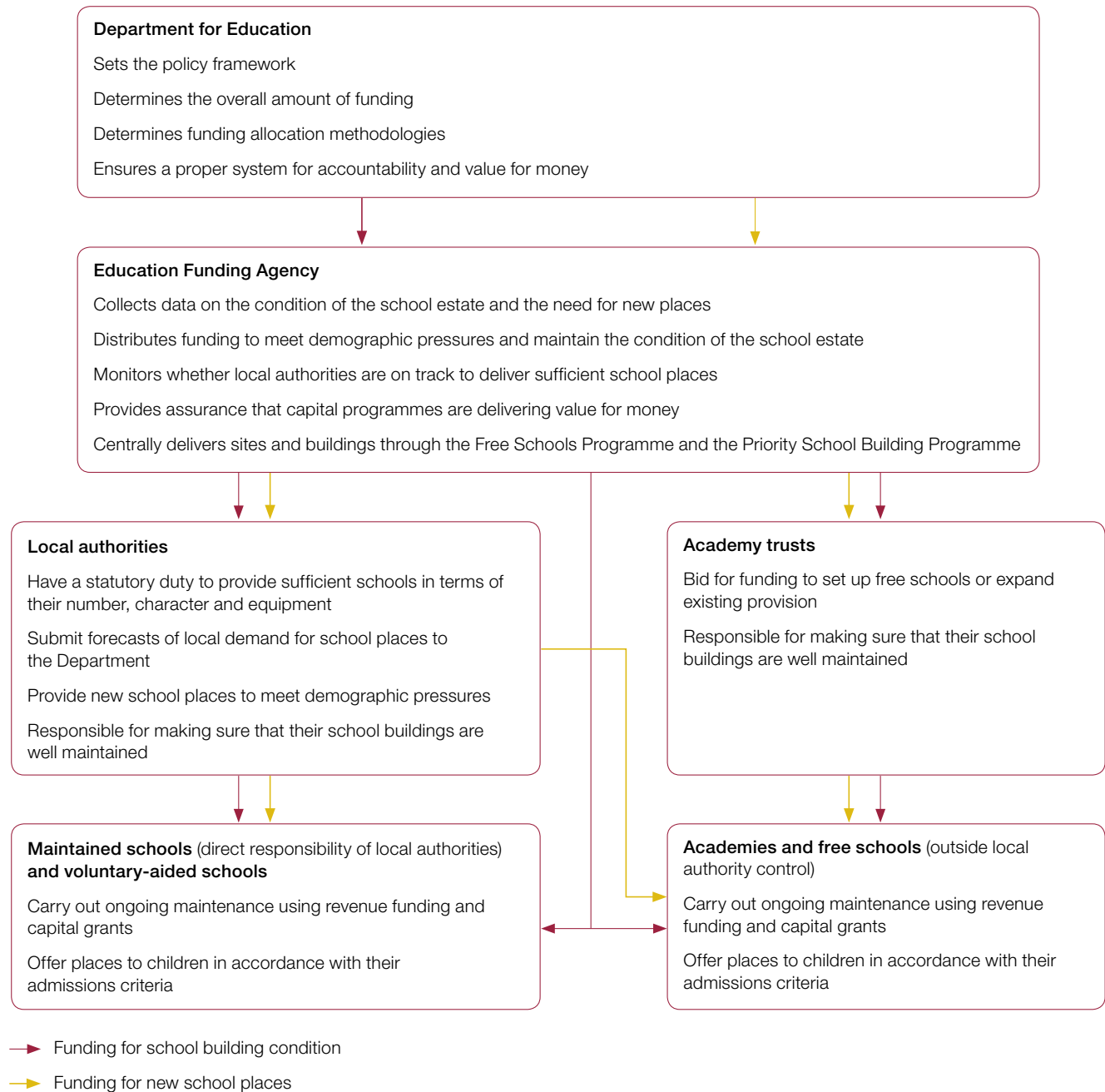
In 2015-16 the Department spent around half of its capital funding on creating school places either in new or existing schools and half on maintaining existing schools.

**4** The Department sets the policy and statutory framework for spending capital funding and is accountable for securing value for money for this funding. The Education Funding Agency is responsible for implementing the Department's policy on capital funding, in some cases delivering central capital programmes and in other cases paying out funding to local authorities, academy trusts and individual schools (**Figure 1** overleaf).

**5** The Department allocates funding to local bodies to build, maintain, refurbish and sometimes rebuild schools. Most local authorities provide extra funding to help meet their responsibilities to provide sufficient school places and to maintain school buildings. The Department manages centrally a programme of school rebuilding under the Priority School Building Programme. It also manages the Free Schools Programme. Free schools are a type of academy that can be set up by people or organisations as an alternative to existing local schools.

**Figure 1**  
Main organisations involved in capital funding for schools

The Department oversees the system for providing new school places and maintaining school buildings



Source: National Audit Office presentation of Department for Education information



## Focus of our report

**6** Having enough school places in safe, high-quality buildings in the right areas is a crucial part of the education system. Without this, parental choice may be limited, pupils may have to travel long distances to school, and the learning environment may be less effective, putting educational outcomes at risk.

**7** The Department forecasts that it will need to create a further 420,000 school places between 2016 and 2021. It also aims to open 500 new free schools between May 2015 and September 2020. The 21,200 schools in England vary in condition and age. They range from those built in the 19th century to those built this year. This report examines how well the Department has used its capital funding for schools. We assessed how well the Department, working with local bodies, is:

- ensuring that there are enough places in good schools to meet need (Part One);
- ensuring that the condition of the school estate is being maintained or improved (Part Two); and
- managing the delivery of school capital programmes (Part Three).

**8** We considered the contribution that free schools make to addressing demographic need for school places and the delivery of the Free Schools Programme. We did not evaluate whether the free schools policy's main aims of increasing choice and improving the quality of education are being achieved.

**9** We set out our audit approach in Appendix One and our evidence base in Appendix Two.

## Key findings

### Providing enough school places

**10 The Department and local authorities have created a large number of new school places, mostly in good or outstanding schools, enabling them to meet the growing demand for places.** They created a net increase of 599,000 places between 2010 and 2015, using funding of £7.5 billion from the Department. In the past two years, more than 85% of the new places created by local authorities were in schools rated by Ofsted as good or outstanding, a rate which is slightly better than the national average for existing schools. There is some local variation in the quality of new places: in 16 local authorities less than 60% of primary places created within existing schools were in good or outstanding schools (paragraphs 1.6, 1.7 and 1.15).

**11 At local level, there are indicators of pressure on school places in some areas, with large amounts of spare capacity elsewhere.** Some spare capacity is needed to allow parents to exercise choice. Nationally in 2015, 10% of primary places and 16% of secondary places were unfilled. However, this spare capacity does not mean that all areas have enough places. More than one in 10 planning areas had fewer than 2% of their places unfilled, the level that the Department funds to allow operational flexibility. Meanwhile, the proportion of infants in classes of more than 30 pupils has stabilised at 6%, three times the percentage in 2008 (paragraphs 1.8, 1.9 and Figure 5).

**12 Local authorities face significant challenges in providing sufficient school places on time.** In June 2016, three months before pupils took up their places, the Department assessed that one in four local authorities still had places to create for that September. In the event, local authorities did have enough places available by September 2016. The Department monitors local authorities' progress in planning places and challenges them where it identifies a risk. The pressure on local authorities is expected to continue. The Department predicts that a further 231,000 primary places and 189,000 secondary places will be needed between 2016 and 2021 to meet demand. The need for extra places is highest in London and the South East. Meeting this need will be difficult because primary schools have often already been expanded where this was straightforward, and because it is more complicated to increase capacity in secondary schools as they require specialised facilities, such as science laboratories (paragraphs 1.12 to 1.14).

**13 The Department has improved how it estimates the need for school places and allocates money more closely according to need.** Until 2013-14 the Department estimated the need for school places at local authority level. This method failed to identify local 'hotspots', where demand outstrips the places available, even though the local authority may not have a shortage of places overall. The Department now collects more localised forecasts of pupil numbers that have increasingly informed its funding allocations from 2013-14 onwards. It has also made other changes to target money at areas most in need of extra places. The Department considers that its funding is sufficient to meet the reasonable costs that local authorities incur in creating new school places. Local authorities estimate that they will also contribute an average of £340 million per year between 2015/16 and 2017/18. Housing developers have to help cover the cost of school places for children living in new housing developments, but some local authorities are concerned about a new restriction on the number of contributions that can be collected together and put towards a single infrastructure project (paragraphs 1.16 to 1.23).

**14 Local authorities have a statutory duty to provide enough school places in their areas but they do not control the number of places in academies or free schools.** This means that responsibilities and accountabilities for providing school places are not fully aligned. To fulfil their responsibility local authorities work with individual schools to expand existing provision. However, their plans to create new places are affected by, and in some cases dependent on, free schools and academies. Local authorities cannot compel academies to expand or contract. Many local authorities have good relationships with academies. However, where academies do not want to expand or relationships are weaker, local authorities' options for creating new places are constrained. In the case of free schools, while local authorities can initiate the process, they are dependent on the availability of an appropriate applicant and the Department's approval. In addition, in the 30% of cases where the opening of a free school has been delayed, local authorities may have had to make alternative arrangements to provide the necessary places. The Department is working increasingly closely with local authorities when opening free schools (paragraphs 1.11, 1.28 and 1.29).

**15 In seeking to increase choice, introduce innovation and raise standards free schools often meet a demographic need for new school places, but they are also creating spare capacity, which may have implications for schools' financial sustainability.** By September 2016 the Department had opened 429 new free schools, and plans to open 883 in total by September 2020. The Free Schools Programme aims to give parents more choice and increase competition between schools, and thereby improve the quality of education. Free schools also have a role in meeting local need for new school places. There can be an inherent tension in the extent to which they can meet these aims cost-effectively. The Department estimates that some of the places in 83% of the mainstream free schools approved since September 2013 address a need for more school places. It also estimates that 57,500 of 113,500 new places in mainstream free schools opening between 2015 and 2021 will create spare capacity in some free schools' immediate area. Spare capacity can affect pupil numbers, and therefore funding, in neighbouring schools. The Department's data indicate that spare places in 52 free schools opening in 2015 could have a moderate or high impact on the funding of any of 282 neighbouring schools. The financial sustainability of free schools themselves may also be affected if a significant number of their places are not filled. The Department assesses financial viability as part of the process of approving free school applications. It has also sought to assess whether creating free schools is having the intended effect of improving educational standards through competition but the sample size is currently too small to draw meaningful conclusions (paragraphs 1.24 to 1.27).

## Improving the condition of the school estate

**16 It would cost an estimated £6.7 billion to return all school buildings to satisfactory or better condition.** Common defects include problems with electrics and external walls, windows and doors. The Department's property data survey estimated that in total it would cost £6.7 billion to return all schools to satisfactory or better condition and a further £7.1 billion to bring parts of school buildings from satisfactory to good condition (paragraph 2.4).

**17 The Department has improved its data on the condition of the school estate but is not yet able to assess reliably how the condition is changing over time.** In 2011 an independent review found that the Department's data on the condition of the school estate were inadequate. Later in 2011 the Department commissioned a national survey of schools to assess their condition in a consistent way. The survey was completed in 2014 and has produced important insights that the Department has used to help allocate funding and support its resource bids to HM Treasury. To collect comparable data in a timely and affordable way, the survey was based on visual inspection and excluded some information, such as structural assessments. The Department does not currently know how the condition of the school estate is changing over time, impeding its ability to monitor risk and make informed strategic decisions. In 2016 it commissioned a second property data survey to allow it to assess how the estate is changing over time. The first results from this survey are expected in 2017 (paragraphs 2.3 and 2.8).

**18 The Department has improved the targeting of funding for repairing school buildings but funding does not fully follow need.** Unlike its approach to the previous large school building programme, the Department prioritises applications for funding according to an assessment of schools' condition. For example, it plans to replace entirely more than 500 school buildings in the worst condition by 2021. It is also starting to reflect the condition of the school estate in its formula-based allocations. However, funding that is awarded on the basis of applications is routinely oversubscribed and there is an inherent risk that this approach may reflect how well schools write their bids rather than their level of need. Meanwhile, 86% of formula funding is distributed using a per-pupil rate that recognises varying estate size but not differing condition. In our survey, 47% of local authorities said that they did not think school condition allocations were allocated using an appropriate measure of need (paragraphs 2.13 to 2.21 and Figure 12).

**19 The forecast deterioration in the condition of the school estate is a significant risk to long-term value for money.** Responsibility for maintaining the condition of the school estate is devolved to local bodies. The Department does not currently know with certainty how the condition of the estate is changing over time. However, it estimates that the cost of returning all school buildings to satisfactory or better condition will double between 2015-16 and 2020-21, even with current levels of funding, as many buildings near the end of their original design life. This position, combined with weak accountability for the condition of the school estate and weak incentives for schools to maintain their buildings, creates a significant risk that defects will go unrepaired and will cost more to address in the future (paragraphs 2.10 and 2.22).

## Delivering capital projects

### **20 The cost of delivering capital projects varies considerably between local authorities and the Department's role in promoting good practice is limited.**

On average, local authorities spent £10,900 on creating a primary school place and £15,000 on a secondary place between 2009/10 and 2014/15. However, some local authorities spent as little as £6,200 on a primary place while others spent more than £13,300. Some of the variation is due to the different ways that local authorities create new places, and to local construction markets. The Department supports efficiency by making its procurement frameworks available to local authorities and academy trusts. However, its role in promoting good practice is currently limited to providing benchmarking data on costs. It is considering how it can do more to help local authorities deliver capital projects cost-effectively (paragraphs 3.4 to 3.6 and Figure 14).

### **21 The Department's Priority School Building Programme has replaced many schools in poor condition at a lower cost than the previous capital programme.**

The aim of the Priority School Building Programme is to rebuild the school buildings that are in the very worst condition. The first phase, costing £2.3 billion, will replace 214 schools entirely, with a further 46 schools delivered through private finance funding. The second phase, costing £2.0 billion, will replace or refurbish blocks in 277 schools. By February 2017 the Department had delivered 178 projects at approximately two-thirds of the cost per square metre of the Building Schools for the Future Programme, which ran from 2004 and was cancelled in 2010. The Priority School Building Programme is, however, forecast to cost £286 million more than expected. The Department has not yet formally assessed the quality of the buildings it has provided. Of the 53 school leaders who have offered feedback to the Department, 85% were at least satisfied with their new building. Some local authorities and schools are concerned about what the Department has done to reduce costs (for example, decreasing the size of communal spaces). There can be a trade-off between cost and quality. For example, the Royal Institute of British Architects has highlighted that the standard designs of these schools means that the buildings cannot always be adapted to local circumstances (paragraphs 2.11, 2.13, 3.7 to 3.11 and Figure 12).

### **22 The biggest risk to delivering buildings for new free schools is the availability of suitable sites.**

The Department often provides the sites for new free schools. However, a lack of land means that the Department sometimes enters into complex commercial agreements and pays large sums to secure sites in the right places. For example, while the average cost of the 175 sites that the Department has bought is £4.9 million, 24 sites have cost more than £10 million each. Twenty sites exceeded their official valuation by more than 60%, indicating that the Department had to pay a premium to secure the land required. Securing suitable sites also takes time – in some cases more than two years from approval to create a free school. The Department estimates that it will need to spend a further £2.5 billion on buying land from 2016 to 2022, making it one of the largest land purchasers in the country (paragraphs 3.17 to 3.21).

**23 The Department, local authorities and academy trusts may not have the skills and resources they need to manage capital programmes effectively.**

The Department recognises that skills shortages have affected its ability to secure free school sites quickly and at the best price. Therefore, in 2016 it set up a property company with the aim of attracting skilled staff who would be better able to secure sites more cost-effectively and to handle the increased need for land. The capacity of local authorities to oversee school projects is reducing as more schools become academies. The Department is phasing out funding for local authority school support services, known as the Education Services Grant, and local authorities are losing staff with important knowledge and skills relating to estate management. Meanwhile, academy trusts, which often comprise a single school, may not have the expertise to manage their estate effectively. The Department is assessing how best to build capacity in the wider education system (paragraphs 3.5, 3.6 and 3.20).

**Conclusion on value for money**

**24** The Department, working with local authorities and schools, has responded positively to start to meet the challenges it faces in relation to the quality and capacity of the school estate. It has created a large number of new school places and is making progress in improving schools in the worst condition. It has also improved how it manages its capital funding through better use of data and greater targeting of resources at areas of most need.

**25** As the Department recognises, significant challenges remain. The condition of the school estate is expected to worsen as buildings in poor, but not the worst, condition deteriorate further. Pupil numbers are continuing to grow and the demand for places is shifting to secondary schools, where places are more complex and costly to provide. The Department, local authorities and schools will need to meet these challenges at a time when their capacity to deliver capital programmes is under growing pressure as revenue budgets become tighter. To deliver value for money, the Department must make the best use of the capital funding it has available – by continuing to increase the use of data to inform its funding decisions and by creating places where it can demonstrate that they will have the greatest impact. To help make the devolved system work effectively, the Department should also strengthen incentives and ensure that accountabilities for managing the school estate are clear.

## Recommendations

- a **The Department should improve its understanding of the costs of capital projects run by local authorities and how much local authorities are contributing to the cost of new school places.** This will enable it to make a more informed judgement about whether its funding rates are reasonable and provide greater challenge to local authorities about their efficiency.
- b **The Department should evaluate the quality of the buildings provided through its main capital programmes** to allow it to assess cost-effectiveness and identify good practice.
- c **The Department should continue to improve its understanding of the condition of the school estate and consider how it can get more value out of the next property data survey.** For example, it should compare the findings with the previous survey and analyse the data in greater depth to understand patterns of condition need.
- d **The Department should work more closely with local authorities to understand and meet need in local areas.** For example, it should share information earlier on the condition of the school estate and the need for places, and improve how it liaises with local authorities about the location of free schools.
- e **The Department should make the system work better by:**
  - **setting out clearly the responsibilities and accountabilities** of local authorities and academy trusts for managing the school estate;
  - **providing incentives for local authorities and academy trusts** to maintain school buildings well, including by undertaking important but not necessarily urgent maintenance work; and
  - supporting local authorities and academy trusts to **strengthen their management of land and buildings.**
- f **In assessing applications for new free schools, the Department should explicitly assess whether the value gained from increasing choice and competition outweighs the disadvantages of creating spare school places** in a local area, including the impact on the financial sustainability of surrounding schools. It should minimise spare capacity where it adds limited value.