



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Education

Capital funding for schools

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National Audit Office

Department for Education

Capital funding for schools

Report by the Comptroller and Auditor General

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National Audit Act 1983 for presentation to the House of
Commons in accordance with Section 9 of the Act

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

£4.5bn

of capital funding for schools in 2015-16

599,000

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

£6.7bn

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

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.

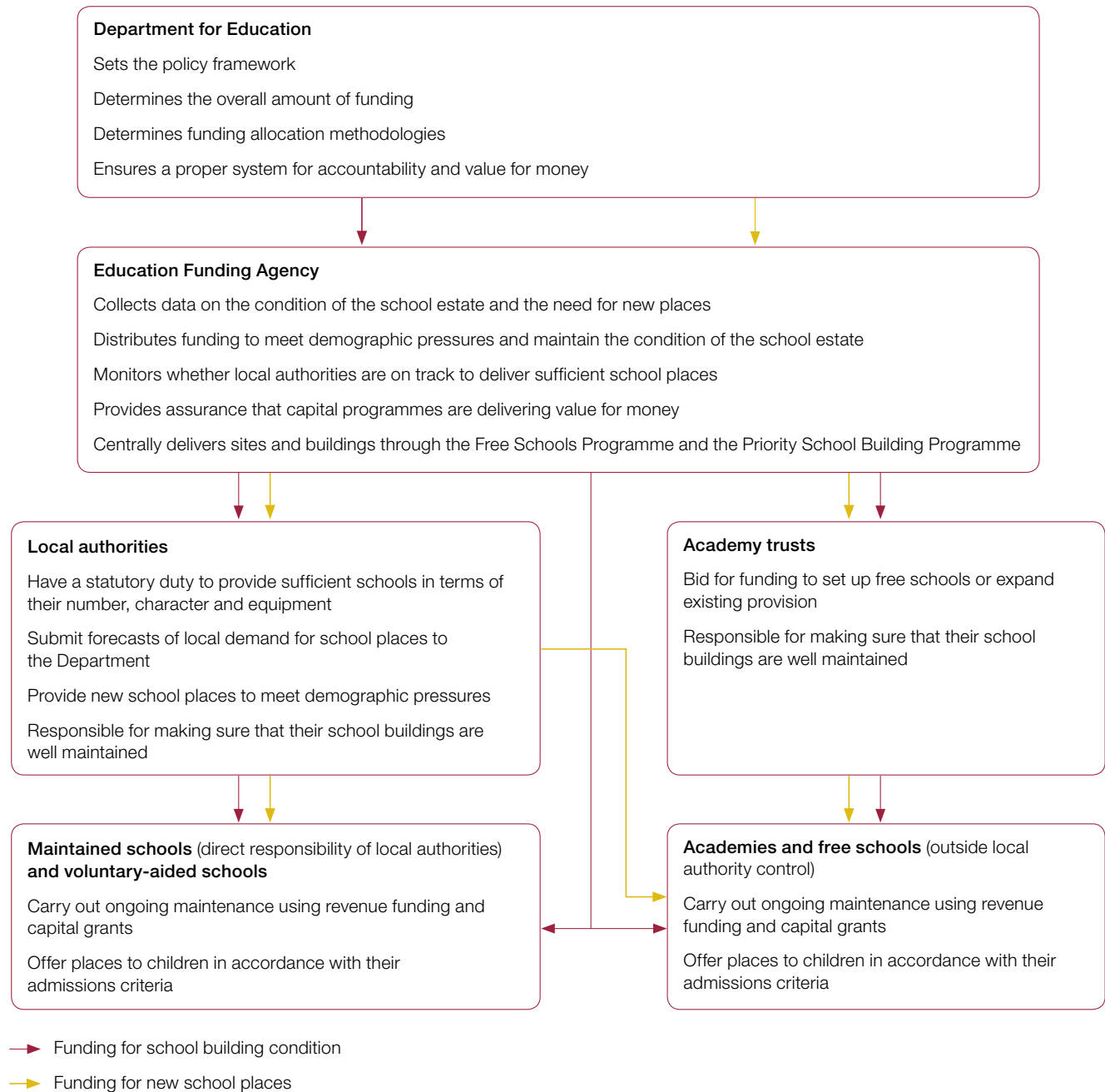
In 2015-16 the Department spent around half of its capital funding on creating school places either in new or existing schools and half on maintaining existing schools.

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.

Part One

School places

1.1 In January 2016 there were 7.9 million pupils in state-funded schools in England: 4.6 million in primary schools, 3.2 million in secondary schools and 105,000 in special schools. The Department for Education (the Department) aims to make sure that there are enough good school places throughout the country to meet need.

1.2 This part of the report covers the demand for school places, how the demand has been met, and whether the Department's funding for school places is aligned with need. It also considers the contribution of the Free Schools Programme to meeting the demographic need for new school places.

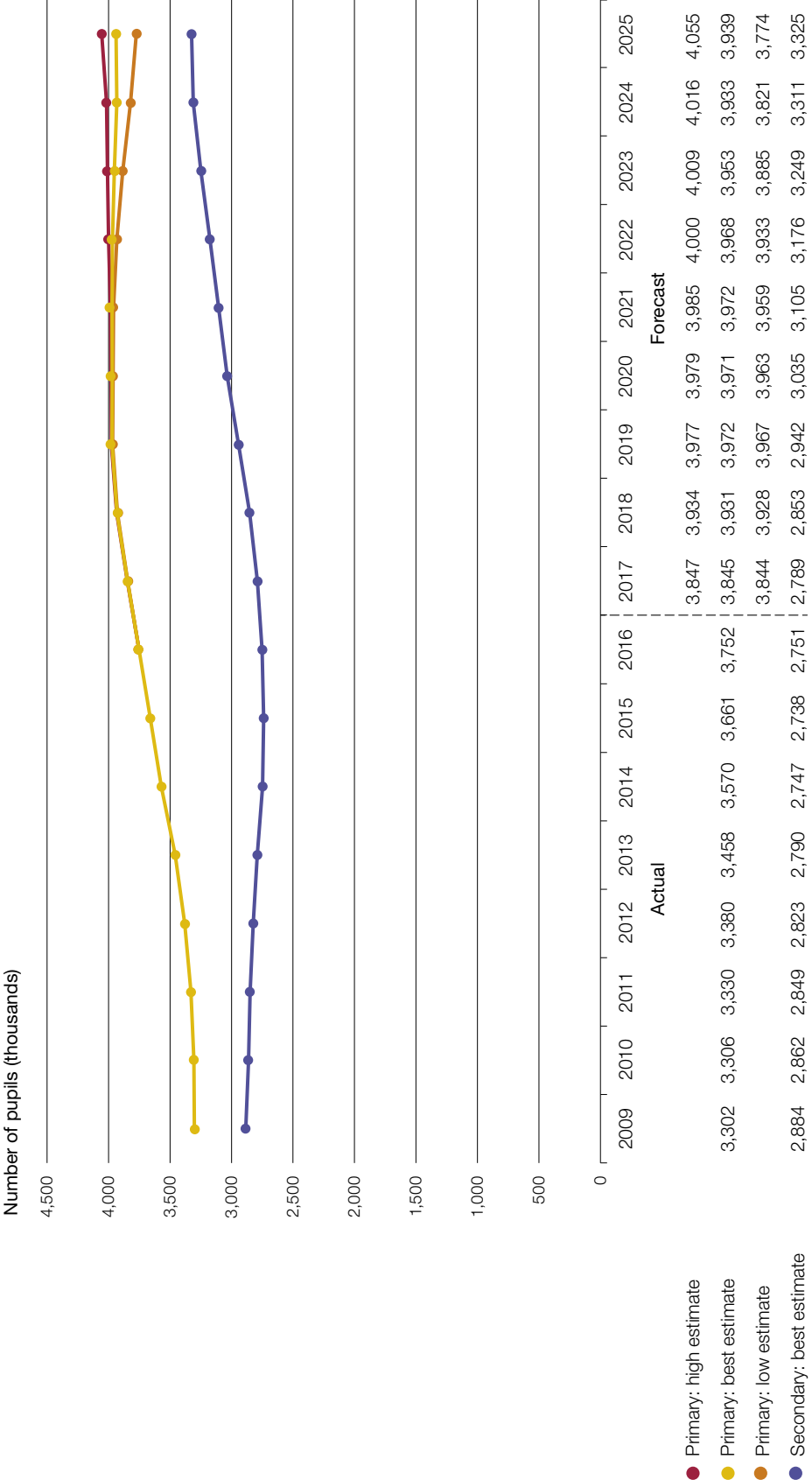
Demand for school places

1.3 Demand for school places continues to grow because of an increase in births from 2002 onwards. The number of five- to ten-year-old primary school pupils increased by 446,000 (13%) between 2010 and 2016. The Department forecasts that this number will rise by a further 220,000 by 2019. It expects growth to tail off after that, although forecasts are uncertain because future birth and migration rates are unknown. Meanwhile, the number of 11- to 15-year-old secondary school pupils is expected to rise significantly – by 574,000 (21%) between 2016 and 2025 (**Figure 2**).

1.4 The need for extra school places differs around the country because of variations in population growth. Between 2015 and 2020, the number of primary school pupils is expected to increase by more than 20% in five local authorities and to decrease in nine. Over the same period, the number of secondary school pupils is expected to increase by more than 20% in 24 local authorities and to decrease in three (**Figure 3** on pages 16 and 17).

Figure 2
Pupil numbers, 2009 to 2025

The number of secondary school pupils is expected to grow by 21% between 2016 and 2025



Notes

- 1 Figures are based on the number of pupils aged five to 10 in state-funded primary schools, and aged 11 to 15 in state-funded secondary schools, in the January of each year.
- 2 The high and low estimate for the number of secondary pupils is indistinguishable from the best estimate.

Source: National Audit Office analysis of Department for Education data

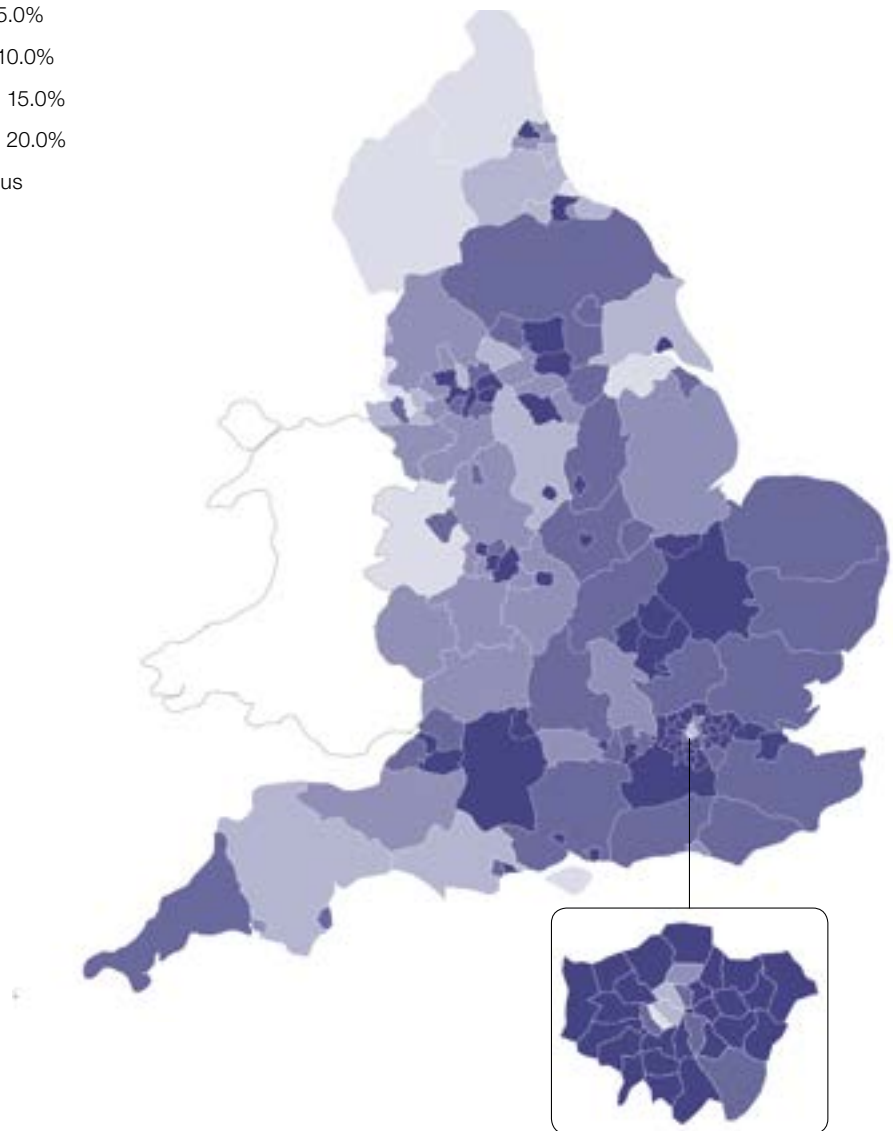
Figure 3

Growth in pupil numbers by local authority

Demand for new school places varies around the country, with particular pressures in some cities, London boroughs and the South East

Growth in primary pupil numbers between 2010/11 and 2019/20

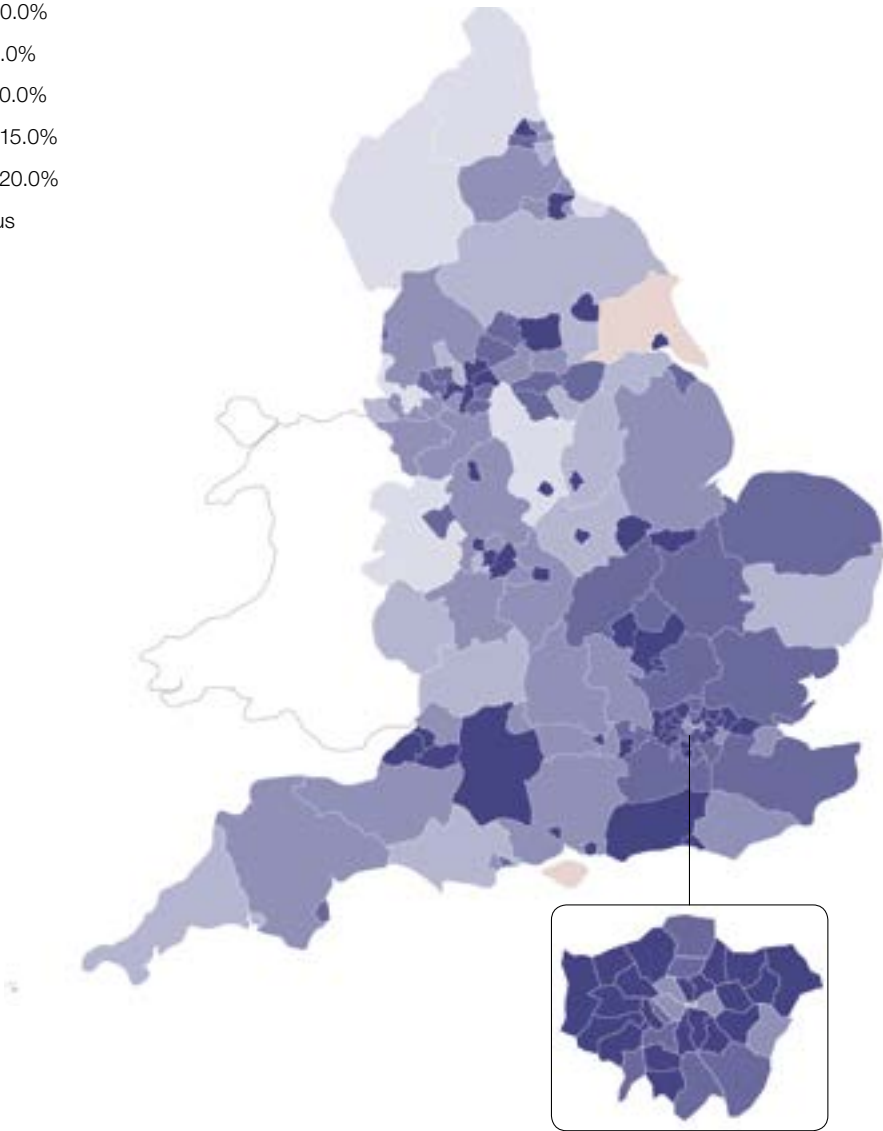
- 0.1% to 5.0%
- 5.1% to 10.0%
- 10.1% to 15.0%
- 15.1% to 20.0%
- 20.1% plus



Source: National Audit Office analysis of Department for Education data

Growth in secondary pupil numbers between 2014/15 and 2021/22

- 5.0% to 0.0%
- 0.1% to 5.0%
- 5.1% to 10.0%
- 10.1% to 15.0%
- 15.1% to 20.0%
- 20.1% plus
- No data



Meeting the demand for school places

1.5 Local authorities have been able to provide sufficient school places to meet demand. Most parents have obtained their first choice of school. In 2016, 88% of parents obtained their first choice of primary school and 84% obtained their first choice of secondary school. Parents in London were least likely to obtain their first choice of school (84% and 69% respectively).

1.6 Between 2010 and 2015 central and local government created a net increase of 599,000 school places (**Figure 4**). This comprised:

- 406,000 places in primary schools (including 33,000 in free schools); and
- 193,000 places in secondary schools (including 82,000 in free schools).

1.7 The average quality of new school places created by local authorities is slightly better than existing provision. Between 2013 and 2015, 85% of new primary places and 89% of new secondary places were in good or outstanding schools, as judged by Ofsted. This compares with 83% of places in all primary schools and 74% in all secondary schools. The quality of new school places varied across the country. For example, in 16 local authorities, less than 60% of primary places created by expanding existing provision were in good or outstanding schools. In all of these local authorities the quality of existing places was significantly higher.

1.8 Some spare capacity is needed to allow parents to exercise choice. Nationally, there are a considerable number of spare places:

- Primary schools: Although pupil numbers have risen, spare capacity fell by only one percentage point to 10% between 2010 and 2015. All but three local authorities had more than 5% spare capacity in 2015.
- Secondary schools: Falling pupil numbers and additional places meant that spare capacity grew from 10% to 16% between 2010 and 2015.

1.9 The spare capacity is not evenly distributed across the country, and there are indicators of pressure in some localities:

- in 2015, 13% of primary planning areas and 12% of secondary planning areas had spare capacity of less than 2%, the level that the Department funds to allow operational flexibility (**Figure 5** on page 20);¹ and
- the proportion of infants in large classes (more than 30 pupils) had stabilised at 6% in 2016, three times the percentage in 2008, and the proportion of older primary pupils in large classes continued to be around 17%.

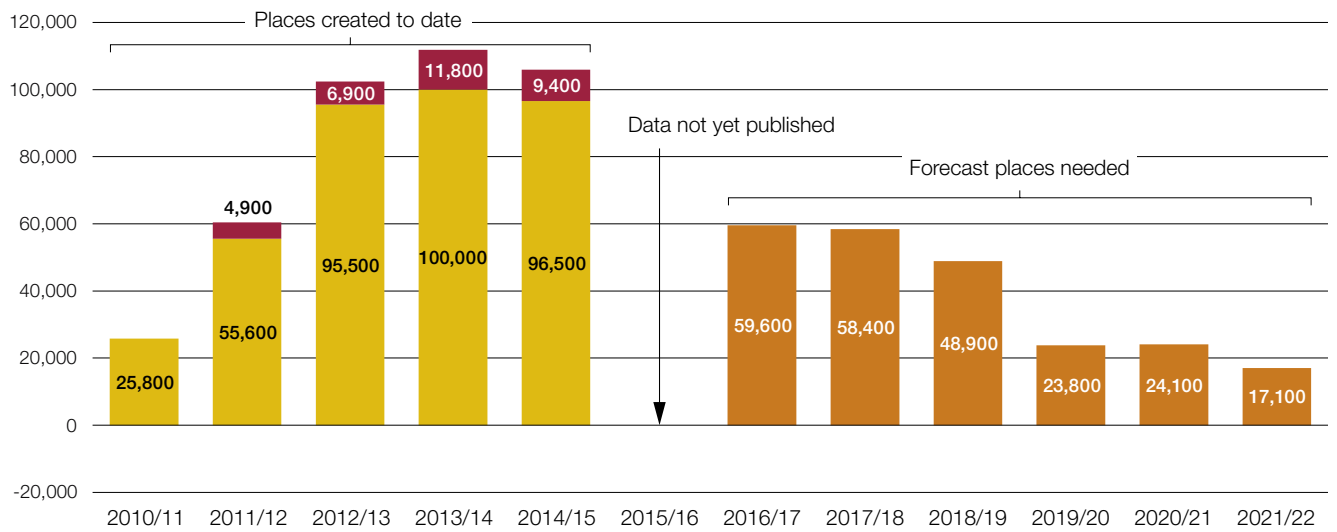
¹ Planning areas are sets of schools that local authorities have grouped together for the purpose of planning pupil places in their authority.

Figure 4
New school places

Central and local government have created many new school places and will need to continue to create more in future years

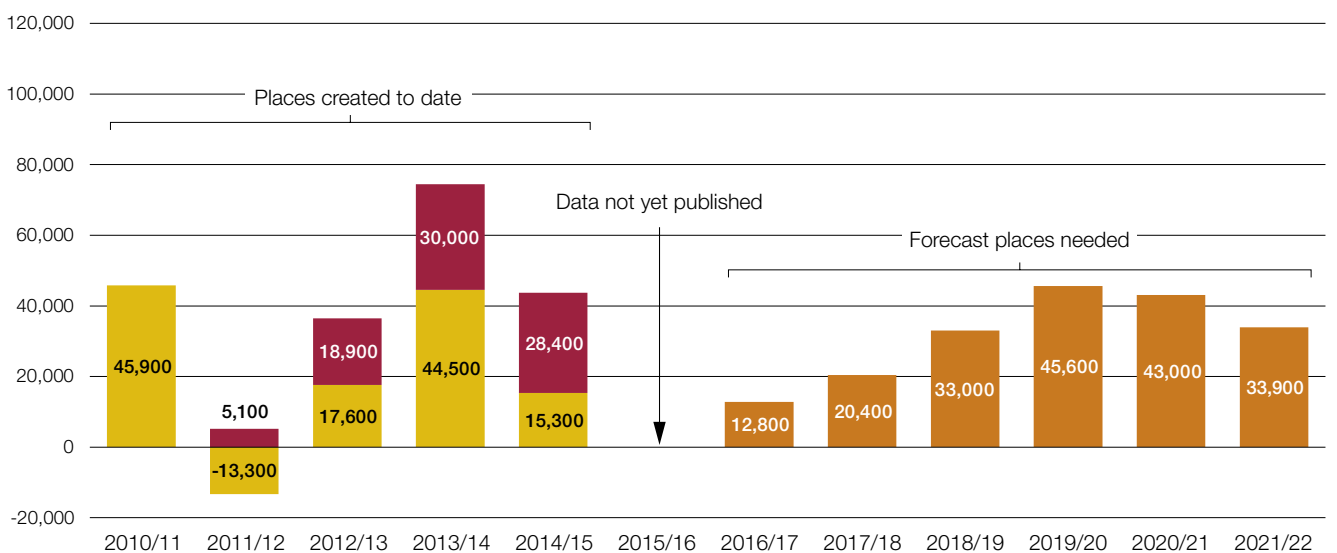
Primary schools

Number of places



Secondary schools

Number of places



■ Places created in free schools ■ Places created in other state-funded schools ■ Places needed

Notes

- 1 The number of places created is the net change in total school capacity.
- 2 Free school capacity is the sum of the final capacity of schools opening in each year. In reality places become available over time.

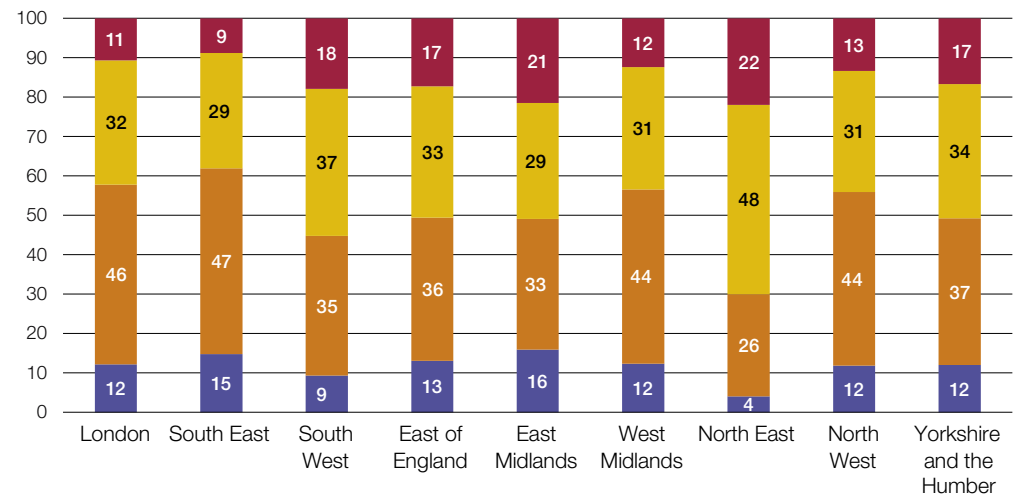
Source: National Audit Office analysis of Department for Education data

Figure 5
Spare capacity by planning area, 2015

There is a large amount of spare capacity in some areas, particularly in secondary schools, but little in others

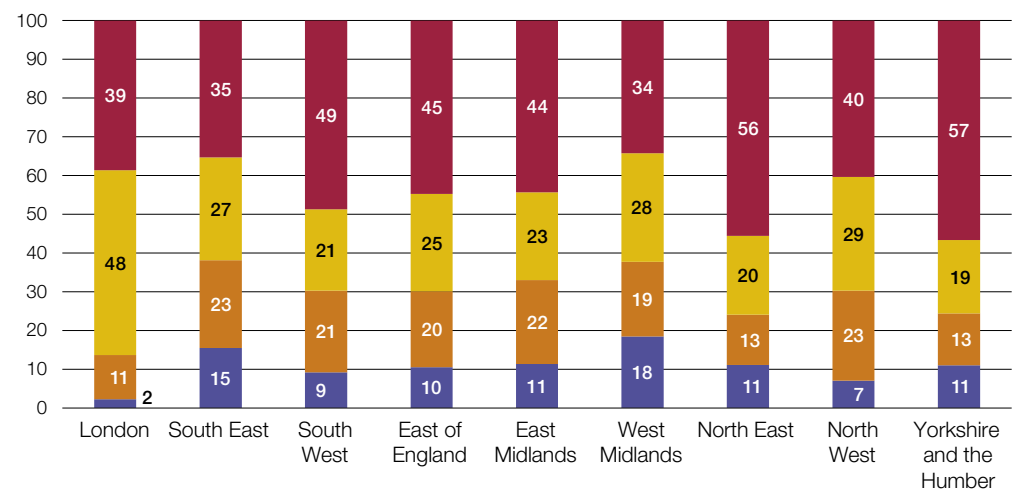
Primary schools

Percentage of planning areas



Secondary schools

Percentage of planning areas



■ 20% or more ■ 2% to 9.99%
■ 10% to 19.99% ■ Less than 2%

Notes

- 1 Planning areas are sets of schools that local authorities have grouped together for the purpose of planning pupil places in their authority.
- 2 Percentages may not sum to 100 due to rounding.

Source: National Audit Office analysis of Department for Education data

1.10 Another sign of pressure on school places is children having to travel further to school. In our survey 45% of local authorities told us that they had accepted longer travel times as part of their plan to provide sufficient primary places. The impact of this approach on pupils and their parents is unclear. There may be a cost to local authorities as they have to arrange transport at no charge to parents for children who have to travel more than either two or three miles to school, depending on the child's age.

1.11 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. Local authorities cannot compel academies to expand or contract. Many local authorities have good relationships with academies. However, they told us that their options are constrained where academies do not want to expand or relationships are weaker. The implications of free schools for local authorities are covered further in paragraphs 1.28 and 1.29.

1.12 Local authorities are under significant pressure to provide additional school places in time to meet need. At May 2015 (the most up-to-date data), local authorities estimated that they needed to provide 376,000 new places by September 2017. At this point, they had plans for 290,000 of these places but had not confirmed plans for the remaining 87,000 (**Figure 6** overleaf).^{2,3}

1.13 Places often become available just before they are needed. Therefore the Department monitors local authorities' plans for creating enough school places each year, and challenges those local authorities where it identifies a risk. For example, three months before places were needed in September 2016, the Department judged that one in four local authorities still had places to create, and monitored them until sufficient places became available.

1.14 The Department expects pupil numbers to continue to rise. It forecasts that 420,000 new places will be needed in total between 2016 and 2021, 232,000 in primary schools and 189,000 in secondary schools (Figure 4).⁴ Demand will be highest in London and the South East. Providing these places will be a significant challenge for several reasons:

- In many cases, local authorities have already expanded their primary schools where it is straightforward to do so. Future projects are likely to be more complex.
- From 2016, there will be more emphasis on creating secondary places. These are more complicated to provide because they require specialised facilities, such as science laboratories.
- New school sites are costly and in short supply, particularly in parts of the country where demand is highest. In our survey 58% of local authorities told us that the availability of land was a major constraint on delivering school places. Land for free schools is covered in paragraphs 3.17 to 3.21.

2 The Department has explained that, in some instances, local authorities may have not included free school places, which may have closed this gap.

3 The two numbers do not sum to the total due to rounding.

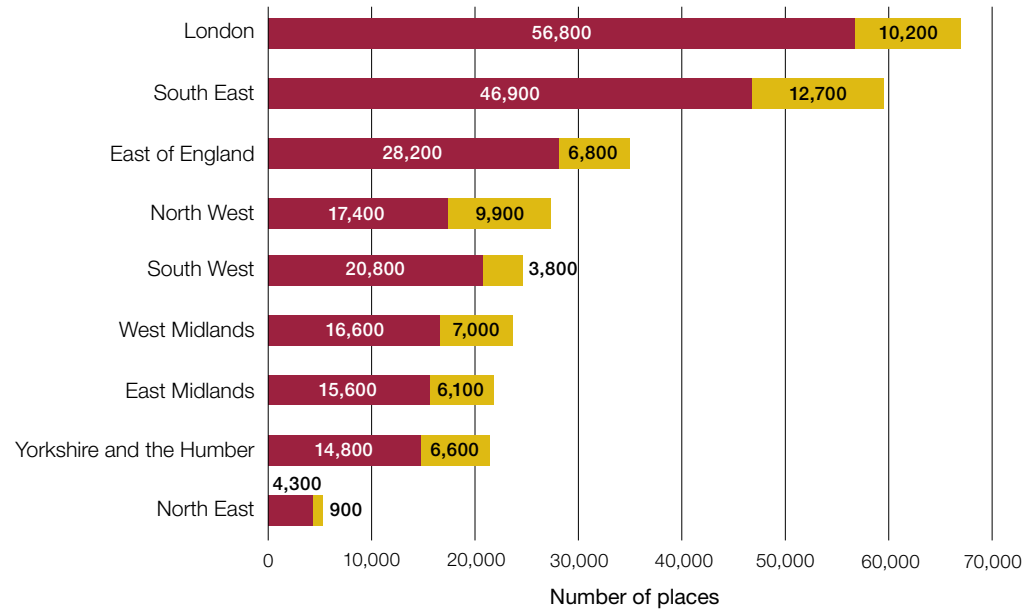
4 The two numbers do not sum to the total due to rounding.

Figure 6

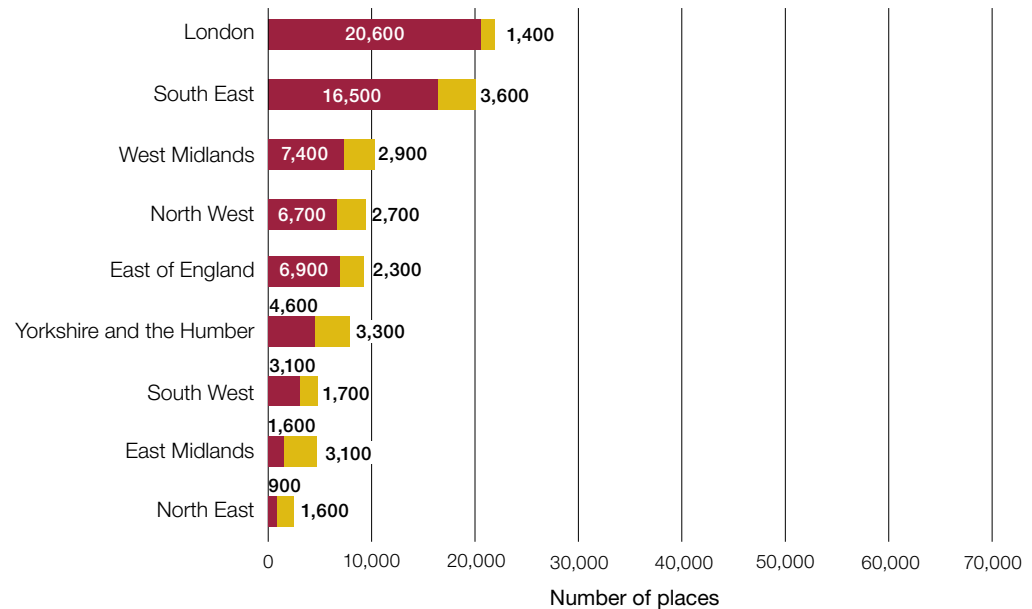
New school places to be delivered between 2015 and 2017

More school places need to be created in London and the South East than in other parts of the country

Primary schools



Secondary schools



- New places required with a confirmed delivery plan
- New places required with no confirmed delivery plan

Note

1 This figure shows the position at May 2015, the most up-to-date data.

Source: National Audit Office analysis of Department for Education data

Funding for new school places

1.15 The Department has significantly increased funding for new school places (**Figure 7** overleaf). From 2010-11 to 2014-15 it provided £7.5 billion in total. It distributes funding through two routes:

- The 'basic need' grant intended to allow local authorities to respond to demographic pressures. The Department doubled this funding from £670 million in 2010-11 to an average of £1.3 billion between 2011-12 and 2018-19.
- The Free Schools Programme, which creates new schools that are independent of local authority control. The Department increased funding from £760 million in 2014-15 to an average of £1.4 billion between 2016-17 and 2020-21.

Basic need funding

Approach

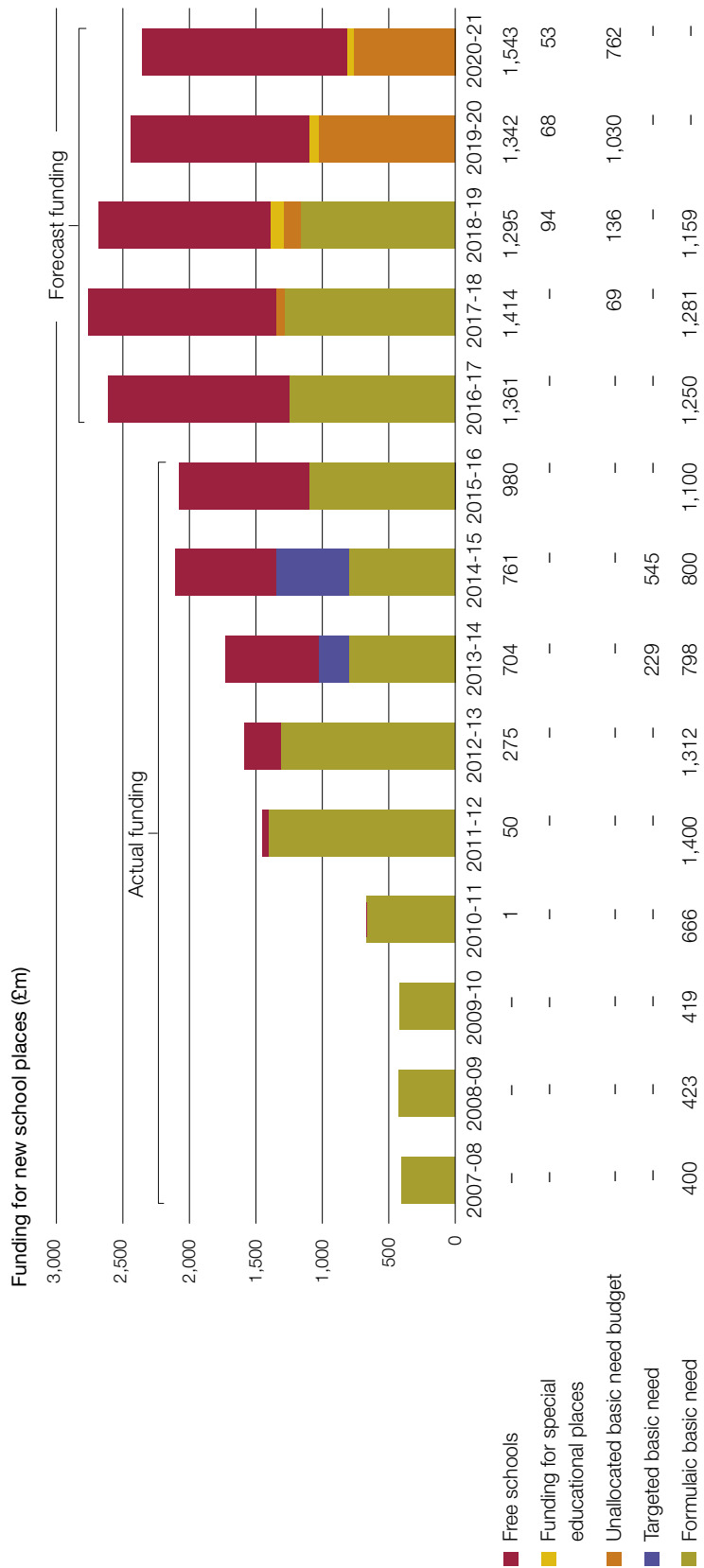
1.16 The Department has improved how it allocates basic need funding. Before 2011-12 its funding allocations were based on pupil numbers and growth at local authority level. This method did not necessarily reflect local authorities' need for additional school places because it did not take account of their existing spare capacity. Therefore the Department supplemented these funding allocations with additional money distributed through bidding exercises.

1.17 In 2011-12 and 2012-13 the Department started to take existing spare capacity into account. However, it continued allocating some funding using local authority pupil growth figures because it had insufficiently detailed data to identify more localised 'hotspots'. Hotspots arise where demand outstrips supply in some communities, even though the local authority as a whole may not have a shortage of places.

1.18 The Department has since gathered more detailed data from local authorities to inform its funding decisions. For allocations from 2013-14 it has used a better estimate of need – the difference between forecast pupil numbers and capacity at community level. It supplemented these allocations with 'targeted basic need' funding in 2013-14 and 2014-15. And for 2015-16 to 2018-19, it has based its allocations solely on these forecasts. The Department has also improved its approach by:

- taking account of new places created by other capital programmes to avoid double funding; and
- introducing three-year funding allocations to help local authorities plan more effectively.

Figure 7
Funding for new school places, 2007-08 to 2020-21
Funding has increased and an increasing proportion is going to the Free Schools Programme



Source: National Audit Office analysis of Department for Education data

1.19 Despite these improvements, there is a risk that funding allocations may not accurately reflect the number of new school places that local authorities need.

For example:

- Forecasts of pupil numbers are uncertain. For example, in 2011/12 (the most recent year we could test) 56 local authorities did not forecast how many extra primary pupils they would have in three years' time to within 25% of the actual increase. Annual funding updates mitigate this risk for local authorities by increasing allocations to reflect the most recent forecasts. However, in order to provide local authorities with stability and scope to plan, where the Department has over funded a local authority it does not recover these amounts. In total, the Department has provided funding equivalent to 36,400 primary places and 7,600 secondary places that it forecasts will no longer be needed by 2019 (although they may be needed further into the future) at a cost of £700 million.
- Figures for school capacity used in calculations are based on the most recent available data but are not accurate in all cases. For example, local authorities do not have automatic access to up-to-date data on capacity for academies (which educate an increasing proportion of pupils). In addition the Department has to estimate the split between pre-16 and sixth form capacity in secondary schools.

Amount

1.20 Although rates have increased, basic need funding still does not fully cover the costs that local authorities incur in creating new school places. The Department's 2010 funding settlement provided £9,875 per new place on average between 2011-12 and 2014-15. Subsequent increases in funding from HM Treasury and savings from other programmes meant that the Department actually spent approximately £12,300 for each place created during this period. In 2013 we reported that, despite the increased funding, local authorities continued to make a substantial contribution to the cost of new places.⁵ There has been a further increase in funding since then, with the Department providing £14,200 per new place on average between 2015-16 and 2018-19.

1.21 The Department considers its current funding rates are sufficient on average, having compared them with the costs that it incurs on its own projects. It adjusts these rates to reflect the impact of inflation, the variable costs of construction in different regions and the different costs of primary and secondary places. However, local authorities estimate that they will still contribute an average of £340 million per year between 2015/16 and 2017/18 to create school places. This includes an average of £35 million per year of funding that local authorities receive from the Department to improve the condition needs of school buildings. The Department has identified a risk that local authorities' contributions may not be sustainable as their role in education changes, funding from other government departments decreases, and land and construction costs increase. Some 61% of local authorities responding to our survey see insufficient funding as a major constraint on delivering sufficient school places.

⁵ Comptroller and Auditor General, *Capital funding for new school places*, Session 2012-13, HC 1042, National Audit Office, March 2013.

1.22 Funding allocations do not currently reflect the need for places in special schools. The number of pupils attending special schools increased from 89,000 in 2010 to 105,000 in 2016. In our survey, 79% of local authorities said that the availability of funding for pupils with special educational needs was a major constraint on delivering sufficient places. This is because the cost of a place in a special school, while highly variable, is on average four times the cost of a mainstream primary place. There is a range of potential consequences if there are insufficient special school places. For example, pupils may have to travel further or may be inappropriately placed in mainstream schools. In the 2015 Spending Review the government committed £215 million to meet the cost of places for pupils with special educational needs. This money will become available from 2018 and will be spread over three years.

1.23 Local authorities rely on contributions from housing developers, who have to contribute to the cost of school places for children living in new housing developments. This is done through Section 106 contributions (negotiated on a site-by-site basis) or the Community Infrastructure Levy (a general levy on new developments). Local authorities expected to spend £174 million in 2015-16 on school places from Section 106 contributions. In April 2015 the Department for Communities and Local Government introduced a restriction on the number of Section 106 contributions that can be collected together and put towards a single infrastructure project. This was done to encourage more money to be paid through the Community Infrastructure Levy.⁶ In our survey 37% of local authorities said that these restrictions were a major constraint on delivering additional school places.

Free schools

1.24 The Free Schools Programme's main aims are to improve parental choice, introduce innovation and raise educational standards. In doing so, the programme also creates new school places which meet demographic need. In September 2016 there were 429 free schools, nearly one-third of which were in London.⁷ The Department plans to open 500 new free schools between May 2015 and September 2020 bringing the total number to 883. It expects these 500 schools to provide 270,000 places and its budget allows an average funding of about £25,900 for each place created. The Department estimates that approximately 227,000 of these places will be in mainstream schools, with 113,500 of the places available by 2021.⁸

6 The Community Infrastructure Levy is a contribution to essential support infrastructure, including school places, which all new developers pay based on the size and type of development.

7 The 429 free schools comprise 268 mainstream primary or secondary schools, 23 special schools, 35 providers of alternative provision, 18 sixth forms, 47 university technical colleges and 38 studio schools.

8 Mainstream schools exclude the following types of provision: special, alternative, 16-19, university technical colleges and studio schools.

1.25 The Free Schools Programme is demand-led. This means that a free school can open only where an organisation applies to set one up. In assessing applications the Department considers whether there is a demographic need for new school places. However, it may approve free schools where there is no demographic need if, for example, local educational standards are poor or to increase parental choice. As a result of this approach:

- free schools are often in areas where there is a demographic need for new places. For example, the Department has opened 136 primary schools and 60 secondary schools in local authorities that need to increase school capacity by more than 20% between 2009/10 and 2019/20. It has assessed that 83% of the 213 mainstream primary and secondary free schools approved since 2013 will provide places to meet demographic need, although these schools may also create spare capacity.⁹ The Department estimates that 56,000 of the 113,500 new places in mainstream free schools opening between 2015 and 2021 will contribute to meeting local demographic need for new places; and
- free schools are not always located in the areas of greatest demographic need, especially at secondary level. For example, 46 secondary free schools (21% of the total) are in local authorities where overall no new capacity is needed between 2009/10 and 2019/20. In our survey 50% of local authorities with primary free schools and 67% with secondary free schools said that free schools were not always located in the areas of greatest need within their area. The Department estimates that 57,500 of the 113,500 new places in mainstream free schools opening between 2015 and 2021 will create spare capacity in some free schools' immediate area. It also plans to open eight university technical colleges and three studio schools over the same period, which it assumes will not contribute to meeting demographic need.¹⁰

1.26 Where free schools create spare capacity, they can affect pupil numbers, and therefore funding, in neighbouring schools. The Department has assessed that 52 free schools opening in 2015 could have a moderate or high impact on any of 282 neighbouring schools. The financial sustainability of free schools themselves may also be affected if a significant number of places are not filled. While the Department assesses the financial viability of free schools before they open, in November 2016 it had concerns about the financial viability of nine university technical colleges, seven free schools and five studio schools because pupil numbers were lower than expected.

⁹ Spare capacity – places that exceed the number needed to provide a place for every pupil in a given area.

¹⁰ A university technical college is a type of free school for pupils aged 14–19 that emphasises technical education. A studio school is a type of free school for pupils aged 14–19 that emphasises teaching through projects and work placements.

1.27 At present too few free schools have been open long enough for the Department to be able to determine whether creating spare places is improving educational standards. It expects spare capacity to improve educational standards by enabling greater choice, which increases competition between schools for pupils and funding. However, there is a risk that pressure on funding may adversely affect standards in existing good schools. Of the 282 neighbouring schools potentially affected by free schools opening in 2015, 149 were rated good or outstanding by Ofsted. The Department has sought to assess whether free schools, more generally, are having the intended effect of improving educational standards through competition but again the sample size is currently too small to draw meaningful conclusions.

1.28 The Department is responsible for deciding whether to open a free school. It is important for it to coordinate its plans with local authorities, in part because local authorities' basic need funding is reduced when free schools are set up in their area. Local authorities may have to adjust their plans when a free school opens or is delayed (by September 2016, the Department had deferred the opening of 30% of free schools). Local authorities can run their own free school application process, although the Department makes the final decision on who runs the school and whether to allow it to open. Four free schools opened through this route in 2016, with a further 30 in the pipeline at January 2017.

1.29 The Department told us it is working increasingly closely with local authorities to achieve its aim of opening 500 further free schools between May 2015 and September 2020. In our survey 40% of local authorities said that the Department is coordinating with them effectively when deciding where free schools should open, although 22% said that it is not.

Part Two

Condition of the school estate

2.1 The Department for Education (the Department) estimates that there are 62 million square metres of internal floor space in England's 21,200 state-funded schools, an area equivalent to approximately 9,600 football pitches. Much of the school estate is more than 40 years old, with an estimated 60% built before 1976. The Department's objective is to make sure that school buildings are well maintained. In 2015-16, the Department allocated £2.4 billion of capital funding to improve the condition of the school estate.

2.2 This part of the report covers the condition of the school estate and whether the Department's funding for this is aligned with need.

Condition of the school estate

2.3 The Department's understanding of the condition of the school estate is improving from a low base. The size of the estate makes it difficult to assess its condition accurately. In 2011 an independent review found the Department had little up-to-date information on the condition of school buildings as it had not assessed this since 2005.¹¹ In response, the Department introduced a property data survey to collect up-to-date and accurate data. The first survey, covering 85% of the school estate, was commissioned in 2011 and completed in 2014, and cost £25 million.¹² It aimed to make sure that data were gathered consistently, so that the relative condition of the estate in different areas could be accurately assessed. 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 and details of asbestos. As a result, the survey does not offer a complete picture of need either nationally or locally. By design, the survey did not assess the safety or suitability of school buildings. The Department has used the survey to help allocate funding and support its resource bids to HM Treasury.

2.4 The Department's property data survey estimated that it would cost £6.7 billion to bring all school buildings to satisfactory or better condition. This comprised £5.5 billion to repair building elements that were exhibiting major defects and/or not operating as intended, and £1.2 billion to repair parts of buildings that were life-expired and/or at serious risk of imminent failure (**Figure 8** overleaf). The survey estimated that it would cost a further £7.1 billion to bring parts of school buildings exhibiting minor deterioration from satisfactory to good condition.

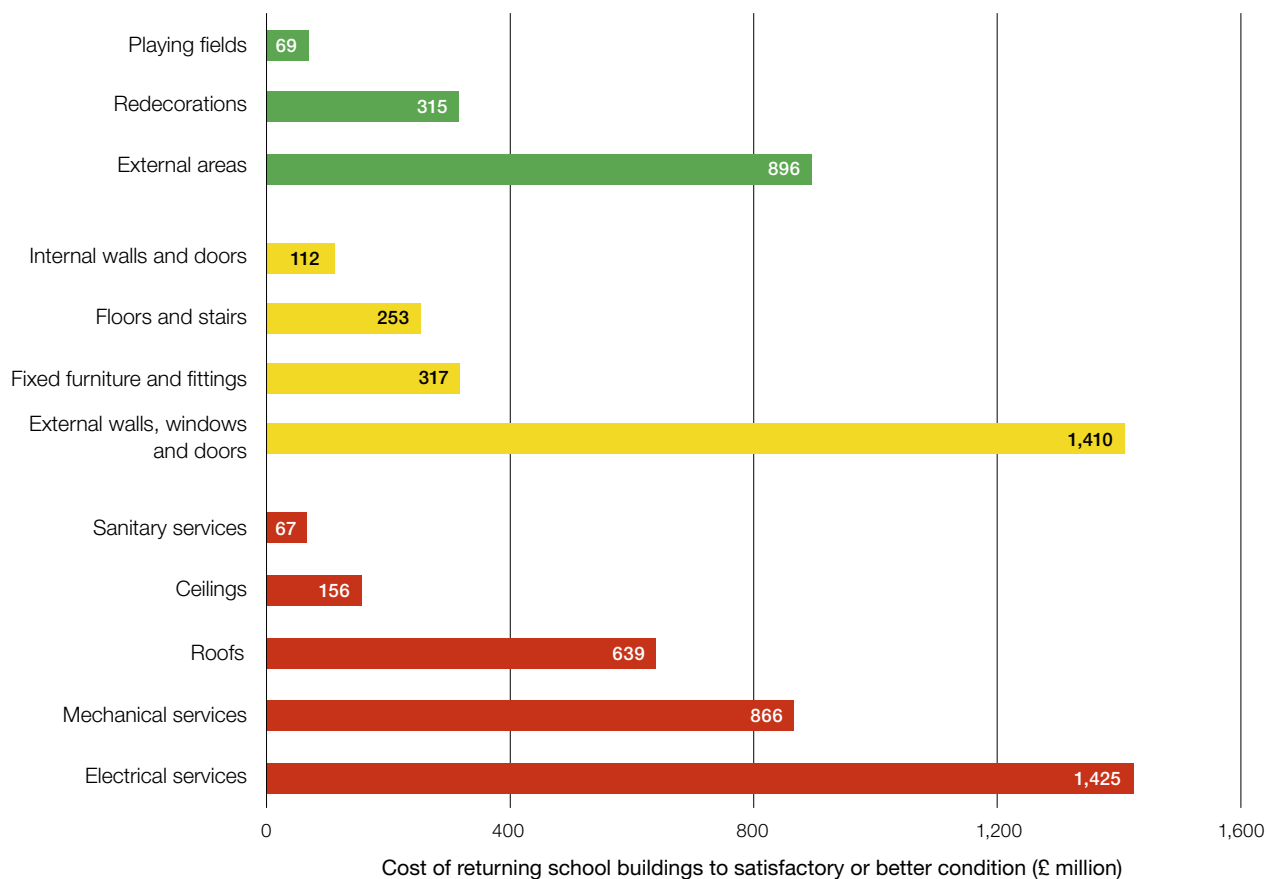
¹¹ Sebastian James, *Review of education capital*, April 2011.

¹² The property data survey excluded 15% of schools that had recently been modernised or were scheduled for renewal or replacement.

Figure 8

Estimated cost of returning the school estate to satisfactory condition or better by building element

The most funding will be needed to repair electrics and external walls, windows and doors



■ Elements that have the least impact on the operation of the school

■ Elements that could present major issues

■ Elements that are key to the building remaining usable and safe

Source: National Audit Office analysis of Department for Education data

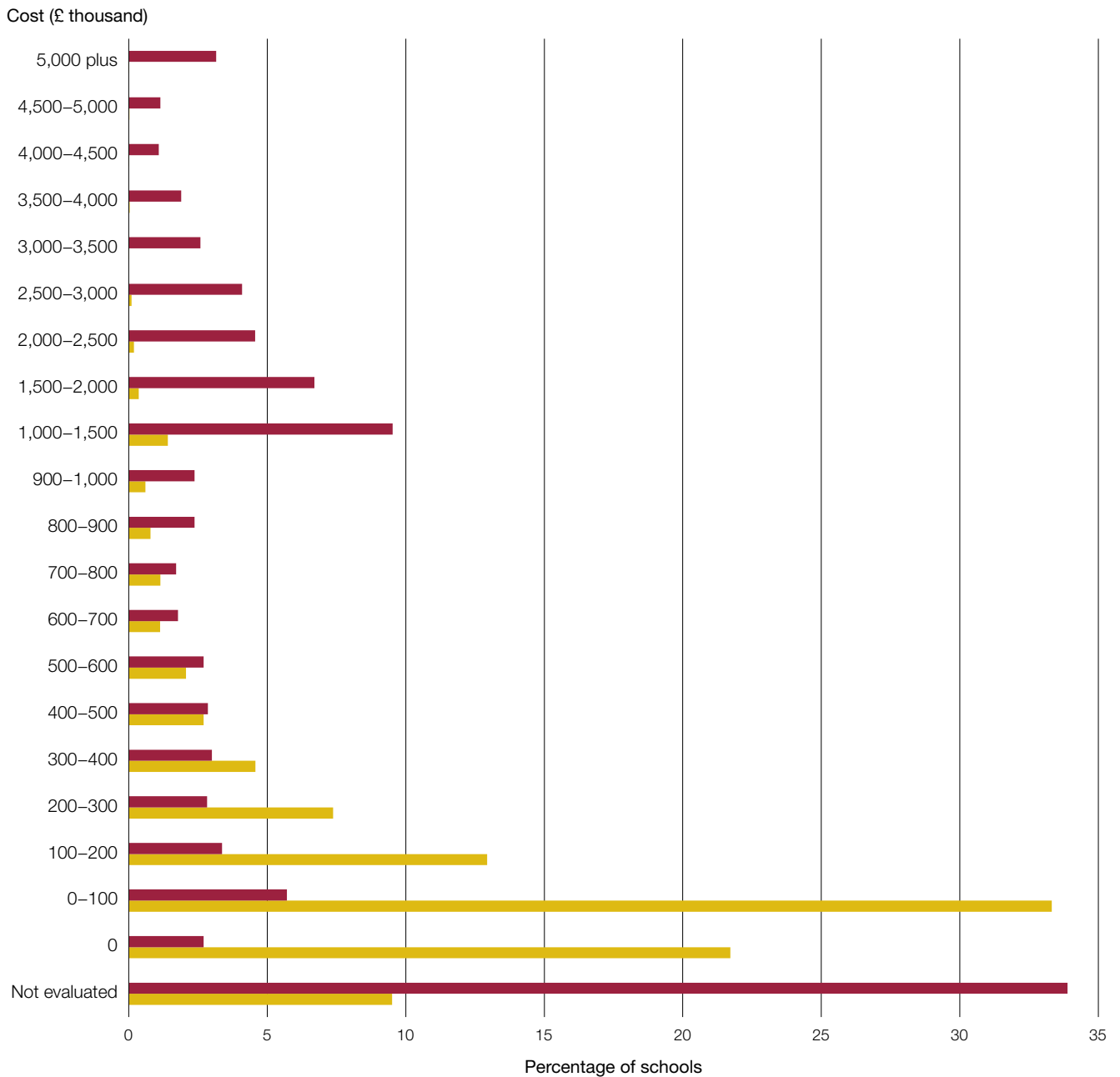
2.5 A large number of school buildings require substantial repairs. For example, the Department's property data survey estimated that it would cost more than £500,000 to return each of 1,300 primary schools (8%) to satisfactory condition; and more than £1 million to return each of 1,200 secondary schools (35%) to satisfactory condition (**Figure 9**).

2.6 There is also variation across the country, with the condition of school buildings in some local authority areas much worse than in others. The Department's property data survey estimated that schools in the Isle of Wight, Northumberland and Enfield would cost more than £2,100 per pupil to return to satisfactory condition or better. In contrast, it would cost less than £100 per pupil in Stoke-on-Trent and Knowsley (**Figure 10** on page 32).

Figure 9

Estimated cost of returning individual schools to satisfactory condition or better

The cost of returning 1,200 secondary schools (35% of the total) to satisfactory condition is more than £1 million each



■ Primary schools ■ Secondary schools

Notes

- 1 The property data survey excluded schools that had been recently modernised or were scheduled for renewal or replacement.
- 2 This analysis is based on costing assumptions that the Department judges to be valid on average but may vary from school to school.

Source: National Audit Office analysis of Department for Education data

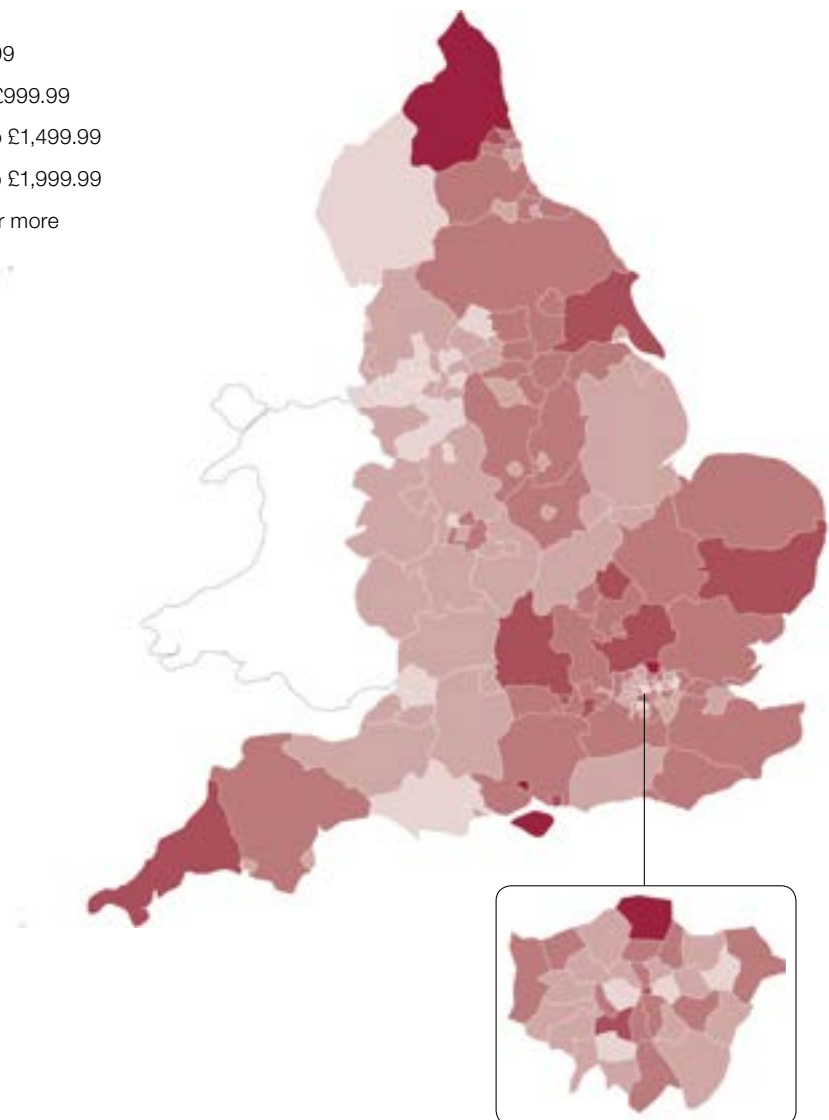
Figure 10

Estimated cost of returning school buildings to satisfactory condition or better by local authority area

The estimated cost of returning school buildings to satisfactory condition or better varies across the country

Cost per pupil

- £0 to £499.99
- £500.00 to £999.99
- £1,000.00 to £1,499.99
- £1,500.00 to £1,999.99
- £2,000.00 or more



Notes

- 1 The data includes academy schools. Local authorities are not responsible for the condition of these schools.
- 2 The Department's property data survey excluded schools that had recently been modernised or were scheduled for renewal or replacement.

Source: National Audit Office analysis of Department for Education data

2.7 Asbestos is a significant, and potentially dangerous, issue in many buildings, including most schools. It was used extensively from the 1950s to the mid-1980s, often to fireproof and insulate buildings. Where asbestos is not maintained properly people exposed to it can develop types of cancer. Individual schools are responsible for maintaining a record of asbestos and the Department does not collate information on the number of school buildings affected. In March 2015 it issued guidance on how to manage asbestos appropriately.

Monitoring progress

2.8 The Department does not yet have robust data on how the condition of the school estate is changing over time. As a result, it cannot:

- track how the condition of the school estate is responding to investment and therefore assess whether it is achieving its aims;
- reliably assess whether key risks are materialising (for example, whether large elements of the school estate are likely to fail at once); and
- make well-informed strategic decisions, including about levels and distribution of funding.

In 2016 the Department commissioned a second property data survey, costing £36 million. The first results are expected to be available at the end of 2017.

2.9 Local authorities generally consider that the condition of their school buildings is improving in response to investment. In our survey 59% of local authorities said that condition had improved over the past five years, while 27% said that it had deteriorated.

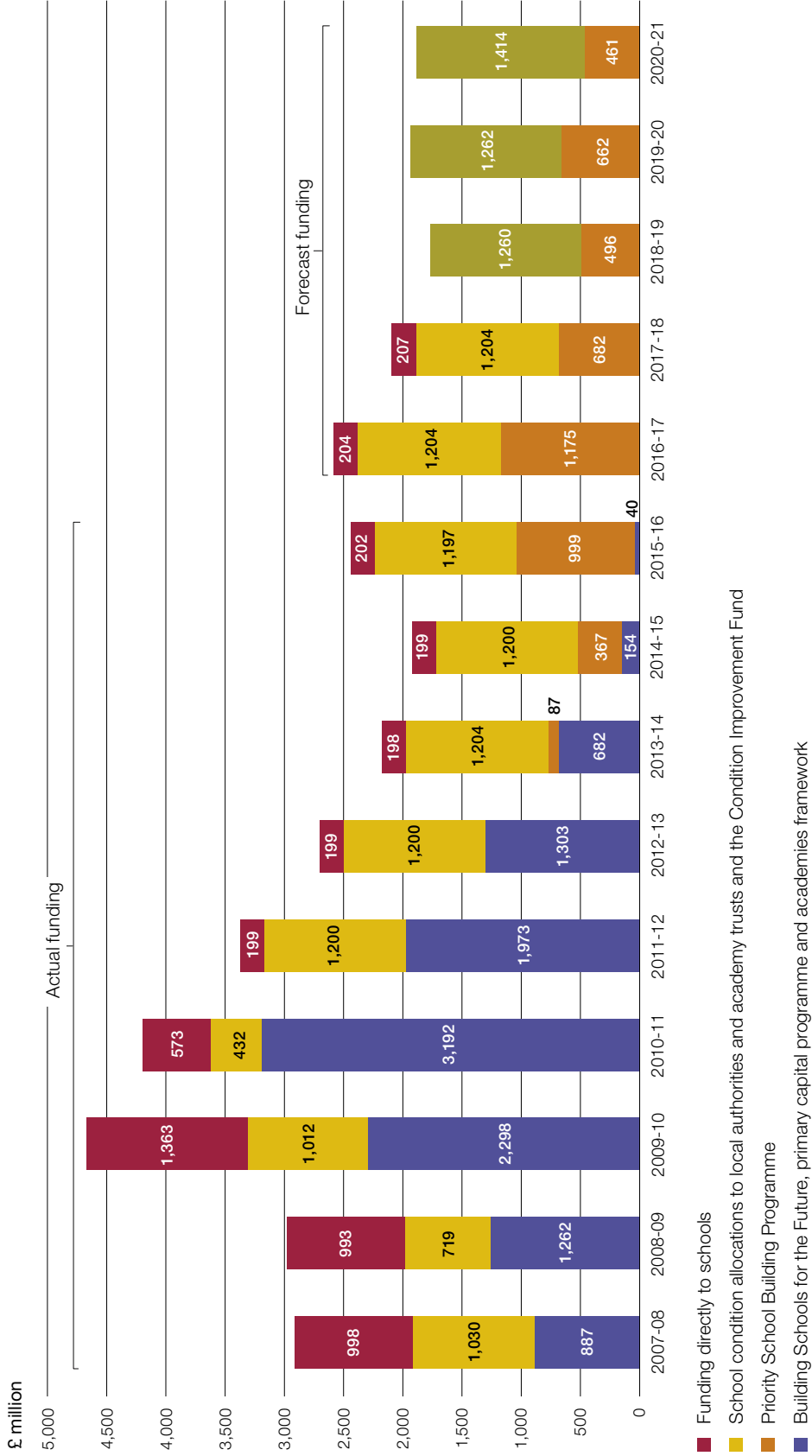
2.10 The Department expects that the condition of the school estate will deteriorate in future despite its planned investment. An estimated 40% of the estate was built between 1945 and 1976. The Department expects that many of these buildings will need to be replaced or significantly refurbished soon because they were designed to last 60 years. Its indicative modelling suggests that the cost of returning all schools to satisfactory condition will double between 2015-16 and 2020-21, even after taking account of its investment. However, this modelling is at an early stage and the Department has not yet tested its sensitivity to key assumptions. It will not be possible to assess reliably how the condition of the school estate is changing until the second property data survey has been completed.

Funding

2.11 The Department's funding for the condition of the school estate will average approximately £2 billion per year between 2013-14 and 2020-21 (**Figure 11** overleaf). Previously, funding was significantly higher because of large-scale school rebuilding programmes, including Building Schools for the Future, which ran from 2004.

Figure 11
Funding for maintaining the school estate, 2007-08 to 2020-21

Funding for maintaining the school estate has fallen



Source: National Audit Office analysis of Department for Education data

2.12 The funding arrangements for maintaining and improving the school estate are complex and the Department has several different funding streams (**Figure 12** overleaf). The Department recognises that its funding will be insufficient to address all schools' condition needs so it has prioritised two objectives:

- to repair, refurbish or rebuild the parts of the estate in the worst condition so that buildings are safe and pupils' attainment is not reduced; and
- to maintain buildings that are currently in reasonable condition because it is cheaper to do so now rather than repair them in the future.

Targeting funding in line with need

Priority School Building Programme

2.13 Through the Priority School Building Programme, the Department targets funding at schools in the worst condition. This approach contrasts with the previous programme, Building Schools for the Future, which prioritised areas with high deprivation and low attainment and did not consider the condition of school buildings. In 2010 the new government judged that the Building Schools for the Future Programme was wasteful and cancelled 735 of the remaining projects. Some school leaders, however, had stopped maintaining their buildings, expecting they would be replaced and, as a result, the condition of some buildings deteriorated.

2.14 The Priority School Building Programme is smaller in scale than Building Schools for the Future. Its two phases are planned to provide new buildings for 491 schools with £4.3 billion of capital funding from the Department, with a further 46 funded with £700 million from private finance. This compares with the budget of £55 billion for Building Schools for the Future, which aimed to rebuild, refurbish and provide new information technology for all secondary schools by 2020. The first phase of the Priority School Building Programme is due to finish in 2017 and the second phase by the end of 2021.

2.15 Both phases of the Priority School Building Programme were oversubscribed. Of the 567 schools that applied in the first phase, 261 (46%) were successful; and of the 3,321 project applications in the second phase, 503 projects (15%) in 277 schools were successful. The cut-off below which the Department did not approve applications depended on the availability of funding, not on whether buildings needed to be replaced.

Figure 12
Funding streams for school condition

The Department has several different funding streams for maintaining and improving the school estate

Funding stream	Amount	Description	Allocation method	Responsibility for delivery
Priority School Building Programme 1	£3,000 million (total funding)	Capital funding to replace 214 schools in the worst condition fully by December 2017, at a cost of £2.3 billion. A further 46 schools will be delivered with £700 million raised through private finance funding.	Bid	Education Funding Agency
Priority School Building Programme 2	£2,000 million (total funding)	Funding to replace or refurbish blocks in 277 schools in the worst condition by 2021.	Bid	Education Funding Agency (75%) Local authorities and academy trusts (25%)
School condition allocations	£760 million per year	Funding to replace or refurbish individual blocks or replace key building components.	Formula	Local authorities and larger academy trusts
Condition Improvement Fund	£440 million per year	Funding to replace or refurbish individual blocks or replace key building components.	Bid	Smaller academy trusts
Devolved Formula Capital	£200 million per year	Direct funding to schools for small capital projects.	Formula	Academy trusts and schools
Revenue spending	£1,200 million per year	Approximate spending by schools on maintenance.	Formula	Academy trusts and schools

↑ Increasing level of renovation

Notes

- 1 The value of the Priority School Building Programmes is the total funding over all years.
- 2 Annual values are provided for other funding streams, with capital funding streams relating to 2015-16 and revenue spending relating to 2014-15.

Source: National Audit Office analysis of Department for Education data

2.16 The Department has used the available evidence with the aim of targeting funding at schools in the worst condition:

- For the first phase of the programme, the Department required applicants to provide evidence of both a continuing need for school places and poor building condition. As the evidence supplied was inconsistent, the Department validated it by visiting schools. However, as funding is awarded on the basis of bids, schools in some areas may have missed out where local authorities or multi-academy trusts decided not to apply. In addition, the Department recognises that many unsuccessful schools also had buildings that were in poor condition.
- For the second phase of the programme, the Department simplified the targeting process. It changed its approach so that evidence was more comparable from the outset, mainly by using data from its property data survey. However, local authorities still have some concerns – 31% of those who responded to our survey said that funding for the second phase of the programme was not allocated using an appropriate measure of need, compared with 22% for the first phase.

School condition allocations

2.17 In 2014-15 school condition allocations to local authorities did not reflect the variable condition of school buildings. Funding was distributed using fixed sums per pupil and per school. This meant that money was not targeted in line with need because, according to the Department's property data survey, some local authorities and academy trusts need to spend more than £1,000 per pupil to return buildings to satisfactory condition or better while others need to spend less than £100 per pupil.

2.18 The Department has since improved how it allocates school condition funding so that more money goes to the local authorities and larger academy trusts that need it most.¹³ It is using its property data survey to distribute some school condition funding to bodies with the highest levels of need. In 2016-17 90 bodies (of 391) received an extra £136 million through this mechanism.

2.19 However, 86% of school condition funding is distributed using a per-pupil rate that reflects varying estate size but not differing condition. Furthermore, the scope of the Department's property data survey means that the funding formula does not take account of factors such as asbestos and the suitability of buildings for pupils with special educational needs. In our survey 47% of local authorities said that they did not think school condition allocations were allocated using an appropriate measure of need.

¹³ From 2015-16 academy trusts with more than five schools and more than 3,000 pupils receive a capital funding allocation to use across their estate.

Condition Improvement Fund

2.20 The Department allocates funding to smaller academy trusts through the Condition Improvement Fund. Most of this funding has been for projects where there is a significant urgent need for repairs, for example problems with roofing, heating and windows, or where entire buildings need to be replaced or refurbished. The Department has also used some funding for purposes other than improving school buildings. For 2016-17 it has allocated £90 million (20% of the amount available) to projects expanding academy schools, prioritising those that were rated good or outstanding by Ofsted.

2.21 Between 2011-12 and 2015-16 the Condition Improvement Fund and its predecessors were oversubscribed by between 2.5 and 4.3 times. The Department prioritised applications through a desk-based exercise that sought to assess need, and the practicality and value for money of schools' plans. While this was a proportionate approach, there is a risk that funding allocations may have reflected the quality of applications rather than the condition of school buildings.

Risks to achieving the Department's objectives

2.22 The Department expects the condition of the school estate will worsen as it cannot fund all the maintenance and improvement work required. The way the system works adds to the risk that the Department may not achieve its aim of preventing buildings that are in reasonable condition from deteriorating:

- **Incentives for spending on school condition are weak** – The Department uses condition funding to address urgent needs, rather than to undertake preventative work. The small sample of local authorities we visited commonly reported making similar decisions. This means schools must meet the cost of preventative maintenance from their own funds.

Some maintenance may be covered by the Devolved Formula Capital funding that the Department provides directly to schools. However, this funding is small in scale, on average £7,000 for primary schools and £20,000 for secondary schools each year, and it can also be used for information technology projects. Schools are likely therefore to need to use their revenue funding for preventative maintenance (approximately £1.2 billion was spent by schools in 2014-15).

However, a focus on providing 'front-line' services means that spending on building maintenance can be a relatively low priority for some school leaders. In our survey 42% of local authorities said that insufficient investment in preventative maintenance by schools was a major barrier to improving the condition of school buildings. There is also a risk of creating a perverse incentive as school leaders could let buildings in poor condition deteriorate further so that they meet the Department's criteria for replacement.

- **Accountability for the condition of the school estate is weak** – There are limited mechanisms for holding local authorities and academy trusts to account for keeping their buildings in good condition. While these local bodies have a statutory duty to comply with health and safety regulations, there is less scrutiny of other aspects of maintaining the school estate. For example, the Department does not assess whether accounting officers of local authorities and academy trusts have appropriate estate management plans or ask them to demonstrate the impact of the school condition funding that the Department provides. It has, however, started to collect information on how local authorities and academy trusts are spending school condition funding.
- **Information on the impact of capital funding on the condition of the school estate is limited** – The Department currently lacks information on the effectiveness of school condition funding and on changes in the maintenance backlog. It plans to start to bridge this gap with the second property data survey in 2017.

Part Three

Delivering capital projects

3.1 Local authorities and academy trusts use funding from the Department for Education (the Department) to deliver new and refurbished school buildings. The Department also procures and delivers school buildings and sites directly through the Priority School Building Programme and the Free Schools Programme.

3.2 This part of the report covers whether local bodies and the Department are delivering capital projects cost-effectively.

Projects delivered locally

3.3 Our survey found that local authorities create new school places in a range of ways (**Figure 13** on pages 41 and 42). Some of these involve changes to buildings and therefore have a capital cost. Others are organisational adjustments and may have no capital cost. To improve school buildings, local authorities may choose to replace whole blocks, refurbish them entirely or replace individual elements.

Cost

3.4 On average, it cost local authorities £10,900 to create a primary place and £15,000 to create a secondary place between 2009/10 and 2014/15. The costs varied significantly between local authorities. For example, the cost of a primary place ranged from £6,200 to more than £13,300 (**Figure 14** on page 43). The reasons for the variation are unclear. It may reflect different local construction markets or site issues. However, it may also indicate that some local authorities are not choosing to create new school places in the most cost-effective ways or are not implementing their chosen approaches efficiently.

Figure 13

How local authorities say that they have created new school places

Local authorities commonly create new places by extending or expanding existing schools rather than by building new schools

Primary schools

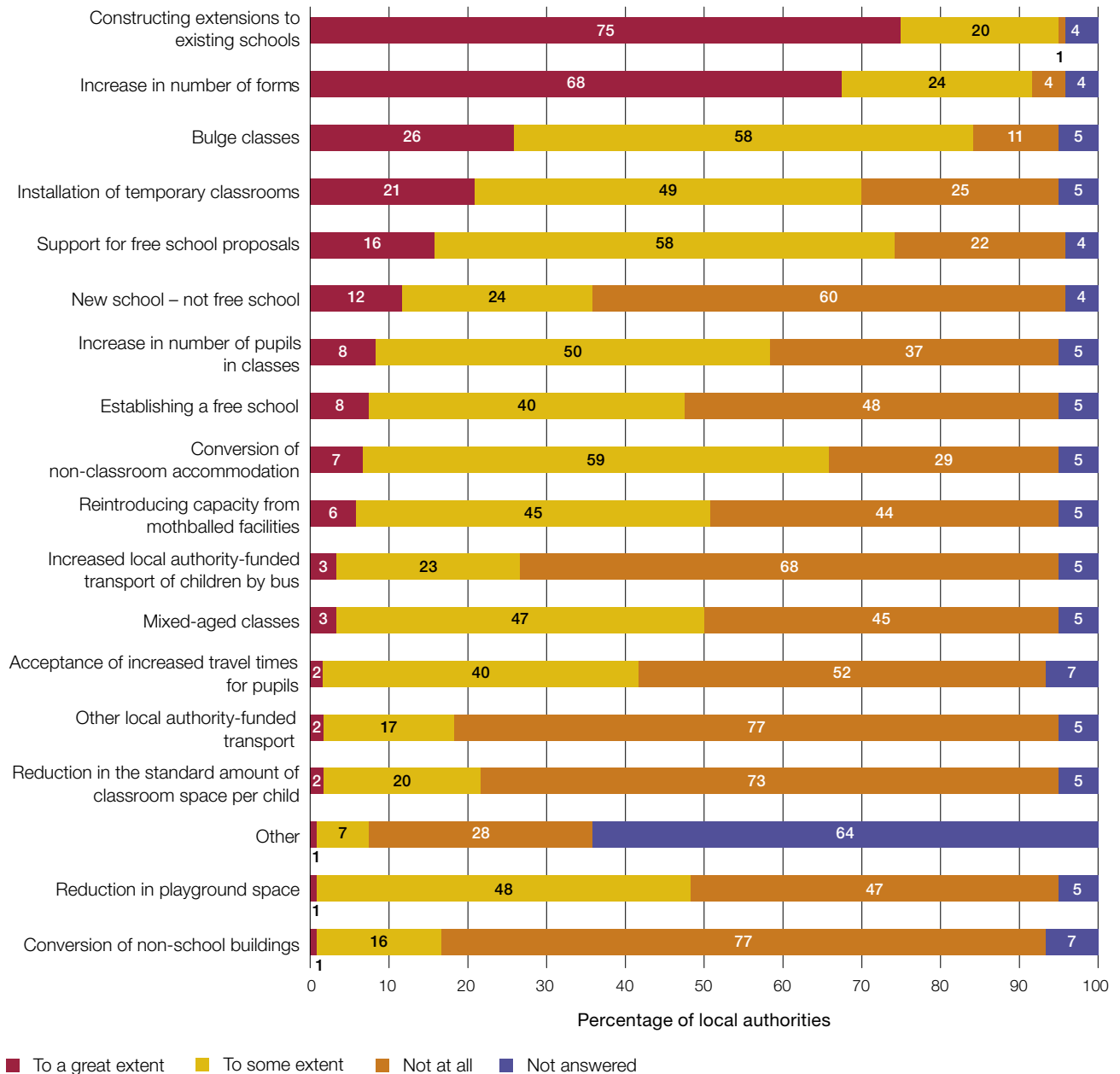
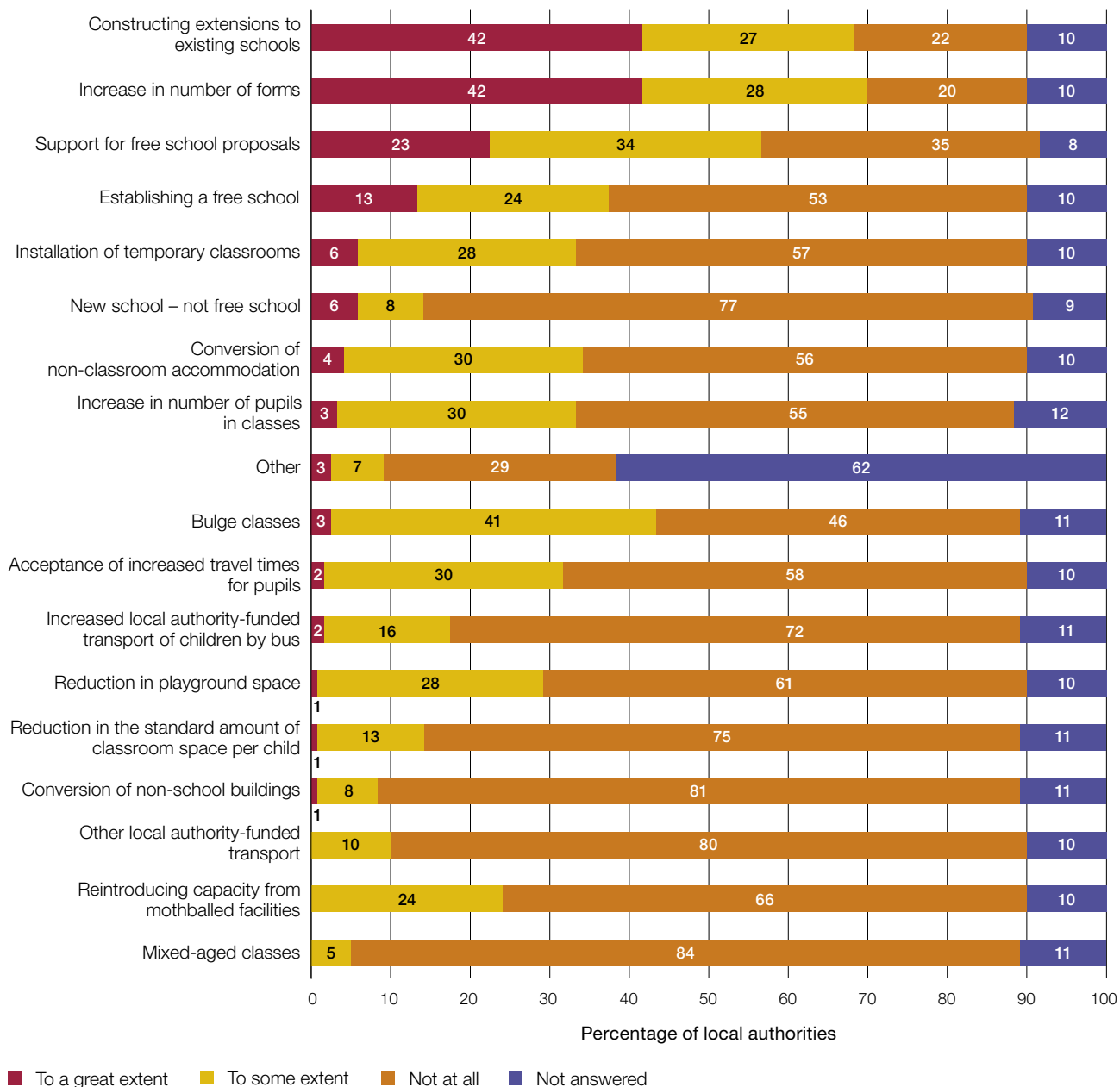


Figure 13 *continued*

How local authorities say that they have created new school places

Local authorities commonly create new places by extending or expanding existing schools rather than by building new schools

Secondary schools



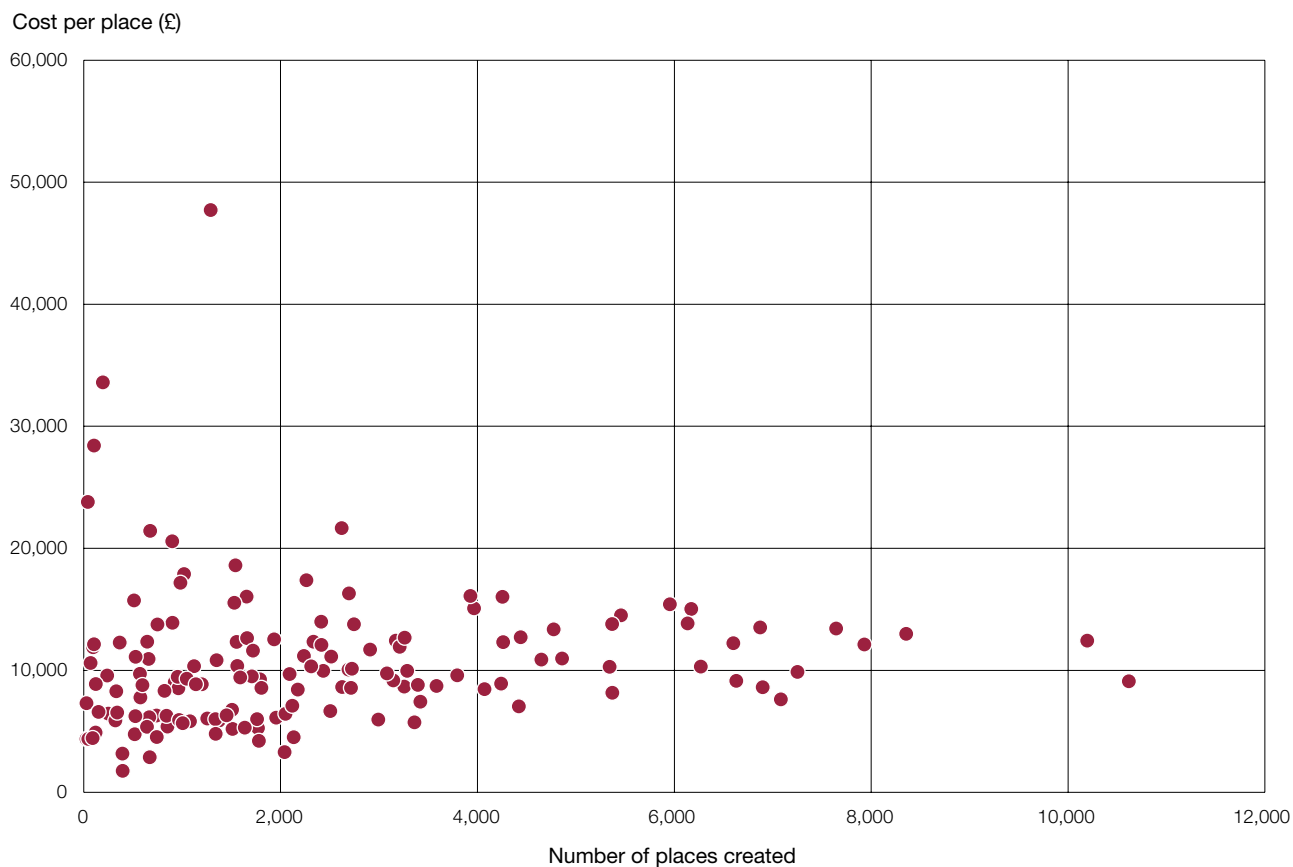
Notes

- 1 120 of 152 local authorities responded to our survey.
- 2 A 'bulge class' is an additional class within a particular year group, not involving a permanent expansion of the total number of forms of entry for a school as a whole.
- 3 Totals may not sum to 100 due to rounding.

Figure 14

Cost of creating new primary school places between 2009/10 and 2014/15 by local authority

Cost per place varied significantly even where local authorities created similar numbers of places



Note

1 The figure includes data for 147 local authorities.

Source: National Audit Office analysis of Department for Education data

Central support for local delivery

3.5 The Department is increasingly helping local bodies to deliver capital projects and manage the school estate. However, it recognises that it needs to do more and is reviewing its approach. Currently, it provides:

- **procurement frameworks** – The Department has made procurement frameworks available to local authorities and academy trusts, although they are not obliged to use them. Such frameworks can save time and money by simplifying procurement and offering economies of scale;
- **benchmarking costs** – The Department is contributing data to research on benchmarking costs which local authorities are leading. It has also produced scorecards to help local authorities understand the relative cost, quality and progress of their programmes for new school places. However, a delay in publishing the scorecards limits their usefulness. For example, the scorecards summarising data gathered in May 2015 were not published until January 2017; and
- **good practice guidance** – The Department is starting to provide good practice guidance on managing the school estate. For example, in 2016 it issued guidance on good maintenance to schools and on delivering projects efficiently to local authorities.

3.6 There is a risk that the capacity of local bodies to manage capital projects, and the school estate more generally, will diminish in future. The Department continues to fund local authorities to provide asset management services for schools, but it is stopping general funding for local authority school support services, known as the Education Services Grant. This general funding was worth £87 per pupil in 2015-16. Local authorities are losing staff with important knowledge and skills relating to estate management. Academy trusts are unlikely to be able to compensate for this lost capacity as they are smaller organisations without the necessary economies of scale.¹⁴

Projects delivered centrally

Priority School Building Programme

Progress

3.7 By February 2017 the Department had opened 178 of the 261 schools planned under the first phase of the Priority School Building Programme. Of the completed projects, 156 were delivered by the contracted date with the remaining 22 delivered on average two months late. The Department estimates that all but 23 projects will be completed by December 2017, the deadline for the first phase of the programme. Where delays have occurred, these have mainly been caused by site difficulties and planning issues.

¹⁴ For example, 2,000 academies (52%) are in trusts of five schools or fewer.

Cost

3.8 On average, Priority School Building Programme schools are one-third cheaper per square metre than schools built under the Building Schools for the Future Programme. The Department has reduced costs by:

- simplifying design and construction by introducing more standardisation in the design of schools and, more recently, using prefabricated buildings;
- taking advantage of the economies of scale offered by central procurement; and
- not funding some items, such as furniture and some fittings, and access works – schools or local authorities have to fund these elements themselves or re-use existing furniture and fittings.

In addition, Priority School Building Programme schools are cheaper overall because they are smaller, typically 15% smaller for a secondary school and 6% smaller for a primary school.

3.9 The Department has also delivered schools more cheaply than local authorities. For example, the primary schools it built in 2014 were 16% cheaper than projects led by local authorities. This is likely to be because the Department grouped projects when putting them out to tender and tends to fund larger projects, both of which generated economies of scale.

3.10 The cost of the 214 projects funded by the Department in the first phase of the Priority School Building Programme was £2.3 billion, £286 million more than the original budget. The cost increase included:

- £124 million caused by higher inflation;
- £69 million caused by unexpected project costs, such as those relating to asbestos; and
- £60 million caused by the Department's decisions to expand the scope of the programme, for example by meeting the cost of extra nursery and special educational needs projects.

Quality

3.11 Priority School Building Programme schools must meet minimum standards set by the Department. The Department has not yet evaluated the performance of the buildings but has received feedback from 53 school leaders, 85% of whom were at least satisfied with their new building. Some of the local authorities and schools that we spoke to are concerned about what the Department has done to reduce costs (for example, decreasing the size of communal spaces). In a separate review the Royal Institute of British Architects found that the standard designs and short timescales did not always allow buildings to be adapted to local circumstances.¹⁵ There is a risk that this might lead to missed opportunities to: make best use of the available space; and further reduce the costs of the new schools.

¹⁵ Royal Institute of British Architects, *Better spaces for learning*, May 2016.

Free Schools Programme

3.12 The Free Schools Programme has been much larger, in scale and cost, than the Department initially planned:

- In 2010 the Department estimated that it would cost £900 million by March 2015 to open 315 schools.
- By March 2015 the Department had spent £1.8 billion and opened 305 free schools.
- The Department has allocated a further £980 million to meet the costs of the programme in 2015-16 and £7.0 billion to deliver another 500 new free schools by September 2020. In total, the programme is expected to cost £9.7 billion by March 2021.

3.13 By December 2016, the Department had completed 202 capital projects under the Free Schools Programme and had a further 433 in development. The total cost of these projects is £7.7 billion. Around four-fifths of this relates to the cost of construction and one-fifth to the cost of land.

Cost

3.14 Free school places are more expensive than places provided by local authorities. A place in a primary free school opening in 2013-14 or 2014-15 cost £14,400 on average (33% more than places created in the same years by local authorities), while a place in a secondary free school cost £19,100 (51% more). The higher cost is mainly because free schools tend to involve the purchase of land.

3.15 On average, the construction costs of a newly built free school are 29% lower per square metre than schools built under Building Schools for the Future and similar to schools built under the Priority School Building Programme. The Department has reduced costs by taking advantage of central economies of scale and standardised building specifications.

3.16 The cash cost of creating free school places has risen over the course of the programme:

- primary free schools announced in 2014 and 2015 cost £21,100 per place, 51% more than those schools announced in 2010 and 2011 (a real-terms increase of 27%);¹⁶ and
- secondary free schools announced in 2014 and 2015 cost £24,600 per place, 76% more than those announced in 2010 and 2011 (a real-terms increase of 37%).

¹⁶ Free schools that were announced in 2014 and 2015 are expected to open between 2015 and 2020. This is the reason for the difference in the costs reported in paragraphs 3.14 and 3.16.

Purchasing sites

3.17 The Department incurs significant costs in purchasing sites for free schools. Local authorities provide land for free schools where they have available sites, but the Department purchases sites where they do not. Some sites are part of wider mixed-use developments involving commercial, retail or residential partners. In some cases the Department is entering into complex commercial agreements.

3.18 To help with the shortage of sites the Department has used existing buildings, including properties not traditionally used for schools. For example, of the free schools that have secured a permanent site, 11% are in buildings that were formerly office accommodation, 5% are in buildings that were previously owned by the emergency services, and 3% are in former industrial sites. The Department has not yet assessed how these unconventional school buildings are working in practice.

3.19 Land is often scarce in the areas where new schools are most needed as these are areas where housing is also needed. This is particularly the case in London, which received nearly three-quarters of the £863 million that the Department spent on 175 freehold sites between 2011 and 2016. The average cost of a site was £4.9 million. Twenty-four sites cost more than £10 million, 22 of these were in London, including four that cost more than £30 million. The Department expects to spend a further £2.5 billion on land from 2016 to 2022. This level of investment would put it in the same spending bracket as the top five homebuilders in the UK.

3.20 The Department is paying more than official valuations for free school sites. On average, the Department has paid 19% more than official land valuations, with 20 sites costing 60% more.¹⁷ The valuations are based on past deals for similar premises and on the site's existing use, and may not therefore equate to the true market value. Sometimes it may be necessary to pay above market value for sites – for example, where there is no appropriate alternative site in the area where a school is needed. However, the Department has recognised that skills shortages have limited its ability to secure sites quickly and at the best market price. It set up a company (called LocatED) in 2016 to help it purchase and manage land for free schools more effectively.¹⁸ It expects that the company will have the capacity to handle the increased need for land and be better able to attract staff with the necessary skills because it will be able to pay commercial rates.

¹⁷ Official and mandatory guidance on valuations (called the Red Book) is provided by the Royal Institution for Chartered Surveyors.

¹⁸ This will be managed as a non-departmental public body.

3.21 Securing a site can also add a significant amount of time to capital projects. For example, it took the Department more than two years from approval to secure sites for 47 free schools. To speed up delivery the Department has taken two approaches:

- It has opened 233 free schools in temporary accommodation at a projected cost of £126 million. The Department has assessed that this has had little negative educational impact in most cases. However, it has created problems for some schools, especially those operating from mobile units. At December 2016, six free schools had been in temporary accommodation for more than four years.
- The Department is buying land in areas where free schools have not been approved. At December 2016, it had paid £206.5 million for 19 such sites. The sites have been acquired on the basis of where school places are, or will be, needed. An approved application for a free school has been linked with 12 of the sites. The Department expects to buy more land in this way in future.

Appendix One

Our audit approach

1 This report examines how well the Department for Education (the Department) 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. It assesses how the Department, working with local bodies:

- ensures that there are enough places in good schools to meet need;
- ensures that the condition of the school estate is being maintained or improved; and
- manages the delivery of school capital programmes.

2 We applied an analytical framework with evaluative criteria, which considered what arrangements would be optimal for achieving the Department's aims. By 'optimal' we mean the most desirable possible, while acknowledging expressed or implied constraints.

3 Our audit approach is summarised in **Figure 15** overleaf. Our evidence base is described in Appendix Two.

Figure 15

Our audit approach

The objective of government

The Department for Education's 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.

How this will be achieved

Local authorities are legally responsible for making sure there are enough places for all children to attend good schools. 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.

Our study

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

Our study framework

How does the Department, working with local bodies, ensure there are enough places in good schools to meet need?

How does the Department, working with local bodies, ensure that the condition of the school estate is being maintained or improved?

How does the Department, working with local bodies, manage the delivery of school capital programmes?

Our evidence

(see Appendix Two for details)

- Interviews with staff from the Department and the Education Funding Agency.
- Review of key documents.
- Analysis of relevant data from the Department.
- Illustrative case study visits to local authorities and academy trusts.
- A survey of local authorities.
- Consultation with wider stakeholders.

Our conclusion

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.

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.

Appendix Two

Our evidence base

1 We reached our independent conclusions on the value for money of how the Department for Education (the Department) has used its capital funding for schools by analysing evidence collected between April 2016 and January 2017. Our audit approach is outlined in Appendix One.

2 We interviewed staff from the Department and the Education Funding Agency. The people we interviewed were responsible for the design and implementation of the Department's capital funding programmes. These included staff tasked with the strategic oversight of all capital programmes and staff responsible for individual areas, including capital funding for new school places, free schools, the Priority School Building Programme, the Condition Improvement Fund and school condition allocations to local authorities.

3 We carried out illustrative case study visits to nine local authorities and four academy trusts in different parts of England. We toured a selection of schools in each area and interviewed staff responsible for delivering capital programmes locally and school leaders. The visits helped us to understand:

- the challenges local authorities face as they seek to deliver sufficient school places and address poor building condition;
- the way in which local authorities and academy trusts prioritise how they spend their funding;
- the impact of poor estate condition on schools; and
- local experiences of the Department's centrally managed programmes.

4 We reviewed key documents. The documents included:

- an independent review of education capital by Sebastian James, produced in April 2011. We used this to understand how the Department's capital funding programmes have changed since 2011;
- the Department's spending records and plans. We used these to understand how much the Department has spent on its capital programmes and how much it expects to spend in future;

- the Department's descriptions of its funding methodologies and funding allocation calculations. We used these to evaluate whether the Department allocated funding according to need;
- the Department's high-level management information and risk registers. We used these to understand how the Department evaluates performance and the main risks it faces;
- the Department's modelling of the future condition of the school estate. We used this to understand how the Department expects the condition of the school estate to change over time;
- guidance materials, benchmarking publications and procurement frameworks that the Department has made available. We used these to understand how the Department supports local bodies to spend public funds cost-effectively;
- the Department's business case for 'LocatED', its new property company. We used this to understand the Department's plans for purchasing and managing sites for free schools and the reasons why it decided to set up the company;
- local authority-led cost benchmarking analysis. We used this to understand how local authority spending on capital projects compares with the Department's spending;
- the Department's survey of schools that have benefited from the Priority School Building Programme. We used this to understand how school leaders view the buildings they have obtained; and
- the Department's review of temporary accommodation for free schools. We used this to understand the impact of temporary accommodation on schools.

5 We conducted a survey of 152 local authorities. We received 120 valid responses (a response rate of 79%). The questions we asked covered the following topics:

- how local authorities are spending funding for new school places;
- whether free schools are in areas where they are most needed;
- whether funding is distributed according to need;
- local authorities' views of the Department's property data survey;
- how the condition of the school estate has changed; and
- the main challenges local authorities are facing.

6 We analysed the following data from the Department:

- School capacity data. We used this to understand the current extent of spare capacity and pressure on school places.
- Pupil number forecasts. We used this to understand the extent to which pressure on school places is likely to emerge or continue in future.
- The property data survey. We used this to understand the condition of the school estate and how much it would cost to make improvements.
- Free schools project cost data. We used this to understand how much free schools are costing, how this has changed over time and how much the Department is spending on land compared with official valuations.
- Data on the location of free schools. We used this to establish the extent to which free schools are in local authorities with a high need for new school places.
- School spending data. We used this to understand how much schools are spending themselves on ongoing property maintenance.
- Spending data that the Department had collected from local authorities. We used this to understand how much local authorities are spending on school places.

7 We spoke to a number of organisations able to provide an informed perspective on capital funding for schools. These included:

- the Association of School and College Leaders;
- the Department for Communities and Local Government;
- the Educational Building and Development Officers Group, a group representing building and development officers in local authorities;
- the Local Government Association;
- London Councils, an organisation representing London boroughs;
- the National Association of Head Teachers;
- the Royal Institute of British Architects; and
- the Royal Institution of Chartered Surveyors.

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