National Audit Office

Financial sustainability of schools in England

Department for Education

REPORT

by the Comptroller and Auditor General

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Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

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Key facts

88%

proportion of mainstream maintained schools in surplus in 2019-20

93%

proportion of academy trusts in surplus in 2019/20

979

number of visits made by school resource management advisers to schools and academy trusts from September 2018 to March 2021

27%	proportion of maintained secondary schools in deficit in 2019-20, compared with 10% of maintained primary schools
£337	average net balance of surpluses and deficits per pupil in maintained schools in 2019-20
£689	average net balance of surpluses and deficits per pupil in academy trusts in 2019/20
22%	proportion of academy trusts with reserves equivalent to 20% or more of their annual income in 2019/20
86%	proportion of mainstream schools that Ofsted had graded as good or outstanding at August 2020
£16.9 million	savings that schools and academy trusts reported they had made within six months of visits by school resource management advisers, based on 313 returned workbooks
£420 million	estimated savings generated from schools using the risk protection agreement (the Department for Education's alternative to commercial insurance) from September 2014 to March 2021
Unknown	value of savings made by schools using the Department for Education's recommended procurement frameworks

Throughout this report, central and local government and maintained school financial years are written as, for example, '2019-20' and run from 1 April to 31 March; school academic years and academy trust financial years are written as, for example, '2019/20' and run from 1 September to 31 August.

Summary

1 In January 2021, there were more than 20,200 mainstream state schools in England, educating 8.2 million pupils aged four to 19.[1] Around 11,400 of these schools (56%), with 3.6 million pupils, were maintained schools, funded and overseen by local authorities. The remaining 8,900 schools (44%) were academies, with 4.5 million pupils. Each academy school is part of an academy trust, directly funded by the Department for Education (the Department) and independent of the relevant local authority.

2 The Department's vision is to provide excellent standards of education, training and care to children and learners, whatever their background, family circumstances or need. In 2020-21, it provided mainstream schools with core revenue funding of £43.4 billion.

3 A financially sustainable school system is vital to the learning and development of the country's children. Schools are financially sustainable when they successfully provide a good-quality education to all their pupils within the income that they receive. Securing the financial sustainability of schools involves a range of different bodies. In particular:

- the Department is ultimately accountable for securing value for money from the funding provided for schools. It is responsible for ensuring that there is a framework in place to provide assurance that resources are managed in an effective and proper manner;
- the Department delegates responsibility for oversight to the Education and Skills Funding Agency (the ESFA). The ESFA distributes funding for schools and provides assurance about how the money has been used. It regulates the financial management and governance of academy trusts and oversees local authorities' management of maintained schools; and
- local authorities oversee maintained schools and academy trusts oversee academy schools. Schools and academy trusts are expected to achieve good outcomes for their pupils, put effective financial management and governance arrangements in place, and manage their operations efficiently and sustainably.

1 Mainstream schools are general primary schools and secondary schools, as distinct from special schools.

Focus of our report

4 We last reported on the financial sustainability of schools in 2016.[2] We found that, overall, the financial position of primary schools had been relatively stable, however, there were signs of financial challenges in secondary schools. We concluded that the Department's overall schools budget, as set out in the 2015 Spending Review, was protected in real terms but did not provide for funding per pupil to increase in line with inflation. Therefore, mainstream schools would need to find significant savings to counteract cost pressures. At that time, the Department was developing guidance and support to help schools improve their financial management, but had not completed work to help schools secure crucial procurement and workforce savings.

5 This is the second of two reports which follow up aspects of our 2016 report. In July 2021, we reported on *School funding in England*, covering revenue funding for mainstream schools and cost pressures, and how funding is distributed to schools.[3] Alongside the work on school funding, we have also examined the financial sustainability of mainstream schools in England. This report covers:

- schools' financial health (Part One); and
- whether the Department has supported schools effectively to improve their financial sustainability (Part Two).

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

6 The COVID-19 pandemic has had a significant impact on the school system and our July 2021 report on school funding covered COVID-19 related funding and cost pressures. Our assessment of schools' financial health in this report largely reflects the position before the pandemic as most data are not yet available for 2020-21. One exception is the 2019/20 financial results for academy trusts which cover the year ending 31 August 2020, and therefore reflect the impact of the early months of the pandemic on the academy sector. Financial results for academy trusts for the year ending 31 August 2021 are expected to be available in spring 2022. Financial results for maintained schools for the year ending 31 March 2021 are expected to start becoming available in late 2021. However, it is unclear when the full dataset will be available. The COVID-19 pandemic has had a significant impact on delivery of local government audits, exacerbating problems that already existed within the local audit landscape – less than half of local bodies' 2019-20 audits were completed by the extended deadline of 30 November 2020.[4]

2 Comptroller and Auditor General, *Financial sustainability of schools*, Session 2016-17, HC 850, National Audit Office, December 2016.
3 Comptroller and Auditor General, *School funding in England*, Session 2021-22, HC 300, National Audit Office, July 2021.
4 Comptroller and Auditor General, *Timeliness of local auditor reporting on local government in England, 2020*, Session 2019–2021, HC 1243, National Audit Office, March 2021.

Key findings

Financial health of schools

7 **The school system has faced considerable financial pressures in recent years.** As we reported in July 2021, the Department's per-pupil funding for mainstream schools rose by 0.4% in real terms between 2014-15 and 2020-21, and the Department estimates that cost pressures exceeded funding increases by £2.2 billion between 2015-16 and 2019-20. Schools have also been affected by the financial pressures on local government, which have resulted in local authorities reducing support services for children and young people. From 2010-11 to 2019-20, local authorities reduced spending on non-schools education by an estimated 32% (£2.6 billion). Among other things, this spending covers a range of education support services, such as school transport and educational psychologists (paragraphs 1.6 and 1.8).

Maintained schools

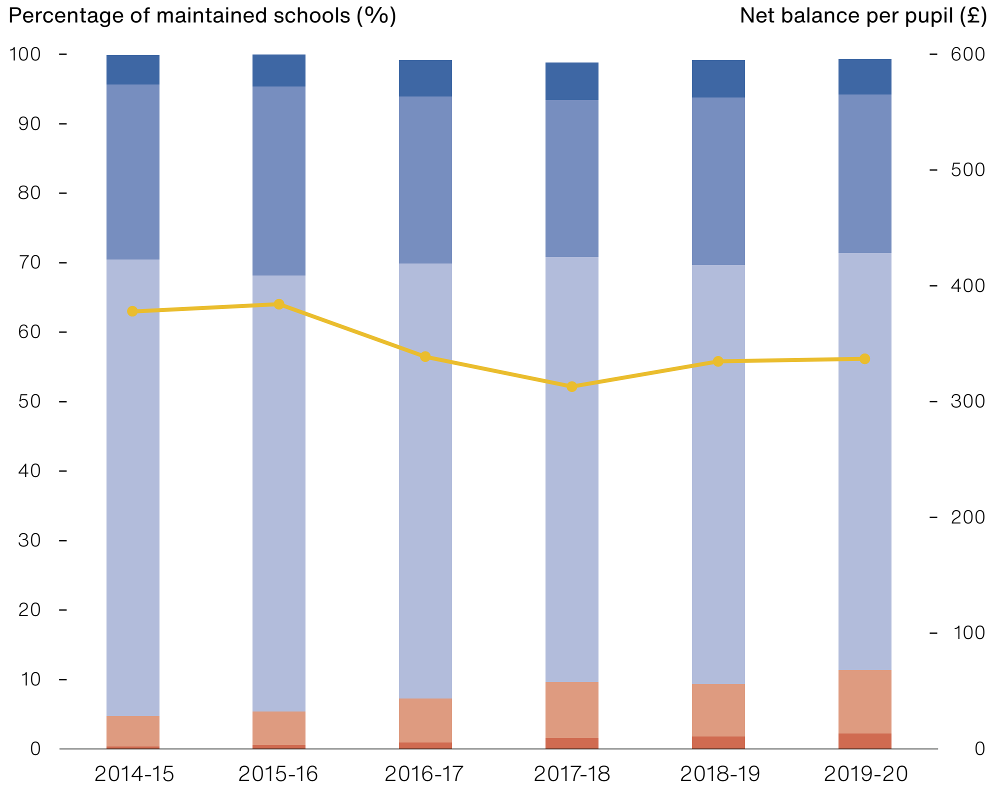
8 **Despite the financial pressures, most maintained schools were in surplus from 2014-15 to 2019-20, although the proportion reporting a deficit more than doubled**. In 2019-20, 88% of maintained schools reported a cumulative surplus; 11% reported a cumulative deficit, up from 5% in 2014-15 (**Figure 1** overleaf). The net position for the maintained school sector as a whole in 2019-20 was a cumulative surplus of £1.3 billion, equivalent to £337 per pupil (a reduction from £1.8 billion, £378 per pupil in 2014-15). The proportion of maintained schools in cumulative deficit varied considerably between local authorities, ranging from 0% to 46% in 2019-20. Our analysis did not indicate a link between the deprivation level of a local authority and the proportion of maintained schools in deficit within it (paragraphs 1.10, 1.12 and 1.14 to 1.16, Figure 1 and Figure 5).

9 **A larger proportion of maintained secondary schools have been in deficit than primary schools, although the gap narrowed from 2017-18 to 2019-20.** We reported in 2016 that there were signs of financial challenges in secondary schools. The proportion of maintained secondary schools reporting a cumulative deficit peaked at 30% in 2017-18, falling to 27% in 2019-20. In contrast, the proportion of maintained primary schools in deficit was 10% in 2019-20, although this was up from 4% in 2014-15. The average balance per secondary school pupil fell from £307 in 2014-15 to £153 in 2019-20, a 55% decrease in real terms. The average balance per primary school pupil fell from £401 in 2014-15 to £385 in 2019-20, a 13% decrease in real terms. The relatively worse financial health of the secondary school sector may partly arise from the fact that the balance of school funding shifted from secondary schools to primary schools between 2014-15 and 2020-21 (paragraphs 1.13 and 1.14, and Figure 4).

Figure 1

Proportion of maintained schools in cumulative surplus or deficit, 2014-15 to 2019-20

Most maintained schools have reported a cumulative surplus every year since 2014-15



	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Percentage of schools in surplus by more than 20% of income	4	5	5	5	5	5
Percentage of schools in surplus by more than 10% but less than or equal to 20% of income	25	27	24	23	24	23
Percentage of schools in surplus by 10% or less of income	66	63	63	61	60	60
Percentage of schools in deficit by 10% or less of income	4	5	6	8	7	9
Percentage of schools in deficit by more than 10% of income	0	1	1	2	2	2
Net balance per pupil (£)	**378**	**384**	**339**	**313**	**335**	**337**

Notes

1 From 2014-15 to 2019-20, the number of maintained schools fell from around 15,400 to 11,900. This was largely due to maintained schools converting to academies.

2 We calculated the cumulative surpluses and deficits reported by each maintained school as a proportion of its total income each year. The net balance per pupil each year is the total cumulative surplus less the total cumulative deficit for all schools divided by the pupil population for that year.

3 Percentages may not sum to 100% due to rounding. We excluded from the Figure a small proportion of maintained schools with a revenue reserve of £0, which were included in our analysis of the proportion of maintained schools in surplus or deficit. The proportion ranged from 0.1% (16 schools) in 2014-15 to 1.2% (161 schools) in 2017-18.

Source: National Audit Office analysis of Department for Education data

Academy trusts

10 **Around 90% of academy trusts were in surplus from 2017/18 to 2019/20, and some have built up substantial reserves.** The finances of the academy sector are accounted for at academy trust level, rather than academy school level. In 2019/20, 93% of academy trusts reported a cumulative surplus, up from 88% in 2017/18, the earliest year for which reliable data are available (**Figure 2** overleaf). Some academy trusts have substantial reserves – in 2019/20, 22% of trusts reported cumulative surpluses equivalent to 20% or more of their annual income. The net position across all academy trusts in 2019/20 was a cumulative surplus of £3.1 billion, equivalent to £689 per pupil (an increase from £2.5 billion, £608 per pupil in 2017/18). The ESFA has provided extra funding to some academy trusts in financial difficulty in order to maintain financial stability and protect educational provision. As a result, the financial position of the trusts concerned and the sector as a whole has been enhanced. This funding included £45 million in 'non-recoverable' deficit funding and £79 million in 'recoverable' funding provided from 2014-15 to 2019-20. The ESFA has written off or impaired £30 million of the recoverable funding as it has assessed that it is unlikely to recover this funding from trusts (paragraphs 1.9, 1.21, 1.24, 1.25, 1.27 and 1.28, and Figure 2).

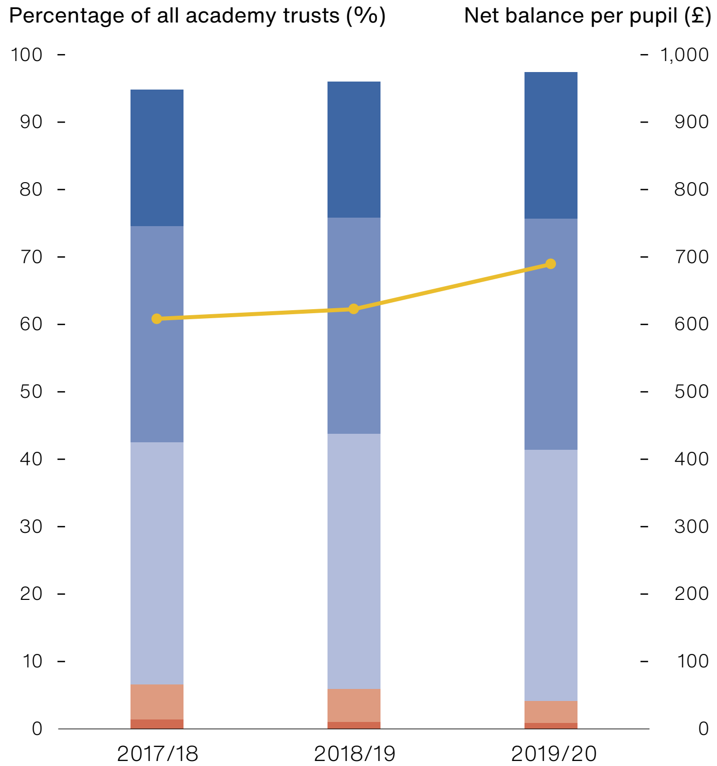
Education provision

11 **Ofsted has consistently graded more than 80% of mainstream schools as good or outstanding, but has found that the steps schools have taken to remain financially sustainable may have affected aspects of their provision.** Ofsted's inspections indicate that the quality of schools' provision has generally remained high. The proportion of mainstream schools that Ofsted had graded as good or outstanding increased from 81% at August 2015 to 86% at August 2020. Some of these schools had not been inspected for a long time because, until November 2020, schools graded as outstanding were legally exempt from routine re-inspection. The Department has not carried out research into the impact of financial pressures on schools' provision. Qualitative research by Ofsted and feedback from the stakeholders we consulted indicate that the steps schools have taken to remain financially sustainable have affected aspects of their provision. For example, some schools reported that they have reduced staffing levels or changed the support provided to pupils with special educational needs and disabilities (paragraphs 1.30 to 1.34 and 1.36, and Figure 8).

Figure 2

Proportion of academy trusts in cumulative surplus or deficit, 2017/18 to 2019/20

Around 90% of academy trusts have reported a cumulative surplus every year since 2017/18



	2017/18	2018/19	2019/20
Percentage of trusts in surplus by more than 20% of income	20	20	22
Percentage of trusts in surplus by more than 10% but less than or equal to 20% of income	32	32	34
Percentage of trusts in surplus by 10% or less of income	36	38	37
Percentage of trusts in deficit by 10% or less of income	5	5	3
Percentage of trusts in deficit by more than 10% of income	1	1	1
Net balance per pupil (£)	**608**	**623**	**689**

Notes

1 Data for 2014/15 to 2016/17 are not reliable so we excluded these years from our analysis.

2 We calculated the cumulative surpluses and deficits reported by each academy trust as a proportion of its total income each year. The net balance per pupil each year is the total cumulative surplus less the total cumulative deficit for all trusts divided by the pupil population for that year.

3 Percentages may not sum to 100% due to rounding. We excluded from the Figure a small proportion of academy trusts with a revenue reserve of £0. The proportion ranged from 3% (70 trusts) in 2019/20 to 5% (155 trusts) in 2017/18.

Source: National Audit Office analysis of Department for Education data

Support for schools' financial sustainability

12 **The Department has a range of programmes to help schools improve their financial sustainability, which have been broadly welcomed by the sector.** The Department has made progress since we last reported on this topic in 2016.[5] In 2018, it published a strategy setting out how it would support schools to manage their resources and reduce costs. The strategy covered spending on workforce and procurement, and tools such as the schools financial benchmarking service, which allows schools to compare their income and spending in various categories with those of similar schools. In our view, the support being offered is sensible, and the stakeholders we consulted were generally positive about the actions that the Department has taken. They also told us that the guidance and tools are useful resources for schools. The ESFA started to manage the support programmes collectively as a school resource management portfolio in 2020 (paragraphs 2.4 to 2.6 and 2.33).

13 **The Department has lacked reliable data to assess the impact of its portfolio of financial support programmes effectively, but is making improvements.** We sought to assess the impact of the Department's programmes and examined in detail the school resource management advisers scheme and the support for better procurement in schools. However, our assessment was constrained by limitations in the Department's information. While some programmes had reliable data, for others the data were incomplete or not reliable enough for us to use (see paragraphs 14 and 15 below). As its programmes have evolved, the Department has also changed a number of the performance indicators it uses, making it difficult to track progress over time, in particular against the objectives in its business cases. The Department is improving the quality of its data and analysis as a result of our work. It told us that it recognises the shortcomings in its information, and that it is seeking to improve its management and oversight as it takes the school resource management portfolio forward (paragraphs 2.7 and 2.8).

5 See footnote 2.

14 **The school resource management advisers programme has helped schools and academy trusts to make savings, but the ESFA's incomplete data mean it cannot fully assess the impact of the programme.** School resource management advisers are accredited practitioners who work with schools and academy trusts, and make recommendations to improve efficiency and resource management. From September 2018 to March 2021, advisers completed 979 visits to schools and trusts and identified total potential savings of £303 million. The ESFA asks most schools and trusts to complete a workbook six months after a deployment, with details of the savings planned and achieved against the adviser's recommendations. At March 2021, from 909 relevant deployments, schools and trusts had returned 313 workbooks to the ESFA. They reported that they had realised savings of £16.9 million in the six months after the visits and expected to make savings totalling £83.2 million over the three years after the visits. These data do not provide a complete picture of performance and the ESFA cannot assess fully the savings that schools and trusts have made. It also cannot judge whether it met the target in the programme's initial business case to realise savings of £50 million by the end of 2019/20 (paragraphs 2.12 to 2.16, and Figure 9).

15 **The Department has also helped schools to make procurement savings, through its risk protection arrangement and buying hubs, but does not have reliable data to demonstrate the effectiveness of its procurement frameworks.** In January 2017, the Department published a school buying strategy, which set out how it would support schools and academy trusts to save time and money in procuring goods and services. Most of the reported savings have come from the long-standing risk protection arrangement. The main elements of support have been:

- **procurement frameworks** – of which there were 45 at March 2021 – with recommended deals covering, for example, supply teachers, cleaning services and ICT support. The Department did not prepare a business case for the frameworks setting out what it was aiming to achieve, how it would measure impact and what level of performance would constitute success. The Department's data on how much schools have spent through the frameworks and how much they have saved are incomplete and unreliable, meaning that it cannot evaluate the impact of the frameworks;

- **the risk protection arrangement**, through which the Department itself offers schools a cheaper alternative to commercial insurance. This was set up for academy schools in 2014 and, at March 2021, 73% of academy schools were part of the scheme. The Department extended the offer to maintained schools in 2020 and take-up is growing. The Department estimates that the arrangement saved £420 million for members from September 2014 to March 2021; and

- **regional buying hubs**, which the Department piloted in 2017 in the North West and the South West, providing schools in those areas with access to specialist procurement advice, guidance and support. The Department's internal evaluation found that both hubs saved more than they cost to run, although the South West hub had been substantially more effective. The Department estimated that, at March 2021, the hubs had saved £23.1 million at a cost of £8.4 million.

In April 2021, the Department published an updated buying strategy, setting out its approach for the next five years. It has started to introduce a new national buying service which will replace the regional hubs by May 2022 (paragraphs 2.19 and 2.21 to 2.30, and Figure 10).

Conclusion on value for money

16 The financial health of the mainstream school system has held up well despite the funding and cost pressures that schools have faced in recent years, although the data do not yet reflect the impact that the COVID-19 pandemic may have had. Most maintained schools and academy trusts are in surplus, but there are significant pressures on some maintained secondary schools. The concern in relation to the academy sector is that a sizeable minority of academy trusts are building up substantial reserves, meaning they are spending less than their annual income on their pupils. Ofsted inspection ratings suggest that mainstream schools have generally maintained educational quality, although there are indications that the steps schools are taking in response to financial pressures may adversely affect aspects of their provision.

17 Since we last reported in 2016, the Department has implemented a range of sensible programmes to support schools to improve their resource management and achieve savings, which have generally been well received by the sector. The programmes have added value and helped schools to achieve savings. We found, however, that the Department's data have not been sufficiently complete or reliable to assess whether the programmes are having the impact it intended or achieving value for money. The Department has started to improve its data but, until it has better information, it cannot make fully informed decisions about the support it offers to schools and how continuously to improve it.

Recommendations

18 We recommend that the Department and the ESFA should take the following actions:

a **Assess the impact on provision of the various measures adopted by schools in response to financial pressures,** for example reducing staffing levels or changing support for pupils with special educational needs and disabilities. This work should include quantitative analysis and qualitative research to understand how schools have adjusted their provision and identify lessons and good practice.

b **Establish why maintained secondary schools are under particular financial pressure.** The Department and the ESFA should use that information to identify any further action needed to support secondary schools to be financially sustainable.

c **Investigate why some academy trusts have built up substantial reserves.** The ESFA should use that information to develop its understanding of why trusts are acting in this way, seek assurance that levels of reserves are acceptable, and take action where it has concerns that this is not the case.

d **Develop further their performance management systems so they can effectively monitor and evaluate the effectiveness of their programmes to support schools' financial sustainability**. In doing this, the Department and the ESFA should:

- consistently collect good-quality data about the operation and impact of the programmes;
- have systematic internal reporting against clear performance criteria using good-quality data to judge when corrective action needs to be considered and to evaluate impact; and
- report publicly, routinely and on a consistent basis, on the take-up and impact of the programmes.