National Audit Office

Financial sustainability of schools in England

Department for Education

REPORT

by the Comptroller and Auditor General

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HC 802

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Financial sustainability of schools in England

Department for Education

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

22 November 2021

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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

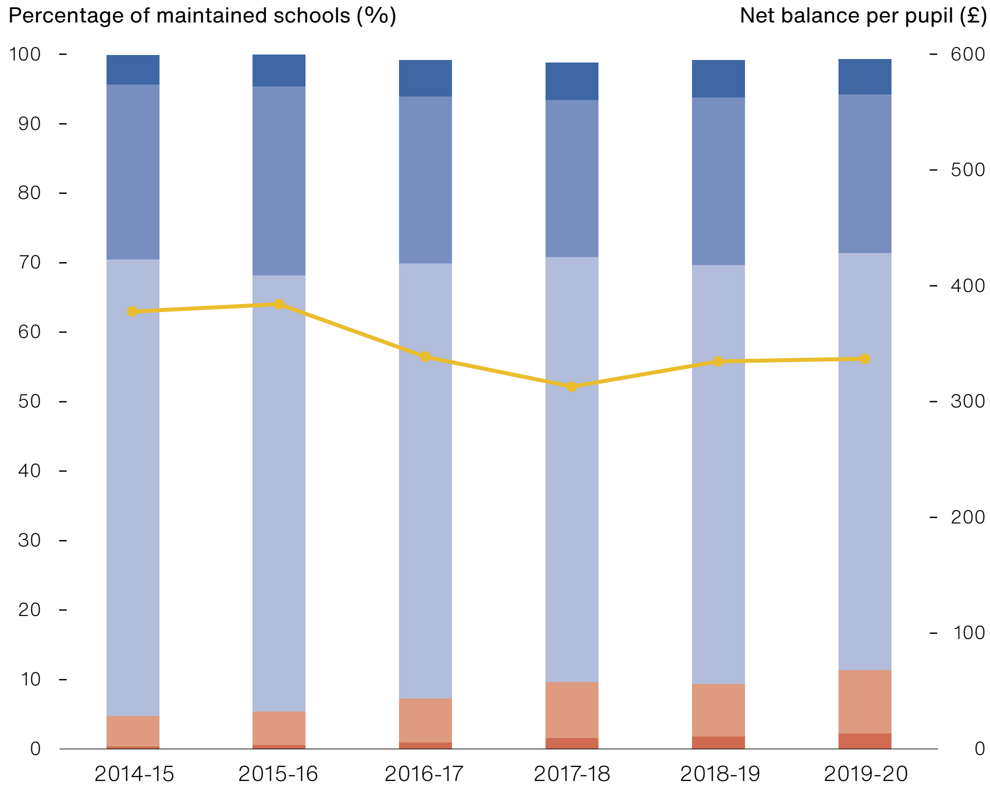
8 **Despite the financial pressures, most maintained schools were in surplus from 2014-15 to 2019-20, although the proportion reporting a deficit more than doubled**. In 2019-20, 88% of maintained schools reported a cumulative surplus; 11% reported a cumulative deficit, up from 5% in 2014-15 (**Figure 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).

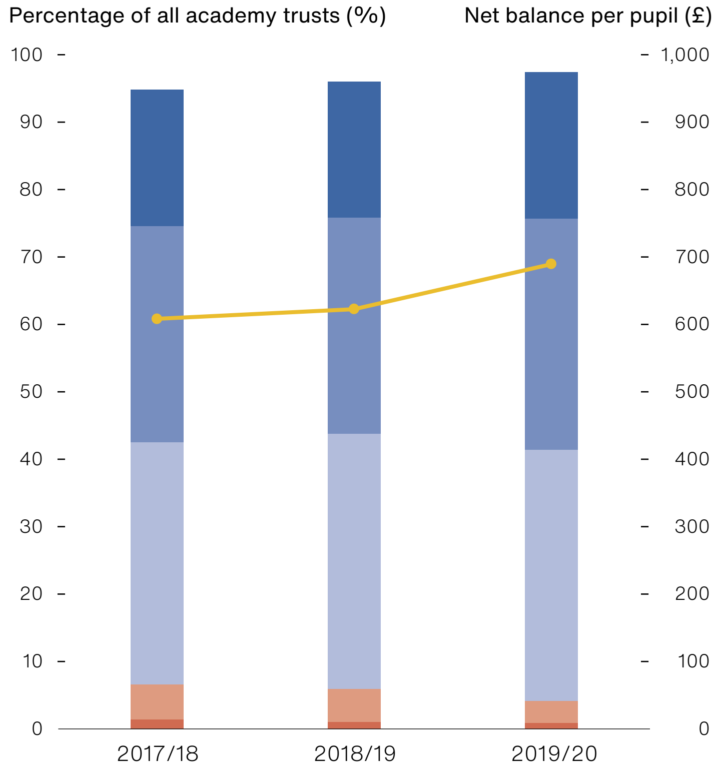
Education provision

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.

Part One

Schools' financial health

1.1 This part of the report covers trends in the financial health of mainstream schools and the impact of financial pressures on provision and quality.

The school system

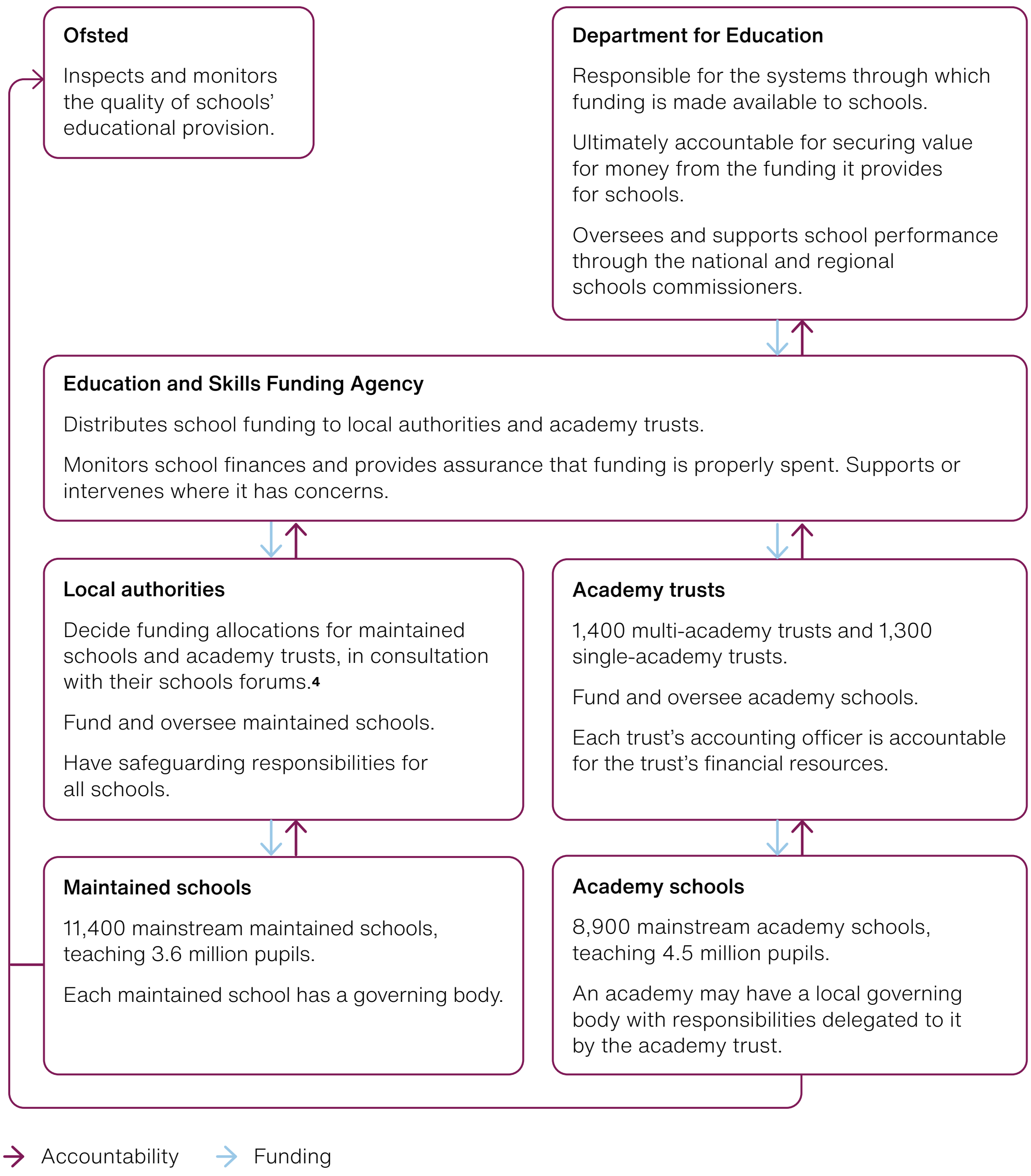
1.2 In January 2021, there were more than 20,200 mainstream state schools in England, educating 8.2 million pupils aged four to 19. These comprised nearly 16,800 primary schools and 3,500 secondary schools (including those with sixth forms).

1.3 Around 11,400 mainstream schools (56% of the total), 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.

1.4 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. It is responsible for the school system and is ultimately accountable for securing value for money from the funding provided for schools (**Figure 3** overleaf). Ofsted inspects schools and provides independent assurance about their effectiveness, including the quality of education. It does not assess schools' financial health as part of its inspections.

Figure 3

Funding and accountability arrangements for the school system in England



Notes

1 The numbers of mainstream schools and pupils are for state primary and secondary schools, excluding special schools and stand-alone nurseries, and are at January 2021.

2 The numbers of schools and academy trusts are rounded to the nearest 100.

3 Pupil numbers are calculated on a full-time equivalent basis. From *Schools, pupils and their characteristics: England 2021*, Department for Education, June 2021.

4 Each local authority must have a schools forum comprising representatives from schools and other organisations, such as early years providers. Each local authority must consult the schools forum about its proposals for allocating the dedicated schools grant to maintained schools and academies.

Source: National Audit Office analysis of Department for Education information

1.5 The Department works with the Education and Skills Funding Agency (the ESFA), an executive agency of the Department, which distributes funding for schools and provides assurance about how the money has been used. The financial oversight arrangements differ for maintained schools and academies:

- Local authorities are responsible for ensuring that they have adequate oversight of maintained schools' financial management. The ESFA adopts a light-touch approach to oversight, relying largely on the well-established local government assurance arrangements. It supports or intervenes with local authorities where it has significant concerns about the financial management of their maintained schools.
- Each academy trust has its own accounting officer who is personally responsible for how the trust and its component schools use resources. The ESFA monitors academy trusts' governance and financial management, assesses financial risk and supports or intervenes where it has concerns.

Financial context

1.6 The funding that schools receive and the cost pressures they face help to determine their financial health. In 2020-21, the Department provided mainstream schools with core revenue funding of £43.4 billion. We reported on *School funding in England* in July 2021.[6] Our main findings indicate that the school system has faced considerable financial pressures in recent years:

- Although the Department's total funding for schools increased by 7.1% in real terms between 2014-15 and 2020-21, the growth in pupil numbers meant that real-terms funding per pupil rose by 0.4%.
- The Department estimates that, between 2015-16 and 2019-20, cost pressures on mainstream schools exceeded funding increases by £2.2 billion, mainly because of rising staff costs.
- The Department plans to increase school funding so that total and per-pupil funding is expected to rise by around 4% in real terms between 2020-21 and 2022-23. It has also committed extra funding of £3.3 billion between 2020-21 and 2024-25 to help schools cover costs relating to COVID-19, but does not know the extent to which this covers cost pressures arising from the pandemic.

In the 2021 Spending Review, the government announced that it would provide an additional £4.7 billion by 2024-25 for the core schools budget in England, over and above the Spending Round 2019 settlement for schools in 2022-23.[7]

6 Comptroller and Auditor General, *School funding in England*, Session 2021-22, HC 300, National Audit Office, July 2021.
7 HM Treasury, *Autumn Budget and Spending Review 2021*, HC 822, October 2021. The core schools budget covers all schools in England.

1.7 Financial pressures have not fallen evenly across the school system. For example, some schools have been operating below capacity, which has implications for their financial viability. Most funding follows the pupil so schools with falling rolls or that have struggled to fill their places may find it difficult to cover their costs. Overall pupil numbers have risen since 2014/15, but the position varies as children move through the school system and due to population changes across the country. The number of primary school pupils peaked in January 2019, 6% above the total in January 2015, and have since been falling; the number of secondary school pupils is forecast to peak in January 2024, 18% above the total in January 2015. In 2020, London Councils reported that there would be an estimated 84,400 surplus school places across London in 2022/23, with 84% of the predicted surplus in primary schools.[8]

1.8 Schools have also been affected by the wider financial pressures on local government, which have resulted in local authorities reducing support services for children and young people. We estimated that, from 2010-11 to 2019-20, local authorities' overall spending power (government funding plus council tax) fell by around 29% in real terms, and spending on non-schools education decreased by around 32% (£2.6 billion).[9] Among other things, this spending covers a range of education support services, such as school transport and educational psychologists. In 2020, Ofsted reported that 76% of primary headteachers and 58% of secondary headteachers who responded to its survey thought that reductions in local authority services had led to a major impact on financial pressure in their school.[10]

Surpluses and deficits

1.9 Assessing the financial health of the school system is not straightforward, and maintained schools are not directly comparable with academy schools for the following main reasons:

- Comparable financial data are reported at school level for maintained schools and at trust level for academies.
- Trends may be affected by the fact that the academy sector is evolving each year, as more maintained schools convert to academies and the average size of academy trusts grows. Academy trusts range from those with only one school to others with many schools, sometimes spread across the country.
- It is not possible to distinguish reliably the position of the primary and secondary sectors since, while some academy trusts comprise only primary or secondary schools, other trusts cover both phases.
- Maintained schools report their finances for the year ending in March, while academy trusts report their finances for the year ending in August.

8 London Councils, *Do the Maths 2020: London's school places challenge*, January 2020.
9 National Audit Office, *Financial sustainability of local authorities visualisation: update*, July 2021. See methodology for details of how the estimates were calculated.
10 Ofsted, *Making the cut: how schools respond when they are under financial pressure*, February 2020.

We have therefore set out separately the position for mainstream maintained schools and academy trusts. Our analysis is from 2014-15 for maintained schools, and from 2017/18 for academy trusts since reliable data are not available for earlier years.

Maintained schools

1.10 Most mainstream maintained schools are in surplus, although the proportion in surplus fell from 95% in 2014-15 to 88% in 2019-20 (see Figure 1 on page 8). The total cumulative surplus, for schools reporting a surplus, also reduced, from £1.9 billion in 2014-15 to £1.5 billion in 2019-20. Most schools had a surplus equivalent to 10% or less of their income.

1.11 Average cumulative surpluses increased over the period. For primary schools in surplus, the average rose from £108,000 in 2014-15 to £124,000 in 2019-20, an increase of 4% in real terms; for secondary schools in surplus, the average rose from £381,000 in 2014-15 to £453,000 in 2019-20, an increase of 8% in real terms.

1.12 However, a growing minority of maintained schools reported a cumulative deficit – the proportion rose from 5% in 2014-15 to 11% in 2019-20. Maintained schools reported a total cumulative deficit of £217 million in 2019-20.

1.13 We reported in 2016 that there were signs of financial challenges in secondary schools[11] and, since 2014-15, a consistently larger proportion of secondary schools than primary schools have been in deficit (**Figure 4** overleaf):

- The proportion of secondary schools in deficit peaked at 30% in 2017-18, falling to 27% in 2019-20. The average deficit increased from £320,000 in 2014-15 to £669,000 in 2019-20, an increase of 90% in real terms.
- The proportion of primary schools in deficit rose from 4% in 2014-15 to 10% in 2019-20. The average deficit increased from £36,000 in 2014-15 to £65,000 in 2019-20, an increase of 65% in real terms.

The relatively worse financial health of the secondary school sector may partly arise from the fact that, as we reported in July 2021, the balance of funding shifted from secondary schools to primary schools between 2014-15 and 2020-21.[12] The main cause of this shift was local authorities protecting funding for primary schools in their local funding formulae. In addition, the Department reduced funding per sixth-form student.

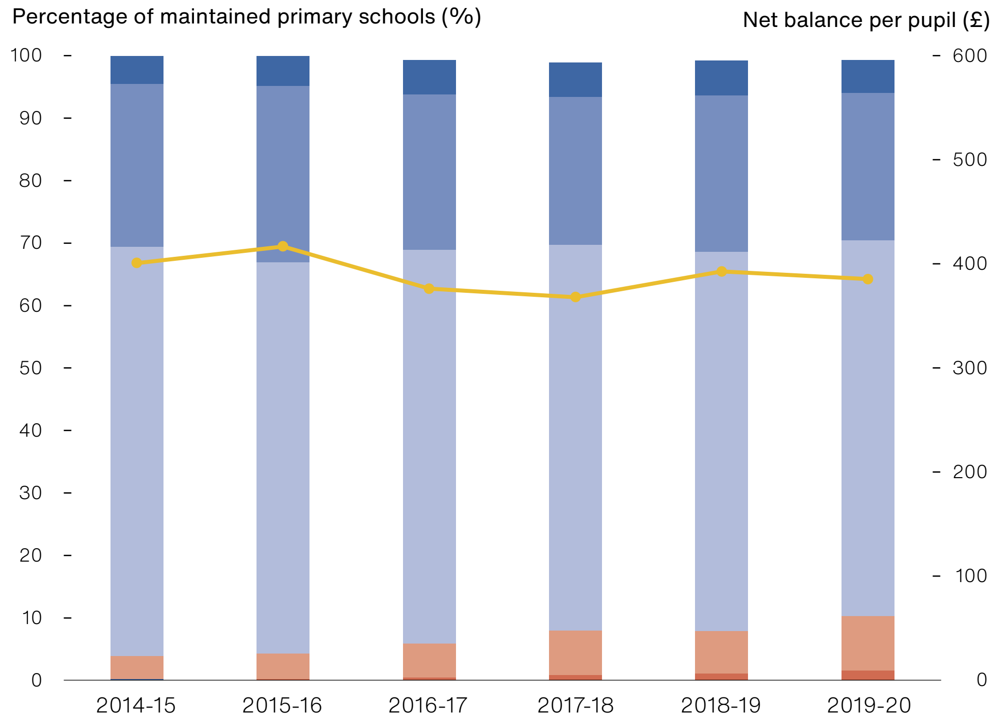
11 Comptroller and Auditor General, *Financial sustainability of schools*, Session 2016-17, HC 850, National Audit Office, December 2016.
12 See footnote 6.

Figure 4

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

The proportion of maintained secondary schools in deficit peaked in 2017-18 at 30%, while the proportion of maintained primary schools in deficit rose to 10% in 2019-20

Maintained primary schools



	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	6	6	6	5
Percentage of schools in surplus by more than 10% but less than or equal to 20% of income	26	28	25	24	25	24
Percentage of schools in surplus by 10% or less of income	66	63	63	62	61	60
Percentage of schools in deficit by 10% or less of income	4	4	5	7	7	9
Percentage of schools in deficit by more than 10% of income	0	0	0	1	1	2
Net balance per pupil (£)	**401**	**417**	**376**	**368**	**393**	**385**

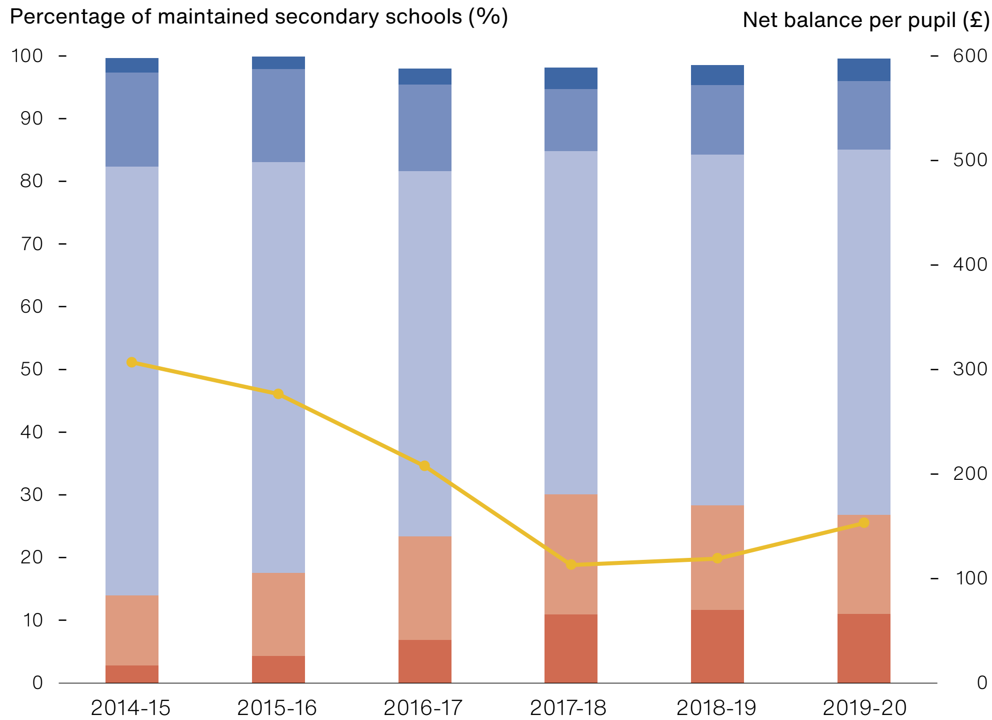
Notes

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.

Source: National Audit Office analysis of Department for Education data

Maintained secondary schools



	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Percentage of schools in surplus by more than 20% of income	2	2	2	3	3	4
Percentage of schools in surplus by more than 10% but less than or equal to 20% of income	15	15	14	10	11	11
Percentage of schools in surplus by 10% or less of income	68	66	58	55	56	58
Percentage of schools in deficit by 10% or less of income	11	13	17	19	17	16
Percentage of schools in deficit by more than 10% of income	3	4	7	11	12	11
Net balance per pupil (£)	**307**	**276**	**207**	**113**	**119**	**153**

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.

1.14 The net position for the maintained school sector as a whole in 2019-20 was a cumulative surplus of £1.3 billion, a reduction from £1.8 billion in 2014-15. From 2014-15 to 2019-20, the average balance per pupil also declined, particularly for secondary schools:

- 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 average balance per secondary school pupil fell from £307 in 2014-15 to £153 in 2019-20, a 55% decrease in real terms (Figure 4).

1.15 The proportion of maintained schools in cumulative deficit varied considerably between local authorities, ranging from 0% (in 14 authorities) to 46% in 2019-20 (**Figure 5**).[13] There were 26 local authorities with more than 20% of their schools in deficit.

1.16 We reported in July 2021 that there has been a relative re-distribution of funding from the most deprived schools to the least deprived schools in recent years.[14] However, our analysis for this report did not indicate a link between local authorities' deprivation levels and the proportion of their maintained schools in deficit.

Local authorities' dedicated schools grant balances

1.17 The Department funds local authorities for schools, early years provision and support for children and young people with high needs through the dedicated schools grant. This grant is ring-fenced and accounted for separately from general local authority expenditure.

1.18 The net balance for local authorities' dedicated schools grant in 2019-20 was a deficit of £484 million. The number of local authorities reporting a deficit on their dedicated schools grant increased from five of 150 in 2014-15 to 94 of 149 in 2019-20 (**Figure 6** on page 24). The total deficit, for local authorities reporting a deficit, was £675 million in 2019-20, an increase of £664 million since 2014-15. Over the same period, the total surplus, for local authorities reporting a surplus, fell from £884 million to £192 million.

13 We included only local authorities with more than 10 maintained schools in this analysis.
14 See footnote 6.

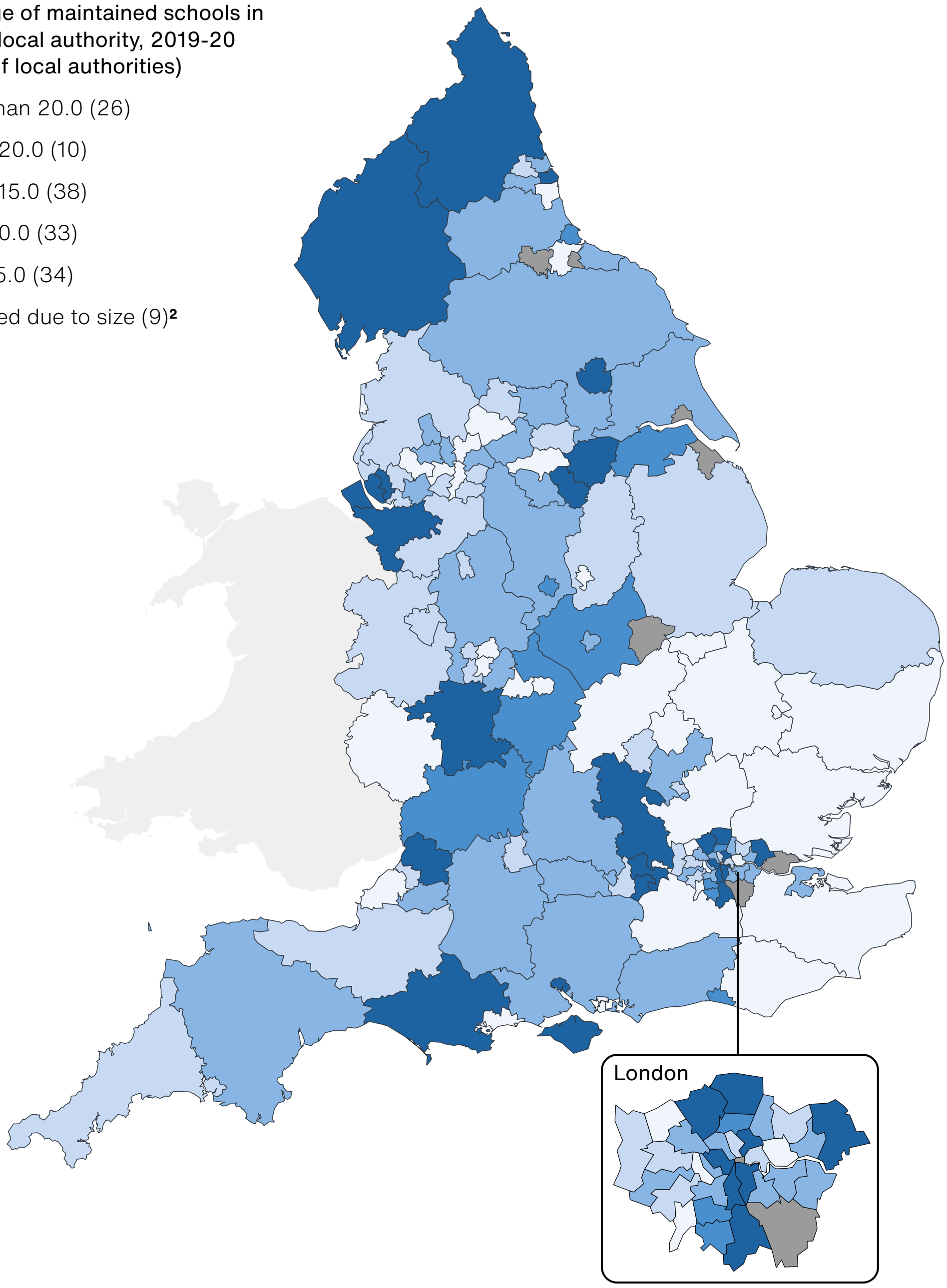
Figure 5

Proportion of maintained schools in cumulative deficit by local authority, 2019-20

In 26 local authorities, more than 20% of maintained schools reported a cumulative deficit in 2019-20

Percentage of maintained schools in deficit by local authority, 2019-20 (number of local authorities)

- More than 20.0 (26)
- 15.1 to 20.0 (10)
- 10.1 to 15.0 (38)
- 5.1 to 10.0 (33)
- 0.0 to 5.0 (34)
- Excluded due to size (9)[2]



Notes

1 The map is based on counties and unitary authorities (upper-tier local authorities) at December 2020.

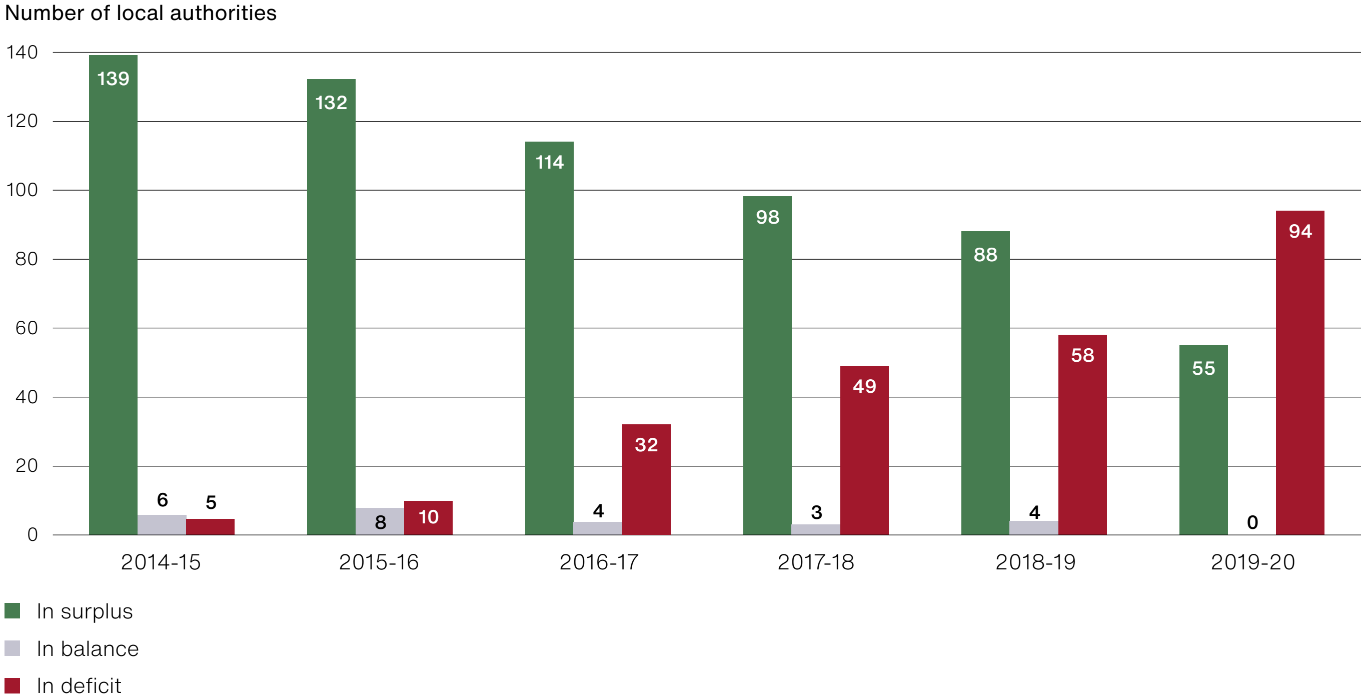
2 We excluded nine local authorities with fewer than 11 schools from this analysis in order to draw meaningful inferences. We also excluded Isles of Scilly as it had no maintained schools in 2019-20.

Source: National Audit Office analysis of Department for Education data and map boundaries from the Office for National Statistics licensed under the Open Government Licence v.3.0. Contains OS data © Crown copyright and database right 2021

Figure 6

Number of local authorities reporting a dedicated schools grant surplus or deficit, 2014-15 to 2019-20

The number of local authorities reporting a dedicated schools grant deficit has increased every year since 2014-15



Note

1 We excluded City of London and Isles of Scilly from this analysis because of the low number of schools.

Source: National Audit Office analysis of Department for Education data

1.19 The main reason for the declining financial position is the increasing pressure many local authorities are facing from supporting children with special educational needs and disabilities (SEND). In 2019-20, 125 of 149 local authorities overspent their high-needs budgets, compared with 80 of 150 in 2014-15.[15] In 2019-20, for all local authorities, the net overspend on high-needs budgets was £385 million (9%), compared with a break-even position in 2014-15. Currently, other local authority services should not be affected as the deficits are ring-fenced until the end of 2022-23. The Department plans that, after then, local authorities will need to cover dedicated school grant deficits from their available reserves.[16]

15 This analysis does not include high-needs place funding for mainstream schools because data are not available for 2018-19 and earlier years.

16 Department for Education, *Sustainable high needs systems: learning from the 'safety valve' intervention programme*, July 2021.

1.20 In 2019, we concluded that the system for supporting pupils with SEND was not, on current trends, financially sustainable.[17] Reviewing the funding system is part of the wider review of SEND provision that the Department announced in September 2019. In November 2021, the Secretary of State for Education said that he hoped to publish the results of the SEND review in the first quarter of 2022.[18] In the meantime, the Department is supporting some local authorities directly. In March 2021, it reached an agreement with five local authorities with very high dedicated schools grant deficits.[19] The Department required these local authorities to develop and implement plans to reform their high-needs systems and make them more sustainable, and will, in turn, support them with extra funding.

Academy trusts

1.21 A clear and growing majority of academy trusts were in surplus from 2017/18 to 2019/20 (see Figure 2 on page 10).[20] In 2019/20, 93% of trusts reported a cumulative surplus, totalling £3.1 billion. For those academy trusts in surplus, the average surplus rose from £956,000 in 2017/18 to £1.2 million in 2019/20, an increase of 25% in real terms.

1.22 The proportion of academy trusts reporting a cumulative deficit fell from 7% in 2017/18 to 4% in 2019/20. Academy trusts reported a total cumulative deficit of £42 million in 2019/20. The average deficit fell from £395,000 to £376,000, a reduction of 9% in real terms.

1.23 A slightly larger proportion of single-academy trusts than multi-academy trusts have been in deficit, and the difference grew each year to 2.7 percentage points in 2019/20 (**Figure 7** on pages 26 and 27). We reported in 2018 that the Department was supportive of multi-academy trusts as a means of encouraging more formal collaboration between schools, both to improve educational standards and to secure efficiencies and economies of scale.[21]

1.24 The net position for the academy sector as a whole in 2019/20 was a cumulative surplus of £3.1 billion, an increase from £2.5 billion in 2017/18. The average balance per pupil has increased:

- For single-academy trusts, the average balance rose from £677 in 2017/18 to £774 in 2019/20, a 9% increase in real terms.
- For multi-academy trusts, the average balance rose from £584 in 2017/18 to £668 in 2019/20, a 9% increase in real terms (Figure 7).

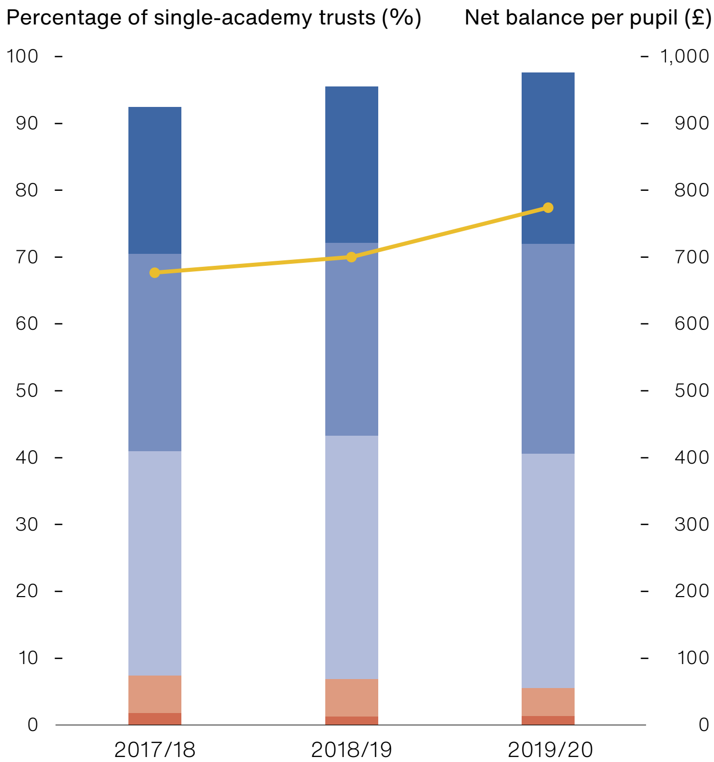
17 Comptroller and Auditor General, *Support for pupils with special educational needs and disabilities in England*, Session 2017–2019, HC 2636, National Audit Office, September 2019.
18 HC Education Committee, *Oral evidence: Accountability hearings*, HC 82, November 2021.
19 Department for Education, *Dedicated schools grant: very high deficit intervention*, March 2021.
20 Data for 2014/15 to 2016/17 are not reliable so we excluded these years from our analysis.
21 Comptroller and Auditor General, *Converting maintained schools to academies*, Session 2017–2019, HC 720, National Audit Office, February 2018.

Figure 7

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

The proportion of both single-academy trusts and multi-academy trusts reporting a cumulative deficit has decreased every year since 2017/18

Single-academy trusts



	2017/18	2018/19	2019/20
Percentage of trusts in surplus by more than 20% of income	22	23	26
Percentage of trusts in surplus by more than 10% but less than or equal to 20% of income	30	29	31
Percentage of trusts in surplus by 10% or less of income	34	36	35
Percentage of trusts in deficit by 10% or less of income	6	6	4
Percentage of trusts in deficit by more than 10% of income	2	1	1
Net balance per pupil (£)	**677**	**700**	**774**

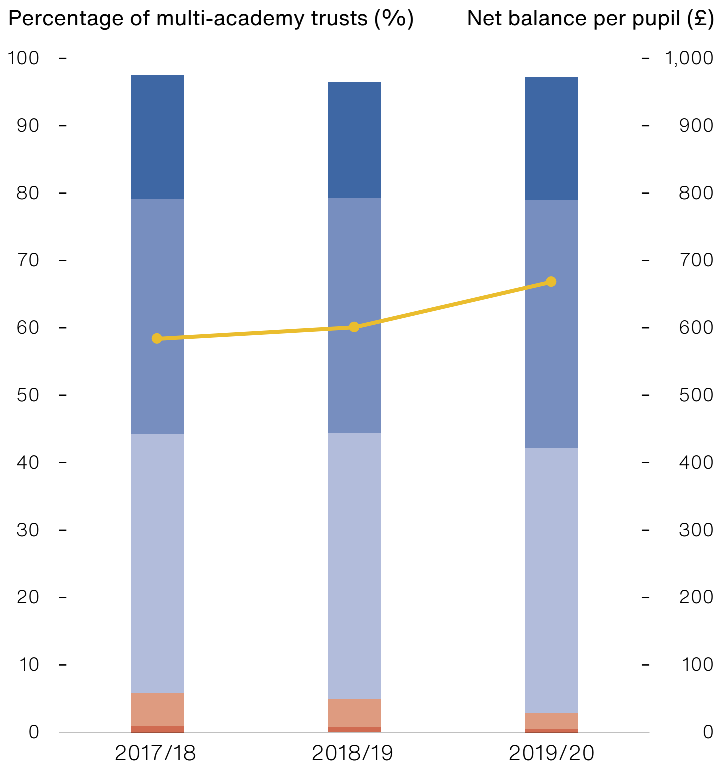
Notes

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.

Source: National Audit Office analysis of Department for Education data

Multi-academy trusts



	2017/18	2018/19	2019/20
Percentage of trusts in surplus by more than 20% of income	18	17	18
Percentage of trusts in surplus by more than 10% but less than or equal to 20% of income	35	35	37
Percentage of trusts in surplus by 10% or less of income	39	39	39
Percentage of trusts in deficit by 10% or less of income	5	4	2
Percentage of trusts in deficit by more than 10% of income	1	1	0
Net balance per pupil (£)	**584**	**601**	**668**

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.

1.25 Some academy trusts have built up substantial reserves, and their reserves are larger than those for maintained schools as a proportion of income. For example, in 2019/20, 26% of single-academy trusts and 18% of multi-academy trusts reported cumulative surpluses equivalent to 20% or more of their income (Figure 7). The figures for the maintained school sector in 2019-20 were 5% for primary schools and 4% for secondary schools. The Department does not have information on whether academy trusts have earmarked reserves for particular projects.

1.26 In both the maintained and academy sectors, a small number of bodies held a substantial proportion of the cumulative surplus reported. For example:

- in 2019-20, 99 of 11,900 maintained schools (0.8%) held 10% of the total cumulative surplus reported; and
- in 2019/20, 24 of 2,700 academy trusts (0.9%) held 10% of the total cumulative surplus reported.

1.27 The ESFA requires academy trusts with a cumulative deficit to develop a plan to return to a financially sustainable position.[22] In order to maintain financial stability and protect educational provision, the ESFA has also provided extra funding to some academy trusts in financial difficulty. As a result, the financial position of the academy trusts concerned and the sector overall has been enhanced.

1.28 The ESFA provided a total of £45 million in 'non-recoverable' deficit funding to academy trusts from 2014-15 to 2019-20. In addition, over the same period, it provided 'recoverable' deficit funding of £79 million. Of this, the ESFA wrote off £5.6 million that academy trusts could not repay. It also impaired a further £24.3 million, because it assessed that it was unlikely to recover this funding.[23]

1.29 Each month the ESFA compiles a report on the academy trusts of most concern. It uses a framework to assess the level of financial risk and inform its decisions about whether and how to intervene.[24] At August 2021, the ESFA had significant concerns about 53 academy trusts with 118 schools (1.2% of all academy schools) due to financial issues.[25] This was an improvement on the position at October 2017 when 66 academy trusts with 160 schools (2.3% of all academy schools) were of significant concern due to financial issues.[26]

22 Education and Skills Funding Agency, *Academy trust deficit recovery*, updated August 2021.
23 Education and Skills Funding Agency, *Annual report and accounts for the year ended 31 March 2020,* July 2020.
24 Categories of concern include financial (deficits; projected deficits; viability); compliance and governance; and irregularity.
25 This includes all types of academy school.
26 October 2017 is the earliest date for which these data are available.

Impact of financial pressures on provision

1.30 The Department has not carried out research into the impact of financial pressures on schools' provision. This contrasts with its approach for further education where research for the Department, published in 2020, aimed to improve its understanding of the cost of good-quality provision, what drives costs and the impact of cost pressures on provision.[27]

1.31 In 2019, following a recommendation by the Committee of Public Accounts, Ofsted carried out qualitative research into the potential risks to the quality of education and school effectiveness when schools are under financial pressure, and the ways that schools respond to financial pressure.[28] Ofsted found that schools had made difficult decisions in response to financial pressures, including reducing spending on staff, learning resources and premises. Feedback from the stakeholders we consulted also indicates that the steps schools have taken to remain financially sustainable has affected aspects of their provision.

Staffing

1.32 Ofsted's research found that, when schools needed to make savings, staffing costs were often the primary source because this was the largest area of spending.[29] Schools had reduced staffing levels by not replacing staff who had left, by reducing the hours of staff and by making redundancies. For example, in Ofsted's survey, 46% of primary headteachers and 81% of secondary headteachers reported that their school had reduced teacher numbers in response to financial pressures in 2017-18 and 2018-19.

1.33 The stakeholders we consulted highlighted that schools have introduced new staff structures and reduced the number of teachers and support staff, or the number of hours they work, in order to manage cost pressures. They pointed to teacher numbers not keeping pace with pupil numbers. From November 2014 to November 2020, the ratio of pupils to teachers remained relatively stable in nursery and primary schools, varying between 20.3:1 and 20.9:1. However, ratios in secondary schools rose from 15.0:1 in 2014 to 16.6:1 in 2020.[30]

27 Department for Education, *Costs and cost drivers in the Further Education sector*, February 2020. The research was carried out by acl Consulting.
28 Ofsted, *Making the cut: how schools respond when they are under financial pressure*, February 2020. Ofsted received responses to its survey from 98 primary school headteachers (out of 750) and 103 secondary school headteachers (out of 750), conducted telephone interviews with 18 headteachers on particular themes, undertook research visits to 16 schools and held three focus groups with HM inspectors. Ofsted noted some limitations to its research including that the evidence it collected was subjective and self-reported by school staff and leaders.
29 Staff costs account for around three-quarters of schools' expenditure.
30 Department for Education, *School workforce in England*, June 2021.

Support for pupils with special educational needs and disabilities

1.34 Ofsted's research found that 80% of primary headteachers and 72% of secondary headteachers reported making changes to the support provided to pupils with SEND because of financial pressure. For example, schools that Ofsted spoke to described providing fewer or less regular out-of-class interventions, focusing support on core subjects, and grouping pupils with SEND together.

Breadth of curriculum

1.35 Ofsted's research found that 44% of primary headteachers and 67% of secondary headteachers reported that responses to financial pressure had led to some reductions in curriculum breadth. For primary schools, the subjects most commonly affected were computing, music, design and technology, art and design, and languages. For secondary schools, the subjects most commonly affected were design and technology, languages, citizenship, music and computing.

Impact of financial pressures on quality and outcomes

1.36 Despite the financial pressures that schools have faced, the quality of provision, measured by Ofsted's inspection grades, 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 (**Figure 8**). However, 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. In January 2020, the Department reported that, although Ofsted could inspect exempt schools in particular circumstances, around 1,000 exempt schools had not been inspected for a decade or longer.[31]

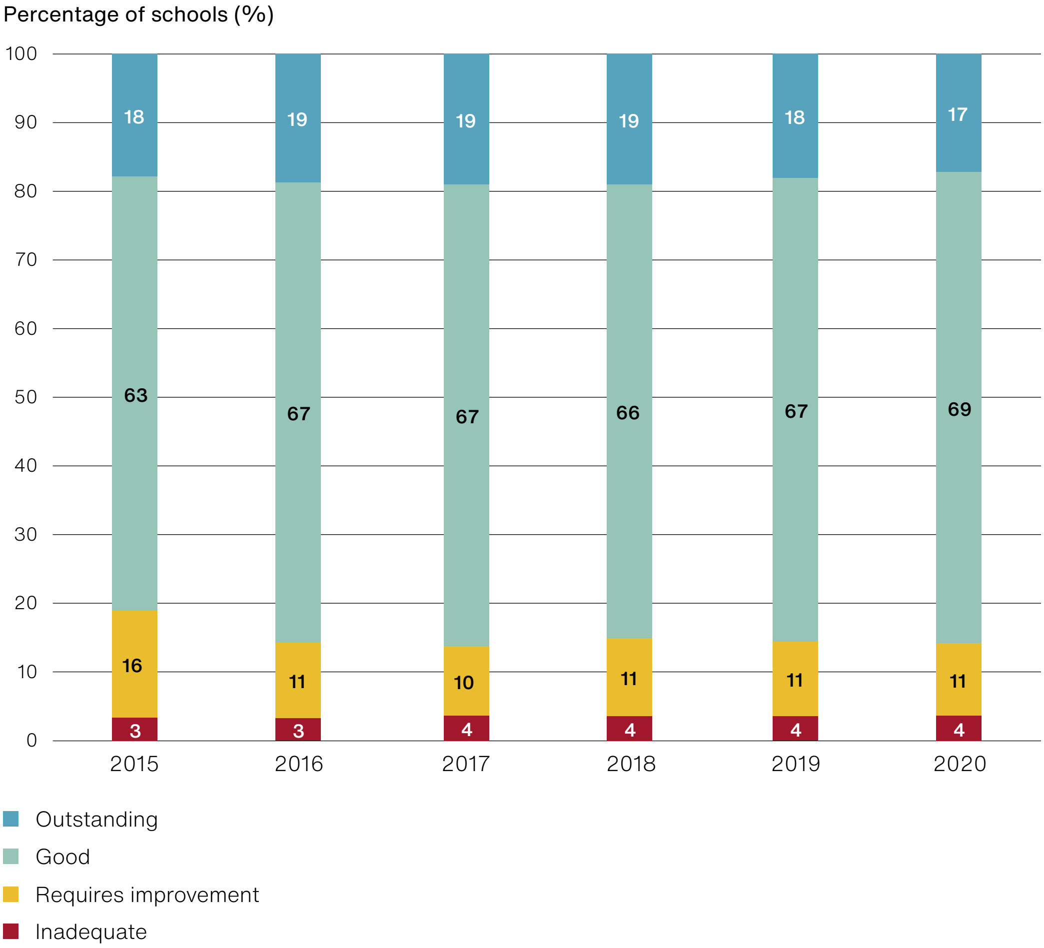
1.37 Researchers have found it difficult to establish a robust, causal link between levels of funding and educational outcomes because of the number of variables involved. The Department, in a 2017 literature review, noted that the weight of evidence from research studies suggests that additional school resources positively influence attainment, although the effects are modest at all key stages.[32] Most of the evidence supported the idea that additional spending has a slightly greater impact on the attainment of pupils eligible for free school meals than on other pupils. In 2018, Ofsted's literature review found that, while there is some limited evidence that funding can have an impact on outcomes at primary schools and for disadvantaged pupils, it is not conclusive and what seems to matter more is how money is spent.[33]

31 Department for Education, *Removal of the outstanding exemption: Government consultation*, January 2020.
32 Department for Education, *School funding and pupil outcomes: a literature review and regression analysis*, August 2017.
33 Ofsted, *Ofsted literature review and research proposal on school funding*, October 2018.

Figure 8

Ofsted inspection grades for mainstream schools in England, 2015 to 2020

Ofsted has graded the large majority of mainstream schools as good or outstanding



Notes

1 Inspection grades are at August of each year.

2 Percentages may not sum to 100% due to rounding.

3 Data include the most recent grades for 'predecessor schools' that Ofsted had not inspected in their current form, such as schools that had converted from maintained schools to academies.

Source: National Audit Office analysis of Ofsted data

Part Two

Support for schools' financial sustainability

2.1 This part of the report focuses on the support that the Department for Education (the Department) and the Education and Skills Funding Agency (the ESFA) have provided to help schools improve their financial sustainability through the school resource management portfolio.[34]

2.2 Alongside the school resource management portfolio, the ESFA supports good financial management in other ways. For example, it sets standards that schools and academy trusts must follow and undertakes checks to gain assurance that they have complied. It also monitors financial results and forecasts, and may provide support or intervene where it has concerns. This report does not examine these aspects of the ESFA's activities.

Overview

2.3 Schools and academy trusts are responsible for managing their resources effectively and operating in an efficient and financially sustainable way. The Department and the ESFA seek to support them to achieve this. Support is also available from other sources such as local authorities, the network of school business managers and professional bodies.

2.4 In 2016, we recommended that the Department should move faster to set out how it envisaged mainstream schools would achieve savings, together with the information and support schools would need in order to do so.[35] The Department has made progress since then. In particular, in 2018, it published a strategy setting out the support in place and the further steps it planned to take to help schools manage their resources and reduce costs.[36] The strategy covered spending on workforce and procurement, and tools and techniques to improve data, transparency and financial skills. Among other things, it aimed to support schools to adopt an integrated approach to curriculum and financial planning, helping them to plan the curriculum for their pupils with the funding they had available.

34 This support is available for all types of state school.
35 Comptroller and Auditor General, *Financial sustainability of schools*, Session 2016-17, HC 850, National Audit Office, December 2016.
36 Department for Education, *Supporting excellent school resource management*, August 2018.

2.5 The Department and the ESFA have been providing support through a number of programmes, which the ESFA started to manage collectively as the school resource management portfolio in 2020. We examined key elements of the portfolio, focusing mainly on those programmes intended to help schools achieve efficiency savings.

2.6 The stakeholders we consulted were generally positive about the actions that the Department has taken. They told us that the guidance and tools are useful resources to support schools' financial management and help them identify potential areas for savings, and that the measures have been broadly welcomed by the sector. For example, the National Association of Head Teachers told us that its members have generally welcomed the support that the Department has provided around procurement; and NASUWT, the Teachers' Union, told us that it has supported the Department's strategy of providing key financial information about schools and groups of schools and academy trusts through its financial benchmarking materials.

2.7 We sought to assess the impact of the programmes, but 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. 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 enhance its management and oversight as it takes the school resource management portfolio forward.

2.8 As its programmes have evolved, the Department has 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. It is also not possible to establish a consolidated view of the savings achieved through the school resource management portfolio as some savings may be counted by more than one programme, for example where school resource management advisers recommend that schools use one of the Department's procurement frameworks.

School resource management advisers

2.9 **Figure 9** overleaf sets out details of the school resource management advisers programme. The Department piloted the programme in 2017/18, deploying advisers to 72 academy trusts to provide guidance and support on making efficiencies and generating extra income. The advisers identified opportunities for savings totalling £35.3 million. The evaluation of the pilot, published in January 2020, found that £4.9 million of savings had been realised and academy trusts were expecting further savings of £10.1 million.[37]

37 Education and Skills Funding Agency, *School resource management adviser: Pilot evaluation*, January 2020.

Figure 9

School resource management advisers

This Figure sets out key facts about the Department for Education's (the Department's) school resource management advisers programme

- The Department launched the school resource management advisers programme in 2018/19 after a pilot in 2017/18. At March 2021, it had contracts with eight suppliers to provide advisers.
- School resource management advisers are practitioners, such as headteachers and school business professionals, and have been accredited by the Institute of School Business Leadership. At March 2021, there were 158 accredited advisers.
- In September 2021, the Department announced that until August 2024 advisers would be provided by the Institute of School Business Leadership and North Yorkshire County Council, and accreditation would be provided by Education Performance Improvement Limited.
- The advisers are deployed to an academy trust or local authority, and may cover one or more schools within that academy trust or local authority.
- The Education and Skills Funding Agency identifies schools and academy trusts that may benefit from a visit from an adviser. In most cases, schools and trusts can choose whether to accept a visit. They can also request a visit.
- The advisers work with schools and academy trusts to understand their income, expenditure and financial management. They complete a report after their visit, with recommendations to improve efficiency and financial management, and to maximise resources to maintain and improve educational outcomes.

Source: National Audit Office summary based on Department for Education information

2.10 In its initial business case for the programme, the Department estimated that, assuming 400 deployments each year at a cost of £2.4 million, the academy trusts visited would realise savings totalling more than £50 million by the end of 2019/20. In summer 2018, the Department expanded the scale of the programme and increased what it expected to achieve.

2.11 The Department provided us with data on the performance of the school resource management advisers programme, which it had used for internal reporting and management of the scheme. During our analysis, we identified issues with the completeness and accuracy of these data. For example, savings had been double-counted for a noteworthy proportion of visits. As a result of our work and its own subsequent review, the Department made substantial improvements to its data. We could therefore rely on the data to evaluate the programme's effectiveness.

2.12 From September 2018 to February 2020, advisers completed 576 deployments to schools and academy trusts, 72% of the Department's target of 800. The Department told us that there were fewer visits than planned mainly because some deployments took longer than expected and because some schools and trusts decided not to go ahead with their planned visit. In March 2020, due to the COVID-19 pandemic, the Department adjusted its approach, using some visits to help schools and trusts manage the impact of the pandemic on their finances. The Department has not set targets for the number of deployments since August 2020. By March 2021, advisers had completed 979 deployments in total (including 70 COVID-19 support visits). The programme cost £3.9 million from September 2018 to March 2021.

Savings

2.13 By March 2021, school resource management advisers had identified total potential savings of £303 million.[38] On average, advisers identified potential savings of £333,300 from each deployment, although the amount varied significantly between visits. In 66 deployments, the advisers identified potential savings of more than £1 million, while no savings were identified in 91 deployments.

2.14 The amount of savings realised is self-reported by schools. The ESFA asks most schools and academy trusts to complete a workbook six months after a deployment, with details of the savings planned and achieved against the school resource management adviser's recommendations. Some savings can only be realised over a period longer than six months – for example, renegotiating better terms may have to wait until a contract is re-tendered.

38 This figure is for non-repeated savings in the three-year period following a visit. For example, if an action is estimated to save a school £10,000 each year for three years, only £10,000 is recorded as a saving. This figure does not include revenue generation opportunities or potential savings considered of low achievability. This is consistent with the Department's targets and internal reporting.

2.15 Leaving aside the 70 COVID-19 support visits, of the 909 deployments carried out by March 2021:

- schools and academy trusts had returned workbooks to the ESFA for 313 deployments, around one-third of deployments carried out;
- the ESFA had requested workbooks for a further 470 deployments, which had not been returned by schools and academy trusts. It paused workbook requests twice during 2020-21 due to the COVID-19 pandemic.[39] The ESFA told us that some schools and academy trusts could not subsequently complete the workbooks because the time-lag since the adviser's visit and the impact of the pandemic meant that the recommendations were no longer relevant or savings could not be easily estimated; and
- the ESFA had not requested workbooks from schools and academy trusts for the remaining 126 deployments. In around half of these cases, this was because no savings were identified as a result of the visit. Other reasons included that six months had not passed since the deployment.

2.16 In the 313 returned workbooks, schools and academy trusts 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, slightly exceeding the ESFA's target of £80.9 million. However, for the reasons set out above, the available data do not provide a complete or representative picture of performance. As a result, it is not possible to assess fully the savings that schools and trusts have made after visits from the school resource management advisers. The ESFA 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.

2.17 Schools and academy trusts are free to choose whether to accept the advisers' recommendations and what action to take in response. In the 313 returned workbooks, advisers had identified potential savings of £134.9 million; they had made 1,882 recommendations, of which 1,086 were accepted. Sometimes schools and trusts may not implement recommendations because they consider that educational provision might be adversely affected. Some schools and trusts also highlighted that plans to make savings or increase income were already in place at the time of the adviser's visit. Therefore, it is difficult to assess the extent to which the advisers were responsible for the reported savings.

39 The ESFA paused workbook requests from March to September 2020 and from December 2020 to June 2021.

2.18 The stakeholders we consulted were broadly positive about the school resource management advisers programme. They did note that the effectiveness of the deployments varied and depended on whether the adviser had the appropriate skills and expertise for the particular needs of the school they were visiting, and on whether the adviser built a successful relationship with the school's leaders.

Support for better procurement

2.19 In the 2015 Spending Review, the government undertook to "support school leaders target over £1 billion a year in procurement savings by the end of the parliament through benchmarking, guidance and improved framework contracts".[40] 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 non-staff goods and services. The main elements of support were procurement frameworks with recommended deals, the risk protection arrangement and regional buying hubs (**Figure 10**).

Figure 10
Support for better procurement

This Figure sets out key facts about the support that the Department for Education (the Department) has provided for better procurement

Nationally available procurement frameworks

- The Department expanded its procurement frameworks in 2018, with the aim of saving schools time and money when buying goods and services.
- The Department signposts schools to pre-approved frameworks with a number of suppliers, which it has assessed for suitability and value for money. At March 2021, there were 45 frameworks covering, for example, supply teachers, cleaning services, and ICT hardware and support services.

Risk protection arrangement

- The Department established the risk protection arrangement in 2014, with the aim of offering schools a cheaper alternative to commercial insurance.
- The arrangement was initially available to academy schools and the Department extended the offer in April 2020 to maintained schools. Participating schools pay a flat rate per pupil, which the Education and Skills Funding Agency deducts from their revenue funding each year.

Regional buying hubs

- In 2017, the Department set up a pilot scheme comprising two regional school buying hubs, in the North West and the South West. It appointed two contractors to provide the service, which will run until spring 2022.
- The hubs aim to help schools and academy trusts get better value for money from their procurement, by providing access to specialist advice, guidance and support.

Source: National Audit Office summary based on Department for Education information

40 HM Treasury, *Spending Review and Autumn Statement 2015, Cm 9162*, November 2015.

2.20 The Department has not tracked procurement savings specifically. To assess performance against the 2015 Spending Review commitment, it has analysed school spending on 'non-staff' costs, a different definition than 'procurement savings'. The Department has included spending on the non-teaching staff that schools employ, and excluded spending on supply teachers, which are covered by a procurement framework. The Department estimates that non-staff spending was £1.1 billion less in 2019-20 than it would have been had spending per pupil on non-staff categories continued at the same rate as in 2015-16.

2.21 In April 2021, the Department published an updated buying strategy, setting out its approach for the next five years.[41] Its aims are to: support schools to be smart consumers; ensure that buyers and decision-makers in schools have the right relationships and skills; and ensure that buyers have access to the best value every time. The Department estimated in its business case that schools would save £275 million by the end of 2024/25 as a result of the updated school buying strategy.

2.22 One of the main components of the strategy is the 'Get Help Buying for Schools' service. This is a national service which the Department started to provide in November 2021 and which will replace the regional buying hubs by May 2022. Alongside further development of its existing procurement frameworks and tools, the Department plans that the buying service will provide advice and guidance, identify opportunities for collective procurement and, in some instances, undertake complex procurement on behalf of schools.

Procurement frameworks

2.23 The Department did not prepare a business case setting out what it was aiming to achieve through its procurement frameworks, how it would measure impact and what level of performance would constitute success.

2.24 In April 2021, the Department reported that schools had spent £280.8 million through the procurement frameworks from 2017-18 to 2019-20.[42] At the time of our work, it estimated that total spending had increased to £415 million by March 2021. However, the Department told us that problems with the data mean that these figures are not accurate or complete. It is reliant on the framework providers to supply data on take-up and spending, but they are not obliged to do so. Of the 45 available frameworks, the Department did not receive spending information for 2020-21 from eight suppliers, while a further three reported no spending. In addition, the Department told us that suppliers do not provide consistent or complete data on the users of the frameworks, meaning that it cannot evaluate the types of school using this resource.

41 Department for Education, *Schools buying programme 2020: Prospectus 2020–2025*, April 2021.
42 Department for Education, *Schools Commercial: Performance of Initiatives*, April 2021.

2.25 The Department also asks suppliers to provide data on the estimated savings made by schools from using the frameworks. However, issues with the quality and availability of these data mean that we cannot rely on this information. For example, the Department did not have savings estimates for 14 of the 45 frameworks available in 2020-21. Most of those suppliers who did provide savings estimates used very small sample sizes to calculate them, including three who used a single case study as the basis for their estimate. The Department does not quality-assure the data provided by suppliers.

2.26 The Department acknowledges that there are shortcomings in its performance data for the procurement frameworks. It told us that when the frameworks were first introduced, it did not have enough analysts to set up an adequate data system and evaluate the data received. In May 2021, the Department set up a small team which plans to improve the quality of data provided by the framework suppliers and thereby allow more accurate analysis of take-up, spending and savings.

Risk protection arrangement

2.27 The risk protection arrangement is a long-standing and popular arrangement. At March 2021, 6,946 academy schools (73%) had taken it up, just above the Department's target of 72%. Take-up among maintained schools is growing and, at March 2021, 443 schools were part of the scheme, slightly below the target of 460 schools.

2.28 The Department estimates that the risk protection arrangement saved £420 million for members from September 2014 to March 2021. This estimate was based on trends in schools spending on insurance. In addition, the Department told us that the arrangement had led to a fall in the prices offered by commercial insurance providers, which had generated savings for schools that were not participating in the scheme.

Regional buying hubs

2.29 In 2017, the Department set up a pilot scheme of two regional buying hubs, for schools in the North West and the South West. It used the pilots to test different functions that hubs could provide and modified the service based on feedback and evaluation. For example, initially the hubs focused on providing advice and guidance to schools on complex procurements. However, in light of feedback from schools, the Department adjusted the service in February 2019 so that the hubs were able to buy goods and services on behalf of schools.

2.30 The Department's internal evaluation found that, from September 2018 to April 2020, both hubs saved more than they cost to run, although the South West hub had been substantially more effective. It estimated that the South West hub saved £3.24 for every £1 spent and generated gross savings of £7.4 million; the North West hub saved £1.80 for every £1 spent and generated gross savings of £4.9 million. The Department identified several potential reasons for the difference in performance, with the main factor being the South West hub's engagement with large multi-academy trusts for whom they identified considerable savings. The Department estimated that, at March 2021, the hubs had saved £23.1 million at a cost of £8.4 million, exceeding the target of £20.7 million of savings by this date.

2.31 From November 2021, the Department started to provide a national buying service for schools (see paragraph 2.22).

Examples of other support

Data and transparency

2.32 The Department provides schools and academy trusts with a range of tools and guidance to understand better their financial position, identify scope for improved resource management and share good practice. The stakeholders we consulted also noted that publishing financial data has increased transparency and helped governors and other stakeholders hold schools to account for their spending.

2.33 The data tools include:

- *Schools financial benchmarking service*: The Department launched this service in 2017. It is a publicly available website which allows schools and academy trusts to compare their income and spending in various categories with those of similar schools or trusts. The Department intends that governors and school leaders will use the information to identify where savings could be made and to share good practice;

- *School resource management self-assessment checklist*: The Department launched this service in 2018. It is an online tool to help academy trusts check that they have appropriate financial management and governance arrangements and identify areas for improvement; and

- *View my financial insights*: The Department launched this service in 2020. It is an online tool designed to help schools view and improve their financial performance. It allows schools to compare their financial performance with 30 statistically similar schools across a range of cost categories. In addition, multi-academy trusts and local authorities can see the financial performance of all their schools.

2.34 The Department has not set targets for its data tools, but take-up appears to be high. For example, the Department found that 90% of the 2,615 academy trusts with data in the *View my financial insights* tool had used the tool in 2020-21.

Teaching vacancies service

2.35 The Department introduced the teaching vacancies service in 2019, with the aim of reducing the time schools spend on publishing vacancies and the cost of advertising commercially. The service allows schools to advertise teaching and non-teaching roles online free of charge. The Department's data suggest that use of the service by jobseekers and schools is increasing.

2.36 In its business case, the Department estimated that the vacancies service could save schools around £33.8 million by March 2023, at a cost of £2 million each year. This assumed that schools made 'exclusive hires' through the website, rising to 18,000 hires in 2022-23, without incurring advertising costs from an external provider. The Department has since changed its methodology to calculate savings based on the number of 'exclusive listings' as advertising a position is the main cost driver for schools. It estimates that schools saved some £5 million in 2020/21 as a result of using the Department's free service rather than paying for a commercial advertisement. It does not have an estimate for savings in 2019/20.

Appendix One

Our audit approach

1 This report examines the financial sustainability of mainstream schools in England. It follows our July 2021 report on *School funding in England*, which examined the Department for Education's (the Department's) revenue funding for mainstream schools.[43] The two reports provide an update on developments since we last reported on the financial sustainability of schools in 2016.[44]

2 This report covers:

- the financial health of schools; and
- the support that the Department has provided to schools to improve their financial sustainability.

3 We applied an analytical framework with evaluative criteria that considered what arrangements would be optimal for achieving value for money. By 'optimal' we mean the most desirable possible, while acknowledging expressed or implied restrictions or constraints.

4 Our audit approach is summarised in **Figure 11** and our evidence base is described in Appendix Two.

43 Comptroller and Auditor General, *School funding in England*, Session 2021-22, HC 300, National Audit Office, July 2021.
44 Comptroller and Auditor General, *Financial sustainability of schools*, Session 2016-17, HC 850, National Audit Office, December 2016.

Figure 11

Our audit approach

The objective of government

The Department for Education's (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.

How this will be achieved

The Department has increased funding for schools in total and per pupil in real terms since 2018-19. It also has a range of programmes to help schools manage their resources effectively and operate in an efficient and financially sustainable way.

Our study

The study examined the financial sustainability of mainstream schools in England.

Our evaluative criteria

Has the financial health of schools improved since 2014?

Is the Department supporting schools effectively to improve their financial sustainability?

Our evidence

(see Appendix Two for details)

- Analysis of data from the Department, the Education and Skills Funding Agency (the ESFA) and other bodies.
- Interviews with staff from the Department, the ESFA and Ofsted.
- Review of published material and other documentary evidence.
- Consultation with sector representative bodies and other stakeholders.

Our conclusions

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.

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.

Appendix Two

Our evidence base

1 We reached our independent conclusions on the financial sustainability of schools in England, after analysing evidence collected between January and October 2021. We collected some evidence alongside our examination of *School funding in England*.[45] Our audit approach is outlined in Appendix One.

2 Our report covers the financial health of mainstream state schools in England. Mainstream schools are general primary and secondary schools, as distinct from special schools. The report also covers the support that the Department for Education (the Department) provides to all state schools in England to improve their financial sustainability.

3 In designing and carrying out our work, we took account of the 2016 National Audit Office (NAO) report on the *Financial sustainability of schools*,[46] and the subsequent Committee of Public Accounts report.[47] We also took account of previous NAO reports that covered funding for schools. These included our 2019 report on *Support for pupils with special educational needs and disabilities in England*.[48]

4 We analysed data on maintained schools' revenue balances (cumulative surpluses and deficits) from 2014-15 to 2019-20.

- Maintained schools report their finances for the year ending in March.
- The Department publishes financial data at school level for all local authority maintained schools.
- We analysed data relating to mainstream maintained schools from 2014-15 to 2019-20. These data may differ from the Department's headline official statistics, which include all types of maintained school.

45 Comptroller and Auditor General, *School funding in England*, Session 2021-22, HC 300, National Audit Office, July 2021.
46 Comptroller and Auditor General, *Financial sustainability of schools*, Session 2016-17, HC 850, National Audit Office, December 2016.
47 HC Committee of Public Accounts, *Financial sustainability of schools*, Forty-ninth Report of Session 2016-17, HC 890, March 2017.
48 Comptroller and Auditor General, *Support for pupils with special educational needs and disabilities in England*, Session 2017–2019, HC 2636, National Audit Office, September 2019.

- The revenue reserve data indicate the financial balance (cumulative surplus or deficit) of a school at the end of each financial year. We analysed these data by calculating each school's cumulative surplus or deficit as a proportion of its total income, including government revenue grants and self-generated income.
- We excluded from the graphs in Figures 1 and 4 a small proportion of maintained schools with a revenue reserve of £0. The proportion ranged from 0.1% (16 schools) in 2014-15 to 1.2% (161 schools) in 2017-18.
- We calculated the net balance per pupil for each year by dividing the total cumulative surplus less the total cumulative deficit by the total number of pupils in all maintained primary and secondary schools for that year.
- We used 2014-15 as the starting point for our analysis as this provides some overlap with our 2016 study on the financial sustainability of schools.
- Unless otherwise stated, all financial data are in cash terms. Where financial data have been converted into real terms, we used the gross domestic product (GDP) deflator series published by HM Treasury in March 2021. Real-terms values are at 2020-21 prices.
- For 2020-21, the GDP deflator as published is not representative of expected inflation due to distortions caused by the COVID-19 pandemic. Therefore, we used the compound average growth rate of the GDP deflator for the three years 2020-21 to 2022-23 to smooth the irregular impact of the pandemic.

5 We analysed data on academy trusts' revenue balances (cumulative surpluses and deficits) from 2017/18 to 2019/20.

- Academy trusts report their finances for the year ending in August.
- The Department publishes some financial data at academy school level and other financial data at academy trust level. We analysed both datasets from 2017/18 to 2019/20.
- The revenue reserve data indicate the financial balance (cumulative surplus or deficit) of an academy trust at the end of each financial year. We analysed these data by calculating each trust's cumulative surplus or deficit as a proportion of its total income, including government revenue grants and self-generated income.
- We excluded from the graphs in Figures 2 and 7 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.
- We calculated the net balance per pupil for each year by dividing the total cumulative surplus less the total cumulative deficit by the total number of pupils in all academy schools for that year.

- We used 2017/18 as the starting point for our analysis as this is the year when the Department started collecting good-quality data for academy trusts on a consistent basis.
- We used financial data from the Education and Skills Funding Agency's (the ESFA's) annual report and accounts to calculate the value of 'deficit funding' provided to some academy trusts in financial difficulty.
- Unless otherwise stated, all financial data are in cash terms. Where financial data have been converted into real terms, we used the GDP deflator series published by HM Treasury in March 2021. Real-terms values are at 2020-21 prices.
- For 2020-21, the GDP deflator as published is not representative of expected inflation due to distortions caused by the COVID-19 pandemic. Therefore, we used the compound average growth rate of the GDP deflator for the three years 2020-21 to 2022-23 to smooth the irregular impact of the pandemic.

6 We analysed data on local authorities' dedicated schools grant balances from 2014-15 to 2019-20.

- The Department publishes financial data on the dedicated schools grant at local authority level. We used the carried-forward balance of the dedicated schools grant from 2014-15 to 2019-20 as an indicator of the financial health of local authorities with regards to education.
- We used high-needs budget and outturn data to calculate the proportion of local authorities overspending against their budget, and the net overspend or underspend for all local authorities.
- Unless otherwise stated, all financial data are in cash terms. Where financial data have been converted into real terms, we used the GDP deflator series published by HM Treasury in March 2021. Real-terms values are at 2020-21 prices.
- For 2020-21, the GDP deflator as published is not representative of expected inflation due to distortions caused by the COVID-19 pandemic. Therefore, we used the compound average growth rate of the GDP deflator for the three years 2020-21 to 2022-23 to smooth the irregular impact of the pandemic.

7 **We reviewed published and unpublished documents, and analysed management information, from the Department and the ESFA.** We used this material to understand how these bodies exercise their responsibilities relating to the financial sustainability of schools. These documents and management information included material relating to:

- the financial health of schools and how financial pressures have affected education provision; and
- the implementation and performance of the Department's school resource management portfolio and the programmes within the portfolio, including business cases, evaluations, key performance indicators and data used to monitor progress and impact.

8 **We analysed departmental data on the performance of the school resource management advisers programme.**

- We examined the Department's data for tracking different elements of the school resource management advisers programme, including deployments, workbooks returned by schools and academy trusts, and savings identified, planned and achieved. We aggregated these data to assess the programme's performance and carried out quality assurance checks for completeness and accuracy.
- We found significant issues including double-counting and missing data. Following our examination, the Department carried out its own review and updated these data to address the issues we had identified.
- Following the Department's review, we reperformed checks, and tested a sample of 30 returned workbooks, which we selected randomly, to provide assurance that the data were reliable enough for us to report.

9 We examined departmental data and information on the performance of the Department's support for better procurement in schools.

- We reviewed internal reporting data on the procurement frameworks. This material included data, where available, for each framework showing the number of schools using the framework, expenditure each year and estimated savings. We found, however, that the data on take-up and spending were incomplete and inconsistent; and the data on savings were incomplete and not robust since they were often based on small samples. We therefore concluded that the data were not reliable enough for us to report.

- We examined internal reporting data and business cases for the risk protection arrangement and the regional buying hubs. In addition, we examined the Department's evaluation of the performance of the buying hubs.

10 We interviewed staff from the Department and the ESFA. The people we interviewed at the Department included those responsible for funding policy and strategy in the school sector. The ESFA staff we interviewed included those responsible for monitoring schools' financial health, financial management and spending. We also interviewed staff at the Department and the ESFA responsible for the school resource management portfolio and the programmes within the portfolio.

11 We drew on evidence from Ofsted.

- We interviewed senior staff at Ofsted about schools' financial health and the impact of financial pressures on the quality of education and school effectiveness.

- We reviewed published Ofsted reports: *Ofsted literature review and research proposal on school funding*, October 2018 and *Making the cut: how schools respond when they are under financial pressure*, February 2020. We used this material to understand evidence on the impact of financial pressures on schools' provision and the link between funding and educational outcomes.

- For the *Making the cut* report, Ofsted received responses to its survey from 98 primary school headteachers (out of 750) and 103 secondary school headteachers (out of 750), conducted telephone interviews with 18 headteachers on particular themes, undertook research visits to 16 schools and held three focus groups with HM inspectors. Ofsted noted some limitations to its research including that the evidence it collected was subjective and self-reported by school staff and leaders.

- We analysed Ofsted data on the outcomes of its inspections of schools. We used these data to indicate the quality of provision in mainstream schools and how this has changed over time.

12 **We invited stakeholders to respond to a consultation exercise.** We asked stakeholders for their views, and any supporting evidence they had, on the following issues:

- what schools had done themselves in the past few years to manage cost pressures and make efficiency savings; and
- how useful the support is that the Department and the ESFA provide to help schools improve their efficiency and/or financial sustainability.

13 We met or received formal consultation responses from:

- the Association of Directors of Children's Services;
- the Association of School and College Leaders;
- the County Councils Network;
- the Institute of School Business Leadership and the Confederation of School Trusts (joint response);
- the Local Government Association;
- the National Association of Head Teachers;
- the National Education Union;
- the National Foundation for Educational Research;
- NASUWT, The Teachers' Union; and
- Parentkind.

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