



House of Commons  
Committee of Public Accounts

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**Department for  
Education:  
accountability and  
oversight of education  
and children's services**

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**Eighty – second Report of Session  
2010–12**

*Report, together with formal minutes,  
oral and written evidence*

*Ordered by the House of Commons  
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## Committee of Public Accounts

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### Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

### Contacts

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## Summary

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The Department for Education (the Department) is distributing £56.4 billion in 2011-12 to schools, local authorities and other public bodies for the delivery of education and children's services in England. Where responsibility for service delivery rests with local bodies, the Department is responsible for establishing an accountability framework for devolved spending. The Department has set out how it intends to provide Parliament with assurance about the regularity, propriety and value for money of this spending in a draft Accountability System Statement (the Statement).

We have now seen three drafts and the latest iteration of the Statement has gone some way to address our initial concerns, with the Department having made better efforts to outline its accountability responsibilities within an increasingly localised delivery system. However, the Department for Education's draft Statement remains the weakest of the four Statements we have seen. It reveals that the Department will rely on a mix of local accountability mechanisms, information systems, inspection, and oversight bodies to gain the necessary assurances over regularity, propriety, and value for money. The Department needs to do more work to clearly define how funding streams will be monitored, audit arrangements, and processes to support whistleblowers.

While the Statement explains how the Department gains assurance on the regularity and propriety of devolved funding for education and children's services, it places insufficient emphasis on how value for money will be achieved. Securing value for money is particularly important at a time when financial constraints are biting harder. Responsibility for value for money is shared by the Department with schools, academy trusts, local authorities, the Young People's Learning Agency (YPLA) and the Department for Communities and Local Government. However, the Statement does not yet clearly describe the specific responsibilities of each body for achieving value for money, how these will interact to drive value for money, or how the Department will assess value for money across the entire education system. We are particularly concerned that the respective responsibilities for value for money between the Department, YPLA and academy trusts seem blurred. Responsibilities and accountabilities must be clearly defined and articulated.

The Department relies on local authorities and the YPLA to exercise financial oversight over local authority maintained schools and academies respectively. However, oversight by some local authorities is currently weak and could worsen as many authorities reduce the resources they devote to overseeing their schools. More than a quarter of local authorities responding to a National Audit Office survey were planning to reduce internal audit coverage of schools; and nearly half may not have sufficient resources to monitor their schools effectively. We also have concerns about whether the YPLA will have the right skills, systems and capacity to oversee the rapidly increasing numbers of academies expected in coming years. We are already picking up instances where public money appears not to be used to provide good value and the YPLA must have robust systems in place to intervene promptly where necessary.

Accountability for local authority maintained schools and academies relies on good management and effective governance. The financial management capability of local

authority maintained schools has improved, but the quality of management and governance in all schools varies between institutions. Over a quarter of local authorities surveyed by the National Audit Office thought that only a few of their primary schools had governing bodies with sufficient financial expertise. Our 2011 report on the Academies Programme found that there were already signs of potential financial and governance instability even at the early stage of that Programme.

The Department, local authorities and the YPLA need better information to assess and challenge schools' financial management and governance. More consistent requirements for data and data returns must be applied to all schools so that academic and financial performance can be benchmarked, and all schools can be held accountable. The Department needs to enforce these requirements more stringently, particularly given previous problems with lack of compliance by some academies.

We are concerned that the accountability framework is not sufficiently robust to address operational or financial failure of service providers. We are alarmed by reports of worrying expenditure by some schools – for example, very high salaries being paid to senior staff in academies or excessive expense payments for governors – which could be symptomatic of more system-wide concerns such as the adequacy of governance and controls on value for money. Persistent school deficits or excessive surpluses may also indicate wider problems with financial management and governance that require early intervention to prevent them getting worse. The Department needs to improve its understanding of such financial indicators, so it can determine when and how it would be best to intervene to ensure public money is being put to best use.

On the basis of the Department's draft Accountability System Statement<sup>1</sup> and a report by the Comptroller and Auditor General,<sup>2</sup> we took evidence on 28 November 2011 from the Department and the YPLA on how the Department accounts to Parliament for the use of funds allocated to it and how it gains assurance from other bodies for devolved funding. The most recent draft Accountability System Statement we have seen is that provided to us on 1 February 2012.<sup>3</sup> This report takes into account this latest draft and also the evidence given by the Treasury and the Department for Communities and Local Government at our Accountability hearing on 6 February 2012.

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1 Ev 17, Department for Education, Draft Accounting Officer System Statement, submitted to Public Accounts Committee on 21 November 2011

2 C&AG's Report, *Oversight of financial management in local authority maintained schools*, HC 1517, Session 2010-12

3 Committee of Public Accounts, *Accountability for public money-progress report*, Seventy-ninth Report of Session 2010-12, HC 1503, April 2012, Ev 26

## Conclusions and recommendations

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1. **The Department for Education's draft Accountability System Statement (the Statement) describes arrangements for providing assurance on regularity and propriety, but does not provide us with assurances that the systems being established will achieve value for money across the sector.** Responsibility for value for money is shared by the Department with the Department for Communities and Local Government, individual schools, academy trusts, local authorities and the YPLA. However, the specific responsibilities of each for achieving value for money, and how they interact to drive value for money, are not clear. Furthermore, the Department has yet to demonstrate sufficient focus on its responsibility to deliver value for money across the entire education system. The Department should:
  - outline in a revised Statement the responsibilities and accountabilities of each type of body for value for money, and how they interact to secure value for money across the entire education system; and
  - set out how it will assess whether value for money is being achieved across the entire education system, including, for example, comparing spending with results secured over time.
  
2. **Much of the Department's assurance on regularity, propriety and value for money comes through oversight by other bodies which are subject to major resource pressures.** As they look for ways to cut costs, many local authorities are reducing the amount of staff time spent reviewing school finances. Meanwhile, the YPLA will have to oversee growing numbers of academies in the coming years, and we have early warning signs which raise concerns about whether it has enough capacity and skilled staff to do so effectively. The Statement should identify the financial oversight regime for all schools so that local authorities and the YPLA can appropriately resource these activities and fulfil their obligations.
  
3. **The Department is relying on the availability of transparent, comparable information to drive value for money across the schools sector. However, incomplete and inconsistent data currently make it difficult to compare all schools on their academic performance, funding received, and use of resources.** Academies are subject to different data reporting requirements from local authority maintained schools, although the Department told us that the information submitted by both these school types will become comparable in future. Lack of compliance with reporting requirements by some academies has been a problem, with almost two-fifths of academies in 2008-09 not complying with all financial reporting requirements. The Department has recognised the need to strengthen its validation of local authority maintained schools' and local authorities' data returns. The Department should set consistent requirements for reporting financial and performance information by all schools, rigorously enforce these obligations, and implement arrangements to assure the quality of the information supplied. It should publish sufficient financial and performance information to allow comparisons between individual academies and local authority maintained schools of a similar nature to be made, and this information should include funding received per pupil.

- 4. Governing bodies are central to effective oversight of all schools, but the quality of governance varies.** We are concerned that weak governance in some schools is leading to inadequate scrutiny of, and challenge to, school leadership. The Department, local authorities and the YPLA need to identify and challenge instances of poor financial governance in particular, and promote strong oversight and challenge by governors with the necessary financial expertise. Assessments that schools are now obliged to provide – the new Schools Financial Value Standard for maintained schools and the Financial Management and Governance Evaluation for academies – may give the Department and others better information and assurance on how well governing bodies are discharging their financial oversight responsibilities. The Department should:
- by September 2012, review the operation of the Schools Financial Value Standard and the Financial Management and Governance Evaluation, to evaluate whether they are providing sufficient assurance over governance and financial management at school level; and
  - encourage all schools to recruit and train sufficient numbers of governors with financial expertise.
- 5. We are concerned about the Department’s ability to pick up warning signs of improper spending or poor value for money for the taxpayer.** It is not clear whether existing monitoring and accountability mechanisms do enough to flag up concerns that should be investigated. For example, some academies have paid very high salaries to their senior staff and incurred expenditure of questionable value. Where reports emerge of individual failings, the Department must consider whether they indicate wider problems with financial management and governance, and deal with the underlying system-wide causes. The Department must set out how it will ensure local monitoring mechanisms promptly pick up any concerns about the regularity, propriety and value for money of spending within all schools. At present too much reliance is placed on whistleblowers. The Department and its agencies must ensure that they have arrangements in place to address concerns identified by whistleblowers, but it is also crucial that systems are sufficiently robust to enable those responsible to identify problems early.
- 6. The Department has only a limited understanding of why some local authority maintained schools are persistently in deficit or surplus.** The Department needs to undertake work to better understand the causes and consequences of persistent deficits and excessive surpluses. It should analyse the extent of deficits and surpluses among those schools under local authority control, and work with the Department for Communities and Local Government to get local authorities that have failed to resolve long-standing financial problems in their schools to address these.



# 1 Value for money from the system

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1. The delivery of education and children's services in England is highly decentralised – in 2011-12 the Department for Education is distributing £56.4 billion to local authorities, maintained schools, the Young People's Learning Agency (YPLA), academy trusts and academies.<sup>4</sup> While responsibility for cost-effective service delivery rests with these bodies, the Department is responsible for putting in place an accountability framework which provides Parliament with the necessary assurances that these resources are spent with regularity and propriety and provide value for money.<sup>5</sup> The Department has prepared a draft Accountability System Statement (the Statement) in which it aims to describe the accountability framework for providing these assurances. It reveals that the Department will rely on a mix of local accountability mechanisms, information systems, inspection, and oversight bodies to gain assurance.<sup>6</sup>

2. While the Statement establishes accountability for regularity and propriety, it does not yet adequately set out the respective obligations of local authorities, maintained schools, the YPLA, academy trusts and academies for achieving value for money, how they interact with one another to drive value for money, or how the Department ensures the achievement of value for money across the education system.<sup>7</sup> In particular, the respective accountabilities of the Department and academy trusts appear blurred, while the Department will need to liaise with the Department for Communities and Local Government if it wants to challenge local authorities over poor oversight of their schools or the value for money of their children's services.<sup>8</sup> The Department appreciates that it will need to keep these arrangements and its Statement under review as the system evolves.<sup>9</sup>

3. The Statement does not describe how value for money across the education system will be assessed.<sup>10</sup> The focus of the Department, and of the inspection and intervention regimes described in the Statement, is primarily on the quality of delivery of education and children's services, with limited assessment of financial management or value for money.<sup>11</sup> The Statement makes no mention of potential measures of system-wide value for money, such as expenditure over time against the results achieved or value added, the ratios of

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4 Ev 18, Department for Education, *Draft Accounting Officer System Statement*, 21 November 2011, paras 8-9; Committee of Public Accounts, *Accountability for public money-progress report*, Seventy-ninth Report of Session 2010-12, HC 1503, April 2012, Ev 29, para 12

5 Ev 17, Department for Education, *Draft Accounting Officer System Statement*, 21 November 2011, paras 1, 2, 4-6; Committee of Public Accounts, *Accountability for public money-progress report*, Seventy-ninth Report of Session 2010-12, HC 1503, April 2012, Q 1 and Ev 26, paras 1-6; Q 85 (28 November 2011)

6 Ev 17, Department for Education, *Draft Accounting Officer System Statement*, 21 November 2011; Committee of Public Accounts, *Accountability for public money-progress report*, Seventy-ninth Report of Session 2010-12, HC 1503, April 2012, Ev 26

7 Qq 85, 86, 187 (28 November 2011); Committee of Public Accounts, *Accountability for public money-progress report*, Seventy-ninth Report of Session 2010-12, HC 1503, April 2012, Qq 5, 14-21

8 Qq 104, 119, 175, 176 (28 November 2011)

9 Qq 85, 87, 138 (28 November 2011)

10 Qq 103, 105 (28 November 2011); Committee of Public Accounts, *Accountability for public money-progress report*, Seventy-ninth Report of Session 2010-12, HC 1503, April 2012, Q 14

11 Qq 128-130, 152-154 (28 November 2011); Committee of Public Accounts, *Accountability for public money-progress report*, Seventy-ninth Report of Session 2010-12, HC 1503, April 2012, Qq 16, 21

teachers or support staff to pupils, or the number and cost of schools requiring special measures.<sup>12</sup>

4. This lack of clarity over how the Department will assess value for money across the entire education system is symptomatic of a more general issue affecting all departments overseeing services devolved to local bodies, which we have identified previously in our hearings on the implications of localism for accountability and value for money.<sup>13</sup> Departments overseeing delivery by local bodies have a key role in pursuing better value for money from the entire system; for example, through securing economies of scale from collaborative purchasing across a number of local bodies, and from sharing good practice about efficient working practices.<sup>14</sup> We were encouraged to see some progress in the most recent iteration of the Department's Statement, including additional details on how the Department supports schools in these areas - through access to efficiency tools and support, access to a financial benchmarking website, promoting a range of procurement deals and training through the National College on effective financial management.<sup>15</sup>

5. The Department promotes its financial benchmarking website for schools as a principal method for gaining assurance over the achievement of value for money from education funding. The website allows maintained schools only to compare themselves with similar schools and identify those which are delivering services more cheaply.<sup>16</sup> However, between April 2010 and June 2011 just half of local authority maintained schools logged on to the website at least once.<sup>17</sup>

6. At present, it is not possible for academies to compare themselves with maintained schools in terms, for example, of the levels of funding they receive because of fundamental differences in the way financial information is collected, collated and reported. The Department is consulting on the financial information requirements that would enable data from individual academies to be compared to data from maintained schools' financial returns.<sup>18</sup> Financial data for academies will be published in Spring 2012 and will then be made available alongside maintained schools' data and headline attainment indicators.<sup>19</sup>

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12 Qq 85, 103 (28 November 2011); Qq 16, 17, 19-21

13 Committee of Public Accounts, Twenty-eighth Report of Session 2010-11, *Accountability for Public Money*, HC 740; oral evidence taken on 14 September 2011, *Accountability and Localism*, HC 1503-i, Session 2010-12

14 Oral evidence taken on 14 September 2011, *Accountability and Localism*, HC 1503-i, Session 2010-12, Qq 65-66

15 Committee of Public Accounts, *Accountability for public money-progress report*, Seventy-ninth Report of Session 2010-12, HC 1503, April 2012, Ev 30, para 26

16 Qq 80, 112, 126 (28 November 2011); C&AG's Report, para 4.9

17 C&AG's Report, para 4.10

18 Qq 79-81, 83, 104, 112, 167-169 (28 November 2011)

19 Committee of Public Accounts, *Accountability for public money-progress report*, Seventy-ninth Report of Session 2010-12, HC 1503, April 2012, Q 53 and Ev 43, para 46; Qq 80-81, 167 (28 November 2011)

## 2 Quality of oversight and governance

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7. The financial management capability of local authority maintained schools has improved as more schools employ, or have access to, school business managers with financial expertise. However, while almost all secondary schools now employ a school business manager, many primary schools lack access to one.<sup>20</sup> In addition, it is unclear whether pupil referral units, which will be assuming responsibility for their own budgets for the first time under the Education Act 2011, have the necessary financial management expertise.<sup>21</sup>

8. We have concerns over whether the bodies on which the Department relies to provide it with assurance on value for money have sufficient expertise and capacity to oversee the use of funding effectively. Local authorities have a key role in overseeing financial management in maintained schools, as does the YPLA in relation to academies. However, many local authorities are reducing the resources they devote to this oversight. More than 28% of local authorities surveyed by the National Audit Office had reduced their internal audit coverage in 2011-12 compared with the previous year, while 47% said that they did not have sufficient resources to monitor schools' finances effectively.<sup>22</sup> In 2011-12, many local authorities submitted school budget information to the Department which had significant errors, leading the Department to recognise that it needs to strengthen its validation of schools' and local authorities' data.<sup>23</sup>

9. The YPLA has to ensure it has enough capacity and financially skilled staff to oversee increasing numbers of academies. It told us that it is seeking to increase the number of accountants it employs from 40 to 60.<sup>24</sup> However, the rate of increase in the number of academies is much greater, having increased from around 200 in August 2010 to over 1,600 now, with more expected in years to come.<sup>25</sup> Both the Treasury and the Department for Communities and Local Government acknowledged that the YPLA's capacity will need to increase in line with the growth in academy numbers. This increase in capacity will need to include some local staff, but their numbers will not be large as they will not be expected to replicate the activities of local education authorities.<sup>26</sup>

10. The Department looks to governing bodies to ensure local authority maintained schools and academies have sound financial management and achieve value for money, but governance is not always strong.<sup>27</sup> A key issue is how the Department, the YPLA and local

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20 C&AG's Report, para 3.4

21 Q 156 (28 November 2011). A pupil referral unit is a type of school that offers short-term alternative education for children who are excluded from school or are not attending school for other reasons.

22 Q 113-117 (28 November 2011); C&AG's Report, para 2.12

23 Ev 17 [Department for Education note submitted to the Committee before the 28 November hearing]

24 Qq 149-150 (28 November 2011)

25 C&AG's Report, *Department for Education: The Academies Programme*, HC 288, Session 2010-2011, para 3; Department for Education list of open academies, March 2012, <http://www.education.gov.uk/schools/leadership/typesofschools/academies>

26 Committee of Public Accounts, *Accountability for public money-progress report*, Seventy-ninth Report of Session 2010-12, HC 1503, April 2012, Qq 23-29

27 Q 127 (28 November 2011)

authorities identify poor financial governance in schools. Local authorities are required to report annually to the Department on how many of their schools have implemented the new Schools Financial Value Standard, while academies submit annual Financial Management and Governance Evaluation returns to the YPLA. These new assessments, which schools are required to provide, may provide better information than was previously available on how well governing bodies are fulfilling their financial oversight responsibilities.<sup>28</sup>

11. The recruitment and training of governors with relevant financial expertise is another major issue. Twenty-seven per cent of local authorities responding to a National Audit Office survey considered that only a few of their primary schools had governing bodies with the necessary financial expertise.<sup>29</sup> The Department and the YPLA consider the main incentive for schools and academies to improve governors' skills to be through their aspiration to score well in the Schools Financial Value Standard and Financial Management and Governance Evaluation assessments.<sup>30</sup> The Department has reduced its direct funding for training for governors, but is encouraging local authorities, maintained schools and academy trusts to continue to invest in training, and believes that changes introduced under the Education Act 2011 will enable schools to more easily select governors with the required skills.<sup>31</sup>

12. We are concerned that in some cases close relationships between governors and school management could lead to inadequate scrutiny of, and challenge to, a school's leadership over its use of funds. The Department expects that weak governance would be identified through the Ofsted inspection regime.<sup>32</sup> The YPLA told us that there are three checks that would mitigate this risk in academies: the requirement to appoint a responsible officer, who should be independent of line management and the equivalent of a head of internal audit; the annual audit of accounts by external auditors; and the expectation that academies will put in place whistleblowing arrangements.<sup>33</sup> However, we have concerns that external auditors may focus on the risk of impropriety, but not poor value for money, and the YPLA itself accepted that only the very brave will blow the whistle in small organisations such as academies.<sup>34</sup> We note that, in contrast to the Department for Communities and Local Government's draft Accountability System Statement, the Department's Statement makes no reference to whistleblowing.<sup>35</sup>

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28 Qq 104, 108 (28 November 2011); C&AG's Report, paras 2.5, 2.9 & 2.10

29 Q 123 (28 November 2011); C&AG's Report, para 3.15

30 Q 133 (28 November 2011)

31 Qq 123, 131-133 (28 November 2011)

32 Qq 127, 134 (28 November 2011); Committee of Public Accounts, *Accountability for public money-progress report*, Seventy-ninth Report of Session 2010-12, HC 1503, April 2012, Q53

33 Qq 134-135 (28 November 2011)

34 Qq 135-136 (28 November 2011)

35 Committee of Public Accounts, *Accountability for public money-progress report*, Seventy-ninth Report of Session 2010-12, HC 1503, April 2012, Q 38

### 3 System-wide failures and risks

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13. Reporting mechanisms that yield accurate, timely and consistent information that is transparent and accessible—and that allows for comparisons to be made between the performances of different providers—are key elements of accountability, according to the Government.<sup>36</sup> We are therefore concerned that not all information submitted by local authorities, maintained schools and academies has been fully accurate, provided on time, or adequately validated. Inaccuracies in budget returns from local authorities resulted in discrepancies in the Department's assessment of the changes in the amount of per-pupil funding available to individual schools in 2011-12 compared to 2010-11.<sup>37</sup> The National Audit Office's report on the Academies Programme found that in 2008-09 almost two fifths of academies were not even complying with all financial reporting requirements. However, the YPLA told us that for 2009-10, all accounts were submitted on time.<sup>38</sup>

14. We are concerned as to whether the Department's existing monitoring mechanisms are capable of alerting it to system-wide problems. For example, senior staff at some academy trusts are paid very high salaries, and we understand that one academy trust paid four of its trustees more than £31,000 in expenses in 2009-10, including travel costs to and from a property in France which it had purchased and renovated for almost £2 million.<sup>39</sup> Such payments are not only of questionable value for money, but may also indicate wider problems with the whole system of accountability.<sup>40</sup> We are concerned in particular by the lack of clarity about where the accountability of individual academies for their use of the additional freedoms the Department has granted them ends, and where the Department's responsibility for ensuring value for money across the whole system begins.<sup>41</sup>

15. School deficits and excessive surpluses may be indicators of system-wide problems with financial management and oversight.<sup>42</sup> At the end of 2009-10, in local authority maintained schools 18% of secondaries and 7% of primaries were in deficit, and almost 10% of secondaries and over 2% of primaries had been in deficit for five or more consecutive years between 1999-2000 and 2009-10, despite the Department requiring deficits to be cleared within three years. By contrast, at the end of 2009-10 almost 29% of secondaries and 26% of primaries held surpluses deemed excessive by the Department.<sup>43</sup>

16. The Department suggested that, if planned, a deficit or a surplus can represent good financial planning; for example, a school may build up a surplus in anticipation of more

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36 Committee of Public Accounts, *Accountability for public money-progress report*, Seventy-ninth Report of Session 2010-12, HC 1503, April 2012, Q 79; Qq 22, 52, 55-57, 62, 73

37 Ev 17 [Department for Education note submitted to the Committee before the 28 November hearing]

38 Q 107 (28 November 2011); C&AG's Report, *Department for Education: The Academies Programme*, HC 288, Session 2010-2011, para 3.13

39 Qq 88, 92-94, 96, 97 (28 November 2011); Committee of Public Accounts, *Accountability for public money-progress report*, Seventy-ninth Report of Session 2010-12, HC 1503, April 2012, Q 14

40 Qq 88, 92, 95-97, 100, 103, 104 (28 November 2011); Committee of Public Accounts, *Accountability for public money-progress report*, Seventy-ninth Report of Session 2010-12, HC 1503, April 2012, Qq 14, 16

41 Qq 103-105 (28 November 2011)

42 Qq 121, 143 (28 November 2011)

43 Qq 113, 121, 157 (28 November 2011); C&AG's Report, paras 1.4 & 2.18

difficult times ahead, or to fund a future capital project.<sup>44</sup> Nevertheless, the Department accepted that not all schools have good plans in place, and that it is right for it and the YPLA to keep a close eye on schools' balances and be alert to situations where weak financial management might be leading to poor educational performance.<sup>45</sup> The Department has given local authorities greater flexibility over management of surpluses in their schools, and is relying on pressure from parents to discourage schools from carrying forward excessive surpluses.<sup>46</sup>

17. Despite these efforts, the Department does not know if all local authorities are properly managing deficits or excessive surpluses in their schools. It also has a limited understanding of the reasons for, and implications of, schools being in deficit or holding excessive surpluses for several years.<sup>47</sup> However, the Department has said it will do more to challenge local authorities with a high number of schools with long-standing deficits or excessive surpluses, and will liaise with the Department for Communities and Local Government where a local authority is failing to act.<sup>48</sup>

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44 Qq 117, 121, 122, 142, 143, 157-160, 162, 163, 172 (28 November 2011)

45 Qq 164-165 (28 November 2011)

46 Qq 157, 163, 170-172 (28 November 2011)

47 Qq 113, 118, 140, 159, 163, 164, 172 (28 November 2011); C&AG's Report, para 10

48 Qq118, 119, 140, 174 (28 November 2011); C&AG's Report, para 22

# Formal Minutes

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**Wednesday 18 April 2012**

Members present:

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon	Meg Hillier
Jackie Doyle-Price	Mr Austin Mitchell
Matthew Hancock	Nick Smith
Chris Heaton-Harris	James Wharton
Stewart Jackson	

Draft Report (*Department for Education: accountability and oversight of education and children's services*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph. Paragraphs 1 to 17 read and agreed to.

Summary read and agreed to.

*Resolved*, That the Report be the Eighty Second Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report (in addition to that ordered to be reported for publishing on 28 November 2011).

[Adjourned till Monday 23 April at 3.00 pm]

## Witnesses

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**Monday 28 November 2011**

*Page*

**Sir David Bell**, Permanent Secretary, and **Sarah Healey**, Director, Education Funding Group, Department for Education and **Peter Lauener**, Chief Executive, Young People's Learning Agency

Ev 1

## List of printed written evidence

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1 Department for Education

Ev 17: Ev 20



# List of Reports from the Committee during the current Parliament

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The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

## Session 2010–12

First Report	Support to incapacity benefits claimants through Pathways to Work	HC 404
Second Report	Delivering Multi-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424
Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
Eleventh Report	Community Care Grant	HC 573
Twelfth Report	Central government's use of consultants and interims	HC 610
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# Oral evidence

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## Taken before the Committee of Public Accounts

on Monday 28 November 2011

Members present:

Margaret Hodge (Chair)

Jackie Doyle-Price  
Meg Hillier  
Fiona Mactaggart

Austin Mitchell  
James Wharton

**Amyas Morse**, Comptroller and Auditor General, National Audit Office, and **Paula Diggle**, Treasury Officer of Accounts, HM Treasury, gave evidence. **Gabrielle Cohen**, Assistant Auditor General, NAO, **Angela Hands**, Director, NAO, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

#### Oversight of Financial Management in Local Authority Maintained Schools (HC 1517)

##### Examination of Witnesses

*Witnesses:* **Sir David Bell**, Permanent Secretary, Department for Education, **Sarah Healey**, Director, Education Funding Group, Department for Education, and **Peter Lauener**, Chief Executive, Young People's Learning Agency, gave evidence.

**Q1 Chair:** Welcome. Sir David, this is your last session with us, although we might dream up something else before you disappear—you never know. We are hoping that you are really demob happy, so that you tell it like it is today and we can have an interesting exchange. We wish you very well in the future. Thank you for your huge contribution to education so far, and I am sure that you will carry on making sure that your voice is heard.

We have got two bits of paper: a Report and your system of accountability, for which I thank you, because it is rather more complete than other ones that we have seen. The two come together and gel, but I will start with the system of accountability. The first question is: do you think that the system that you are setting up will be consistent across all schools, meaning academies and free schools, as well as local authority schools? If so, how will you ensure that consistency? If not, where are the differences?

**Sir David Bell:** It would be very difficult to secure absolute consistency over 22,000-plus maintained schools, whatever their designation, but there are some consistent principles that we should apply—high levels of accountability, careful financial management, good reporting mechanisms and ensuring that information is transparent and accessible. If we can do that, we can, as it were, accept that different types of schools will have different types of control mechanisms. As our statement says, if you are talking about local authority maintained schools, the responsibility for quite a lot of that would rest with the local authority. As we are putting in place an accountability system for academies, we are trying to generate the same kinds of principles; it will not be exactly the same.

**Q2 Chair:** I was going to say that academies and free schools will not have to publish the same data as local authority maintained schools.

**Sir David Bell:** We are actually moving towards something very similar. This year, for the first time, we have published a consistent set of data under the consistent financial reporting rubric, which essentially allows you to look across a whole number of different headings and benchmark the performance of different kinds of schools. Academies have not been included in that, simply because the reporting mechanism that generates those data is not in place, but from next year we will be generating, from the academies, very similar sorts of data, so you will be able to do the benchmarking across all kinds of schools. As you know, free schools are a kind of academy, so they will be caught up by the same arrangements.

**Q3 Chair:** There are organisations that run a number of academies—into the tens, so far. Will they have to publish financial information at a school level that will enable or allow a comparison to be made between, let us say, geographic areas, or between schools of a similar nature?

**Sir David Bell:** Yes is the answer to that<sup>1</sup>.

**Q4 Chair:** Do schools have to publish all information on expenditure above £500?

**Sir David Bell:** I do not think they do. I think there was some conversation about that.

**Sarah Healey:** No.

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<sup>1</sup> The Department will publish financial data for Academies at the level it is submitted to YPLA. This is at individual school level unless the Academies are in a federation, in which case it will be for the federation as a whole. See written evidence for further information.

**Chair:** There is a “no” next to you.

**Sir David Bell:** I think the answer is no to that.

**Q5 Chair:** Why?

**Sir David Bell:** I think when Ministers considered this they felt that, for the size and scale of the budgets concerned, it was a disproportionate burden, but if you look at the consistent financial reporting—

**Chair:** You are trying hard there, but if you are a local authority, publishing everything from £500 up is one heck of a burden; if you are a school with a smaller budget, that burden is more consistent with the size of the budget, actually.

**Sir David Bell:** I think, however, that the argument would be that local authority systems and structures, despite—I accept your point—the size of the budget, are more geared to that kind of reporting than individual school budgets. Ministers made the decision that they felt that that was an excessive burden on individual schools.

The consistent financial reporting, however, does give you a good breakdown of what schools are spending on, for example, premises costs, teaching costs, and non-teaching costs, so you can look at that across these key headings.

**Q6 Fiona Mactaggart:** You were saying that academy information will be included in the generally available data. I actually went on to the benchmarking data website today. The first thing that came up said that its certificate had run out and that I should not go into the site. That does not give me great confidence about the management of it.

**Sir David Bell:** It does not give me great confidence either, so I will have to have a look at that. I do apologise if that was the case; I will look at that.

**Q7 Chair:** Let me ask you a general question, and then I will come back to academies. Reading more of your document, what it shows is a framework that establishes accountability for probity and regularity. We are value for money, and it is unclear to me where value for money is going to be assessed, and who is going to be responsible and accountable for that.

**Sir David Bell:** The first point to make is that, as you will see at the top, it is a draft statement. I thought it was important, however, to get it to the Committee, to get your first response and reaction. I think that we ourselves would accept that probably more work is required on value for money. What we do say in this statement, however, is that the responsibility for value for money lies in different places in the system. Every individual school is responsible for achieving the best results it can for its students with the resources at its disposal, so to that extent, it will always be looking to maximise value for money.

Local authorities have a general responsibility for securing value for money. The interesting issue for the system as a whole, if you are sitting in national Government, is how you secure value for money collectively in a system that is highly decentralised. It is double-decentralised: the money is going to local authorities first of all, so there is a decentralisation level there, and perhaps more significantly, the money

is then going all the way down to the individual school level to secure value for money.

I think this is a genuinely difficult issue, because we could put into play some macro measures of value for money. I think you have to ask yourself: what would they look like, and how useful would they be? Surely it is much more important to be trying to secure value for money at the level of the individual institution, and to assess what kind of measures you put in place to understand what schools and other institutions are doing, but there is a genuine issue about how you know, as a system, that you are getting it. I could say, “Well, can you not look at the expenditure over time against the results secured?” That would be one way, and a reasonably decent way, of measuring value for money. You might want to ask what outcomes schools achieve against measures such as the numbers of teachers, or the numbers of support staff.

There are measures like that, which can give you a higher-level overview of value for money, but they are not always necessarily incontestable. If I said to you that there were now more teachers and the rate of progress had slowed, you might say, “Well, that is simply because you are getting to the point where more teachers are required to deal with students with more complex difficulties.” If you have more teachers and the results plateau, that is not necessarily a sign of poorer value for money. There may be a number of indicators that will give you a steer on that.

**Q8 Chair:** That is an interesting answer, but let me take two things from that. First, you and your successors recognised that more work needs to be done on value for money, and you will report back to us on that.

**Sir David Bell:** Yes, we will.

**Q9 Chair:** Secondly, it read to me a little like a sort of retrofit exercise. The policy direction is the decentralisation of power to schools; you are trying to retrofit on to that a traditional system of accountability, but you have not yet squared that circle.

**Sir David Bell:** I am not sure if we have retrofitted it, but we are trying to see our way through what is an evolving situation in the schools system. Only a year and a half ago, we had 200-plus academies; we now have 1,300<sup>2</sup>, and that has changed the landscape quite considerably. In this world of accountability, we want individual schools to have greater freedoms while at the same time maintaining a high level of accountability for public funds. At times, this Committee has asked us whether we have got that balance absolutely right, or whether we are leaving too much out there to individual schools and not holding them to account.

To some extent, the statement as it is at the moment is trying to find a way through that tension. The world is very different to the one I first knew as a head teacher, when, in a sense, accountability was completely at local authority level. Then it was decentralised, and over time it has become more and more decentralised. I accept the point that there is

<sup>2</sup> At 1 December 2011 there were 1,463 Academies open in England

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more to do, and I am not even sure whether, by the time you bring back the next version, it will be the final statement. What is the situation going to look like when you have 5,000 academies and more chains? We might have to keep this under review as the system changes.

**Q10 Chair:** Let me raise with you emerging issues that have been drawn to my attention and seem really questionable in terms of value for money. We do not think, "There is a little school here." We cannot look at that, and we must be sure that when you appear before us, you guys can justify the expenditure. In the end, it comes down to the DFE, whether it goes through Peter Lauener's organisation or not.

*The Guardian* ran a report on 14 January—I have no doubt that Peter Lauener saw it—that looked at the annual reports of five of the major chains running academies. It found that Bruce Liddington, who runs something called E-ACT, was paying himself £280,000 a year. E-ACT runs 14 academies, including a free school. A director of Harris Federation was earning £250,000 running 13 academies in south London. One member of staff at the Academies Enterprise Trust was earning over £200,000, and this is in a context where the maximum salary of a head teacher at a state school under local authority control is between just under £80,000 and just over £112,000, with a bit more in central London. Two members of staff at the United Learning Trust earn between £150,000 and £160,000, and three at ARK Schools were paid between £140,000 and £150,000; four employees of Harris Federation earn between £130,000 and £140,000. This is not the way that public spending should be used at school level or at academy trust level is it, Peter?

**Sir David Bell:** Academy trusts, or these chains, have to be able to justify first and foremost to the schools that are part of their enterprise—

**Q11 Chair:** That is naive. That is not how the system works; that is not how the world really works.

**Sir David Bell:** Essentially, that is an overhead cost in relation to the chain, but similarly, as we have said with local authorities, you have to be able to justify the overhead cost of providing services outside the level of the individual school. That is the first thing. Secondly, some of these academy chains are not receiving money directly from us. They are receiving money directly for the schools, but there will be other sources of income that will not be public funds that those bodies are utilising.

**Q12 Chair:** Are you happy to see this? Are you happy to see, at a time of declining resources, with pressure on schools' budgets, individuals within these new trust organisations paying themselves those sorts of salary levels?

**Sir David Bell:** They are not paying themselves; they are being paid by the trusts. It is an important point, because it implies—

**Q13 Chair:** But are you happy with that? It does not matter how it happens; let us forget that. I give you that point.

**Sir David Bell:** I think it is a difficult one. We have asked these chains to take over some of the poorest-performing schools in the country.

**Chair:** Not any more. They are now taking over the best.

**Sir David Bell:** Let us take the Harris group as an example. Some very poor-performing schools have been taken on and have improved beyond all recognition. You can take other academy chains and see that. Frankly, I would not sit here and say it should be £130,000, £160,000 or £170,000. There is a question about whether these individuals are being held to account for the results that they are achieving.

**Chair:** It does not feel like value for money to me.

**Q14 Meg Hillier:** Sir David, does anyone in your Department earn £280,000 a year?

**Sir David Bell:** No.

**Chair:** It is £280,000 for Bruce Liddington.

**Sir David Bell:** Peter might want to come in on this. To be honest, I could sit here and have a discussion about whether this sum of money or that sum of money is right for this individual.

**Chair:** I will tell you why it matters. We had a really good session with you guys about the academies and the success of phase 1. We all recognise that we are at the start of a massive expansion. When these stories start emerging, it raises real issues about accountability. Let me give you another one that was raised with me—it was absolutely desperate for me to raise it with you—by the "Politics Show Yorkshire and Lincolnshire". That is your neck of the woods, James.

**James Wharton:** Just south of me. It is the deep south to me.

**Q15 Chair:** Okay, apologies. In the Priory Federation of Academies Trust—I think this formed part of a programme on television—salary and benefits to the so-called executive head teacher were over £200,000, with additional pension contributions of another £28,500. The top three members of staff collectively earned £500,000. The top four earned £600,000, which means that four people in this trust—this is the Priory academy LSST, a thriving, prosperous school—earned over £100,000. In 2008, it bought a property in France for around £500,000. It has since spent £1.4 million on it. The year 2010 shows that the federation paid four trustees more than £31,000 in travel and subsistence. When asked, the federation said that a lot of this went on travelling to and from the French centre. Again, this is a shocking example. I hope you are as shocked as I was. What it demonstrates is that if you do not have a proper system of accountability in place when you are increasingly having fragmentation of institutions, more of this will happen unless you guys can step in and intervene.

**Peter Lauener:** May I comment about the Priory case that you have raised, which has been covered in the press? It will not surprise you to know, given that it has been covered in the press, that we have looked at the details of the Priory case. It is not our job to defend the individual decisions that academies have made, because they have the freedom and flexibility

to take those decisions. The Priory chain of four academies is a good example of taking a very successful, high performing school, which is then extended, in its skills, to supporting much less successful academies in the area, and it is delivering good results.

**Q16 Chair:** Peter, nobody doubts that, and our previous work on academies showed that. We are the value-for-money Committee. In an area of the world where the average head teacher gets the amount I read out—it was about £70,000—is it good value for money to have four people earning £600,000 between them? This is our taxpayers' money on the whole, although I accept that a little comes from outside. Is it good value for money to spend £500,000 buying a property in France and a further £1.4 million on it?

**Sir David Bell:** I would just comment, on the property, that I do not recall this Committee or any other Committee ever saying, "It's outrageous that local authorities hold properties."

**Chair:** A local authority with 80 or 120 schools may have somewhere in England—mine does—where it sends the kids who never get a holiday; that is a very different kettle of fish.

**Sir David Bell:** I do not think it is. What you have is a local authority or, in this case, a group of schools—

**Chair:** Four schools.

**Sir David Bell—**deciding that it is appropriate, as part of their efficient management, to have a facility that can be used by the students.

**Q17 Chair:** Do you really believe that?

**Sir David Bell:** I do believe that. The danger is that we sit in Whitehall and second-guess every decision made by every school in the country. Frankly, it is the road to madness if we do that.

**Chair:** It is the road to madness, but we have to ensure that there is value for money for every pound of taxpayers' money spent. When these stories reach us, you began thinking, "Crumbs, this is the beginning of things going badly wrong," in terms of our getting value for money for the taxpayer—and this is only the start.

**Peter Lauener:** In the cases that you have quoted, including E-ACT, the ARK network and ULT, the predecessor schools have soaked up money over the years and not delivered the results. If the stories that you were setting out were happening at a time when results were going down, and we were seeing no improvement in performance, that would be a difficult situation to defend, but we are seeing significant improvements in performance. All the information is in the public domain.

**Q18 Chair:** So you justify it all; you are quite happy with that.

**Sir David Bell:** I am happy for individual schools to justify the decisions that they are making. If those decisions are commensurate with improvements—in some cases, dramatic improvements—in the school's performance, I am happy with that.

**Q19 Chair:** Are you happy, from the Treasury?

**Paula Diggle:** It causes me a certain amount of interest and alarm, I must say, but I do not claim to be close to it, and it is for DFE to make the judgment.

**Chair:** James, Austin and Meg, I've hogged things a bit—sorry.

**Q20 James Wharton:** Thank you, Chair. It is interesting; there is a tension between the accountability we want and the freedom the Department is trying to deliver for individual organisations. That discussion leads me to ask this: we have just had a discussion about individual spending decisions by academies and partnerships that may have caused concern, but what about failure in the academies system as a whole to deliver value for money in one area or another? Who would be responsible there? It is a system issue: the system has been established by the Department, but if it allows a failure to happen across the board, who is the individual we should ask to sit in front of us, so that we can question them about that system failure?

**Sir David Bell:** Quite clearly, you should ask the permanent secretary of the Department for Education, as the accounting officer. That is an absolutely reasonable question. It is about system-wide accountability. As I was saying in my answer to the Chair, it is about trying to find what those measures would be. It is far easier, of course, to identify a failure in an individual institution than it is to identify a systemic failure. We would argue that some of the benchmarking data that we are using to try to assess the performance of academies against like schools that are not academies are a way to get to a judgment about the success or otherwise of the policy. That is probably a sharper kind of accountability than we have seen hitherto. It is quite important to try to find those measures, but at the moment they tend to be macro-level measures, such as whether performance is improving across the board in academies, as opposed to anything about an individual institution. If 30% of academies were identified as requiring special measures after inspection, against a figure of 4% in the maintained sector, I think you would say, "You'd better come here and explain what's happening systemically," but at the moment we do not have that evidence; I think we do not even yet quite have the measures.

**Q21 James Wharton:** Where I want to lead with this, and where my concern arises, is that it is not always that obvious, particularly in value for money, that there is a systematic failure somewhere. Let us look at the accountability framework for academies, and particularly the freedoms that they have and the ability of the Department to say, "That's not our problem; it's theirs," and the blurring of the lines around the distinction between where the accountability for individual academies ends and where the Department's begins and something is assessed as becoming systematic. I am concerned that we are going to find ourselves in a position—we have similar discussions about NHS trusts—in which really to understand what is going on we would need very large numbers of representatives of individual academies to come and explain the challenges that



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they face. How confident are you, as a Department, that you are going to have the appropriate understanding of how this will work, to be able clearly to identify something as systemic, rather than as an individual problem?

**Sir David Bell:** My colleagues want to come in.

**Peter Lauener:** Would it help if I said a little about the progress we have made since we last discussed academies in this room, in putting in place the overall system of reporting and accountability? If I describe that in terms of an academy's year, that might help to explain it.

We set the ball rolling when we give the budget to every academy at the end of March. That is the budget not for the immediately following financial year, but for the academic year that starts the following September. That is a good part of the system; academies have longer to plan their budgets and get things in order. We then expect to get a finance plan back from the academy by the end of the summer term, or right at the beginning of the academic year concerned, and that is the first thing we look at. Does it contain a plan that keeps the academy in balance? Is there a very high level of spending on staff salaries? Anywhere where we saw spending of more than 80% of the budget on staff salaries, an immediate flag would go up, and we would think, "There's something really a bit worrying here. We'd better drill down and look at that in a bit more detail."

Later in that year, we get the audited accounts from the previous year—that is, by Christmas, so in four weeks' time we expect a very substantial number of audited accounts to come in. We have asked for an abbreviated accounts statement, which will allow us to provide for what Sir David talked about earlier: publishing the benchmark data on expenditure. That will enable us to pick out outliers—academies that are in deficit or that, on standard financial ratios, stand out from the crowd in a way that we do not want them to. We can start comparing sources of concern from these measures.

The next bit in the academy's year is in February, when we expect a financial management and governance return, which is very like an assessment against the schools' financial value standard, adjusted a little to the academy setting. We get that back from every single academy.

**Q22 James Wharton:** I understand what you are setting out, and it strikes me that that could identify specific problems where an academy's spending is going out of control, or one academy is spending much more on a certain thing than others are, but it will not necessarily identify issues that are value for money. For example, if every academy is acquiring all its minibuses in a bad way, because they are being measured against other academies, that will not allow the Department, or us, easily to identify that and say, "If you collaborated and bought more through this method it would be better value for money and you'd get more for the taxpayer."

My concern is that if we fragment the system—I understand the political reasons for doing that, and what it hopes to deliver—we need to be very careful also to have a system in place that identifies value for

money. What you have described is a system that would identify problems where one school stands out from the others, or where an individual academy gets into trouble. That is reassuring, and I am pleased to hear it, but what will identify value for money in the way that academies are doing things?

**Peter Lauener:** May I make one other point about the system I have described, which I think is a value-for-money one? If we can use that information and make it readily available, so that we can pre-empt problems, that should avoid nugatory expenditure by academies and by the Department. Academies are also extremely interested in getting the information I have described, so that they can benchmark themselves, which is a genuine value-for-money proposition. They can then look and say, "Actually, we're spending that proportion of the budget on this aspect of what we're doing"—

**Q23 Chair:** On head teachers' salaries. I think that you are talking about probity. All this is probity and regulation; it is not VFM.

**Peter Lauener:** I think what I'm talking about goes further than that, because academies might start using it for benchmarking and saying, "Well, actually they're doing it a lot cheaper than we are. I'm going to find out what they're doing." That is what we want to encourage.

**Amyas Morse:** Forgive me, just going back to the Report on the academies programme, which we published in September and on which we had a good hearing, you will recollect that, at that time, 39% of academies had never submitted a return at all and 38% were in arrears.<sup>3</sup> My worry is not about the idea behind this and all the layering of what would happen and how good it would be if everybody was complying with this. When you couple this programme with the fact you all gave us testimony that you wanted to have light-touch regulation, my worry is that this system you are designing has a regulatory light touch and it will only work if that touch is complied with to a very high level.

Actually, the record that we found was not impressive. If I have to be honest, my concern is that. There is no point having a system that is dependent on a very slim stalk and then that stalk is not properly policed and the information does not come in. How will you know and what levers have you got to get this information in in a timely fashion because, frankly, it didn't sound like it just a very short time ago?

**Peter Lauener:** May I offer some assurance on that point? If I look at the accounts for 2009–10, which were due a year ago, there were two hundred and three entries who submitted them on time. That was the whole number that was due. If any of them had been late, we would have chased.

**Amyas Morse:** Were your interim financial plans and financial returns all on time as well?

**Peter Lauener:** There was a good score on the 2009–10 accounts and we will be counting in the 2010–11 accounts, which are due in this Christmas. If

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<sup>3</sup> The figures cited refer to the 39% of academies that had never submitted a supplementary income and expenditure return and the 39% (rather than 38%) of academy trusts which were in arrears submitting their full audited accounts for 2008–09.

I can mention the financial management and governance work that we did in the spring, we either got returns from all the academies or visited those as we agreed with them. So, again, we got a full account of assessments of financial management and governance, which was discussed a lot at that academy's hearing. I think the Committee was very keen to make sure that we pressed very hard on that, and we are doing so. I will not sit here and say that everything in the garden is working well. We are still building the systems that will allow us to collect the data very easily, but the basis of the system has been established quite well.

**Amyas Morse:** My only reason for asking the question is we need to make the point clearly now when you are still designing this. I do not normally involve myself as actively as this in the questioning, but I do think this: please build something that is genuinely sustainable. Unless you get out and ask people for it, you don't get the information. I understand the desire to have a very devolved structure. I am not trying to argue with that at all. I am just saying that there is a strange combination. If you are going to have a devolved structure on the one hand, the things you do ask for you really have to insist on very strongly. That is absolutely not negotiable.

**Peter Lauener:** I could not agree more with the point, which I remember, Madam Chairman, you made very strongly from the Chair at that hearing. Those are the principles we are putting in. We also want new, high-quality management information systems, so that any problems are flagged automatically as well.

**Amyas Morse:** So if somebody doesn't make those returns, what happens? Sorry, that's my final question.

**Peter Lauener:** We will not let any academy off with not providing the return that is due.

**Q24 Chair:** What will you do?

**Peter Lauener:** If we had to, we would issue a breach notice. We have been very clear that we have to get the returns and we are doing well getting the returns in. I regard it as of the utmost importance.

**Q24 James Wharton:** One final point on that. It appears in a very broad sense that your answer to the question about value for money is benchmarking. That appears to be where that comes into this system. In order to benchmark and for one academy to look at the information that is out there and ask whether it is efficient, the information will have to be broken down into certain areas of expenditure. I assume that, when you are establishing this, the system will have predetermined the areas of expenditure that are more useful. What will the process be for academies feeding back into you and saying, "We would like information on this as well? We would like you to include benchmarking on this," and balancing that against the administrative burden that that then puts on other academies? How will you ensure that you are receptive to updating it as the understanding of the situation among academies and the Department improves over time?

**Peter Lauener:** That is a very good question. The immediate answer is that the way we have done this to allow benchmarking to be done easily is that, as

academies are preparing their annual accounts, we have asked them to prepare abbreviated accounts on standard definitions in a simple-to-return spreadsheet, which will allow us both to analyse it easily and to benchmark easily.

To take the second part of your question, we are working very closely with the network of academy finance directors, and we had hoped to reach agreement about both good understanding about the definitions, establishing the appropriate accounting code of practice, and agreement about the categories for which we get returns, so that it becomes something that we are not just imposing on but agreeing with the sector. There is a lot of interest in benchmarking, so it is no good us just getting the data that we want so that we can do the benchmarking; we want the academies to be able to do that.

**Sarah Healey:** This is not just about benchmarking within academies, this is about comparable information across academies and maintained schools. We have had quite extensive conversations with representatives of local authorities and maintained schools to determine what information they would find helpful as well, so that it runs across academies and maintained schools to see how well they are performing.

**Q26 Austin Mitchell:** I still think you are being a bit complacent about how we are going to secure value for money when Michael Gove stands up and says, "We are all academies now", and the maintained schools don't exist. It will be do enormous good for the property market in France—I can see that—but value for money is another thing, because you cannot even secure that now with the maintained schools. The Report says, paragraph 2.13 on page 20, that the Department is reducing its monitoring by more than 26%. Local authorities "reduced internal audit coverage", and "Forty-seven per cent said that they did not have sufficient resources to monitor schools effectively"—the existing maintained schools. A third were "planning on reducing staff time spent on monitoring."

We have got a situation in paragraph 2.18 in which, according to the Department, "schools should clear any deficits within a maximum of three years." In fact, "2.4 per cent of primary and 9.6 per cent of secondary schools ran deficits for five or more consecutive years". This is totally inadequate monitoring, isn't it?

**Sir David Bell:** The first thing to say is that the responsibility for monitoring maintained schools is with the local authorities.

**Austin Mitchell:** But they are cutting down.

**Sir David Bell:** Well, that is their responsibility.

**Chair:** They have got less money; that is not an answer.

**Sir David Bell:** If I came along to the Committee and said, "The administration budget of the Education Department is reduced by 33%, I am sorry, you are going to get a lot less monitoring, you are not going to get this and you are not going to get that", you would say that that is a totally inadequate answer. Likewise, the section 151 officer in the local authority who is responsible for this issue; it is their responsibility to secure adequate financial

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management, including the provision of audit services. I think you have to be careful—

**Austin Mitchell:** They are not strapped for cash, they are cutting down on everything.

**Sir David Bell:** But they have to make choices about their statutory responsibilities. You would not find it acceptable if I came here and said, “My budget is reducing and therefore I cannot provide the appropriate financial management”—

**Q27 Austin Mitchell:** But clearly, if you have got that high proportion of secondary schools that are in deficit, they are already able to fudge their statutory responsibilities.

**Sir David Bell:** Again, on the deficit side, I would make a couple of points. First, the fact that a school is in deficit is not necessarily a bad thing, because sometimes schools will have a down in their financial planning before they go up—

**Austin Mitchell:** But for a long period.

**Sir David Bell:** But I think the point of the longer period is an important one, and what we will be doing with the local authorities that have the highest number of schools that have been in deficit for a period of time is to go back and ask them what they are doing. Because the responsibility for those schools rests with those local authorities—

**Q28 Chair:** And if they do not? Again, you are back to the whole accountability if they say, “We’re trying”, full stop.

**Sir David Bell:** The financial management of a local authority and the success or otherwise of that lies with the accounting officer for the Department for Communities and Local Government. At the most extreme end, it would be open to us, as the DFE, to speak to CLG to say we believe that in this local authority’s case an excessive number of schools have been in deficit for too long; but surely it is a confusion of accountability for me, as the accounting officer here, to say, “I am now going to leapfrog the statutory processes and intervene in a primary school in Cumbria, which has been in deficit for three years.” That is the responsibility of the local authorities under this framework, and it is our responsibility to challenge the local authorities.

**Q29 Austin Mitchell:** That is true, but the Report also indicates that you are much more concerned with academic performance than you are with financial management. You yourself—the Department—are not adequately concerned with the financial management put in by the local authorities.

**Sir David Bell:** I just do not think that is true, because if we had a major systemic problem with financial management in schools we would be on the case. Nobody—not even this Report—has advanced an argument that there is a systemic problem of financial management in maintained schools in this country. There are, of course, individual schools where there are problems. Of course there are schools that are finding it difficult to cope; but that is not the same as saying that we have a systemic problem. The Department does take it seriously, because the Department would be very concerned if there was

wide-scale financial mismanagement. There is no evidence of that.

**Q30 Chair:** Hang on a minute. What the Report says is that one in five secondary schools is in deficit. That is pretty systemic.

**Sir David Bell:** But to be in deficit is not necessarily the same as being a failing school when it comes to financial management, because there are circumstances in which a school, in one year, will be in deficit, and then it will be up. As Mr Mitchell said, a much more significant issue is if you have year after year after year of the same school being in deficit. Then I think it is a legitimate question for the local authority to ask the school, “What are you doing about that?”

**Q31 Austin Mitchell:** The Report says that the schools that are in deficit are performing less adequately than the schools that are not in deficit. There must be some correlation.

**Sir David Bell:** And that is therefore the responsibility of the local authority, in holding the school to account, both for its financial management and its more general performance. I think you are right; there are occasions when poor financial management is related to poor management generally; but there other cases where well managed schools plan for a deficit over a short period of time, to bring themselves out stronger at the other end. I think it depends very much on the individual circumstances.

**Q32 Austin Mitchell:** There is a problem also with the skills and ability of governing bodies. The Report says that 27% of local authorities responding to the survey thought that only a few of their primary schools had governing bodies with sufficient financial expertise. Now, this is a difference between working-class areas and pushy middle-class areas. My grandchildren go to a school somewhere over there, and my daughter says that when they are having elections for school governors they have got about 20 candidates standing, and they are all putting out leaflets, saying “A vote for me ensures a villa in France,” or something like that, as their platform; whereas in Grimsby we are desperate to get people to work as governors. Indeed, in Yarborough school two of the governors were deported, because they were asylum-seekers. This is the level to which you have got to go, because you cannot attract governors. People will not do the job. If it is going to demand financial skills as well you will have even fewer doing it.

**Sir David Bell:** I am slightly sceptical, to be frank, about local authorities having a downer on governing bodies, because, again—look at this Report—the vast majority of schools, wherever they are located, manage their finances well. I think, however, we have got one change in the recently passed Education Act 2011, which now allows governing bodies to be less driven by the stakeholder approach to governing bodies—so you have to have a representative of all different parties; so governing bodies in schools can now choose to have smaller governing bodies drawing on particular skills. That is not a requirement. Schools

will make their own decisions; but I think some schools will say, "Would it make sense for us to have a smaller governing body to attract people with the right kinds of skills?" However, you have to set that against the dangers of losing the kind of stakeholder representation that has been the tradition of governing bodies during the past 20-plus years.

**Q33 Meg Hillier:** I want to come in on governing bodies, but first I want to come in on the issue of school business managers, which is something the Department has promoted over the years. The graph on page 25—in figure 9—shows school business managers are increasingly used in primary schools. You have overseen that increase, but are you sure that they are achieving value for money in schools?

**Sir David Bell:** The National College for School Leadership, which has been responsible for the training programme of school business managers, carried out a piece of research recently that demonstrated that you can save up to a third of the head teacher's time by deploying a school business manager and you can probably save somewhere between 5% and 10% in the running costs of the school by having a professional business manager in place. We have a very large number of business managers—

**Q34 Meg Hillier:** May I just interrupt? Would you say that in a big secondary school they pay for themselves? I am trying to work out the budgets.

**Sir David Bell:** If you were a secondary school with, say, a budget of possibly £4 million and you are saving 10% of that, you have more than paid for your salary and you are probably generating some good surplus for the school in doing so. We have about 12,000 business managers. They are mainly devoted to secondary schools, but increasingly they are being used on a shared basis with primary schools. That has been one of the criticisms, that it is all very well having your secondary schools covered but what about the primary schools? We are trying to address that.

The other interesting issue about this is not just the formal training of school business managers. The National Professional Qualification for Headship requires a module that has a school financial management component to it. A very large number of training courses have been run in recent times. For example, there are national college training events, including one recently on "Managing in austere times", which had more than 10,000 participants<sup>4</sup>. I think that that is evidence of lots of schools being aware, either through appointing a school business manager or by skilling up their staff, that there is a professional level of expertise that you can draw into a school that might help them to manage more effectively and efficiently.

<sup>4</sup> To clarify the National College training course Strategic Financial Leadership in times of Austerity has had more than 750 participants. In addition the College has trained round 10,000 school business managers since 2002. See written evidence for further information.

**Q35 Meg Hillier:** It seems to me that the school business managers are in schools more to ensure that there is compliance than to achieve value for money. How are you absolutely sure about this? You talk about those figures, which appear on the face of it very good, but how does the Department know that this policy that you have been promoting is actually achieving value for money? It may be a policy decision—that is fine—but is it achieving value for money?

**Sir David Bell:** I think it is quite an interesting point about, "What do the school business managers do?" I think that if you talk to them they will probably place more emphasis on generating value for money for the school—ensuring that contracts are run effectively and making sure that they get the best energy deals—than they would just focus on compliance, although compliance is an important part of it. I think that they see themselves as being very much in-post to try to ensure better value for money for the school.

Regarding effectiveness, Sarah might want to comment, but it seems to me that we again go back to this question of how you judge value for money across the system as a whole. I think that, based on this National College research, the schools that have business managers would say that they have been a major contributor to their becoming more efficient in managing their budgets.

**Sarah Healey:** Obviously, at the moment it is still building up as a programme; but as Sir David says, when you talk to school business managers, you find that they tend to be involved not only in the issues that we have talked about, such as procurement and efficiency, but they tend to be most effective when involved in things like curriculum remodelling and looking sensibly at the use of staff time and timetabling. Also, they will be able to take the sorts of information that we publish through benchmarking, and interpret it and use it effectively for their school to make the best use of the resources that they have. Obviously, the programme has not been running for a very long time, so some of the information that we have is fairly fresh and we want to continue to look at just how effective the business managers are and how well they are doing their jobs, but everything that we have seen so far suggests that not only do they free up head teacher time but they are able to use the information that is available about efficiency to drive improvement in the use of school resources.

**Q36 Meg Hillier:** I think that is possibly one for us to watch in the future. I want to go back to the points that Austin Mitchell was raising about accountability and governors, and governance generally. I was a governor of a primary school for nine years. That included becoming chair under special measures. I was a governor of a secondary school when the head teacher was suspended for two years and there was no head teacher. So those were challenging circumstances. I know from that and from many other experiences that I've come across that governance is not always as good as it could be—that sometimes there's not enough challenge to head teachers when things are going wrong—yet the Department places a lot of reliance on governing bodies and, as is quite

right in your position, Sir David, people make glowing comments about governing bodies. That is absolutely right where they are good, but what about where they are not good? The local authority has very little impact, and I think the Department has very little impact, yet so much of this depends on the governing body being on top of the finances and the value for money.

**Sir David Bell:** Yes, I absolutely agree with that. I suppose the ultimate sanction is through the inspection process, because very often you find schools that are judged as requiring special measures are given a notice to improve. Governance will be a key issue, and often that will be reflected in the lack of challenge to the senior leadership of the school.

**Q37 Meg Hillier:** But that would be about the performance of the school in educational terms, not on value for money, wouldn't it?

**Sir David Bell:** You can look at the new Ofsted inspection framework. In terms of coming to an overall judgment about the effectiveness of the school, embedded in that is the effectiveness with which the resources in the school are deployed.

**Q38 Chair:** Hang on a minute. What our Report actually says is that value for money has been taken out of the framework for inspection. Is that wrong?

**Sir David Bell:** It is not wrong, but what has happened as a separate inspection judgment—I can speak, I think, with some authority on the Ofsted position. Ofsted was never very good at judging value for money, frankly, because the training and expertise of the inspectors was largely around educational performance. What we have done, however, is take it out, as you've said, as a separate indication. The actual wording is: "The quality of leadership and management of the school"—so Ofsted is having to report on this—including whether the financial resources made available to the school are managed effectively. The guidance to inspectors that sits below that refers to "The effectiveness with which the school deploys resources to achieve value for money". So it's not now a separate judgment, but it is embedded in the new inspection framework. This is not to do with a mistake or anything; it is simply that the new inspection framework has been signed off. But the NAO Report is accurate in describing the removal of a separate inspection judgment.

**Q39 Meg Hillier:** Does that now require Ofsted teams of inspectors to have someone who understands the finances specifically?

**Sir David Bell:** It does not require that, although all inspectors are given a general training in looking at the whole inspection framework and schedule. Way back in the earliest early days of Ofsted, one of the assumptions was that if you brought lay inspectors in, those were people who would have the financial expertise, but perhaps as your reaction indicates, that wasn't always straightforward. The view is that the key judgment to make is on the resources available to the school and the outcomes achieved, because Ofsted, absolutely rightly, will not judge the effectiveness of a school by how much or how little

money it has; it will judge the effectiveness of the school by the outcomes achieved and the use to which the resources have been deployed to secure those outcomes.

**Q40 Meg Hillier:** Part of good governance is having the right training. If we're going to have lay people—parents—as governors, they need the support and training, but the training budget for governors has been cut centrally. Am I right?

**Sir David Bell:** The funding directly to local authorities obviously will have been reduced, but what we've been continuing to encourage local authorities to do is to make arrangements for the training of governors. I can't give you an up-to-date picture of what the arrangements are, but I can provide a note to the Committee.

**Q41 Meg Hillier:** What about academies? Where does the training and support come from for governors of academies?

**Peter Lauener:** That will be down to the academy trust within its overall budget—

**Q42 Meg Hillier:** Is it optional for the academy trust?

**Peter Lauener:** It is up to the academy trust to decide how much it invests in that, but if it is to meet the standards of the financial management and governance assessment, it will have to put quite a bit in to enable it to satisfy what it would probably aspire to, which is an "outstanding grade" on its financial management and governance assessment. That's the incentive in the academy system to make sure that you have staff and governors who really know what they are doing.

**Q43 Meg Hillier:** I will not name the school, but it has been drawn to my attention that, in one school in particular, there was a very close relationship between the chair of the academy governing body and the head teacher, and that proper probity and scrutiny, therefore, was not in place. That happened and could happen in future, which raises questions about how accountability and value for money come in. If there is a cosy relationship—we know that there can be interesting relationships, cosy or otherwise, between heads and their governing bodies in any school—I am not quite confident that you are on top of that.

**Peter Lauener:** You are describing the relationship between the chair of governors and the head, who in an academy would be the accounting officer. There are two other things that would act as a check on that, and possibly a third as well. First, there is a further concept of a responsible officer, who would be someone independent from the management line. In a large organisation, it is someone who would be head of internal audit. We ask the academies to appoint a responsible officer. Again, the expectations for that role are set out in the financial management and governance framework.

The second potential check on what you describe is through the annual audit of the accounts by an external auditor.

**Q44 Meg Hillier:** But that annual audit didn't query salaries of £280,000 or sudden jumps in salary.

**Peter Lauener:** It's a fair point. I would not expect them to challenge that if it was within the properly agreed remit of the governing body and affordable in the financial accounts of the academy trust.

The third thing that I was going to mention is that, again, we look to the financial management framework, which says that we expect academies to appoint whistleblowing arrangements to accommodate whistleblowers and, indeed, to run their own complaints policies. Then we are a backstop if someone feels their complaint has not been dealt with. So there is a sort of further system, and very often, when something is not quite right—I'm not talking particularly about academies, but the whole public system—someone else says, "I don't like the look of that." Sometimes, they write to the National Audit Office; sometimes, they write to us; and sometimes, they talk to the press. All of those things can happen and they are all things that can trigger a follow-up action.

**Chair:** But what you should do, when they write to the press and you get press reports, is look at the systems and see whether or not the systems themselves can cope with it. That is really the point, surely. I think we will make that point, even if you don't, but it is so glaringly obvious.

**Q45 Meg Hillier:** It is very brave to be a whistleblower in a small environment like a school, where you think the chair of the governors and the chair have a close relationship.

**Peter Lauener:** I absolutely accept that.

**Fiona Mactaggart:** The personal experience that I have had of whistleblowers is that it has taken three before anything gets done.

**Meg Hillier:** In one case, the advice was to go to the Department, which is a huge step for somebody if they can't get attention properly from the governing body.

One last point is that we seem to be hearing—perhaps this is a bit of a brutal summary—that there is a huge challenge, whatever system we have, in keeping on top of school expenditure, but we seem to only know there is a problem after the event; there are no early warning signs for budgetary financial management problems in schools. Is that a gross oversimplification?

**Sarah Healey:** In local authorities, there are lots of early warning systems in good local authorities that take their responsibilities on the financial management of schools well. Indeed, the very fact that very few schools get into consistent financial difficulty suggests that those early warning systems work and that those interventions are happening. Most schools that end up in deficit do not stay there for very long and come out of it again. I think that that suggests that there are very good early warning systems in place in most local authorities to manage the finances of individual schools. With regard to academies, Peter can say more than me.

**Peter Lauener:** Some of the things I described earlier, looking at key ratios like the proportion of the expenditure plan to be on staff salaries and, obviously,

the current ratio and things like that, are designed precisely to allow us to pick up problems before they happen and drill down and get more detailed information. We want a light-touch system with really good drill-down information and real rigour about the expectation of complying with the system, and much more detailed drill down when these warning flags go up.

**Sir David Bell:** One last point from the NAO Report, which said that most of the authorities that responded to this survey had intervened in at least one case of financial management, so in a sense they are reporting that they are being quite active in responding to potential difficulties.

**Q46 Fiona Mactaggart:** We have a good system—don't we?—of accountability for educational standards. I have begun to think about the CSCI, Ofsted and Southern Cross, if I'm utterly honest. Southern Cross had a very acceptable report from its inspection systems because the quality of care in its homes was good, but its financial model was completely busted, so it collapsed and its homes required rescuing in various ways. I stop and think whether we have a system in the academies regime that can avoid that problem. Do we?

**Sir David Bell:** Put it this way: the business model is quite different.

**Fiona Mactaggart:** I understand that.

**Sir David Bell:** In the Southern Cross example, homes were owned by the company, and in a sense the company reported on the general financial performance. In the academy chains, I think I said in answer to a question from the Chair earlier, that each individual school will continue to be reporting individually. There might be more concern if you felt that the academy chains became a kind of cover for the detailed reporting on individual schools, but the performance reporting and financial reporting are at the level of individual schools<sup>5</sup>.

To be fair and going back to the point about the system evolving, we will have to continue to watch what happens if we end up with micro-systems because, to some extent, that is perhaps where we're heading. In the past, we've had 150 local authority systems, and we may have that plus a range of smaller-scale systems emerging. I think that's a good thing, but you must be careful to make sure you don't wake up one day and find that that has not worked. That is why the accountability statement will be work in progress for years to come.

**Q47 Fiona Mactaggart:** Is there a requirement on collections of academies to have a separate audit committee or a mechanism to make sure they don't have exotic financing systems underpinning their capital assets, for example?

**Sir David Bell:** The vast majority of them will be charities, of course, and governed by charities legislation, so they will have to meet all the

<sup>5</sup> The Department will publish financial data for Academies at the level it is submitted to YPLA. This is at individual school level unless the Academies are in a federation, in which case it will be for the federation as a whole. YPLA monitors wider financial performance at an individual Academy level. See written evidence for further information.

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requirements of the Charity Commission, including salaries, as well as audit arrangements, reporting arrangements, governance arrangements and separation of powers arrangements, as one would expect of charities. The organisations do not exist in a vacuum. There is a system of governance and control for them.

**Peter Lauener:** The Department acts as the regulator for charities, but the trusts still have to comply with charities law. The system of financial accountability that I described was designed to allow us to identify any causes for concern. I did not go on to talk so much about what we would then do to try to remedy that. As some aspects of the report dealing with maintained schools indicate, we intend to have an early discussion with an academy if there are warning signs, and to agree a financial recovery plan to get back into balance in three years.

**Q48 Fiona Mactaggart:** You discussed the process. What I'm not clear about in the statement of accountability and elsewhere is where you think the biggest risks lie in terms of financing our schools in their different forms. I am not sure we've got an acute understanding of risk.

**Sir David Bell:** Sarah is responsible for the funding system, so she may have a view about risk.

**Sarah Healey:** Most of the evidence does not suggest that there is a risk of large-scale fraud, for instance, so I don't think that is a very big risk. Obviously, as the report makes clear, we're entering a period of relative tightness in comparison with previous budgets, and there is obviously concern that we will see an increasing number of schools in deficit, and that those deficits may last longer. That is why the recommendation in the report that suggests that we need better systems for identifying local authorities where that is happening and nothing is being done about it is absolutely right. The longer that a school is in deficit for, the more suggestive it is that there is a financial management problem in the school. The relationship with performance that was brought out earlier is also a risk. We are aware that there are significant risks that arise from schools having to manage slightly tighter budgets than they have done in the past, even though the tightening is, relative to the rest of the public sector, not as severe as others.

Aside from that, there is a concern that during a period of significant change, potentially, to the funding system, schools will not be able to plan as well as we might perhaps want them to for the future budget situation. That simply is a feature of looking at how to reform the system, which has its own potential benefits in the longer term. We are quite mindful of that. As soon as we can give schools more certainty in some areas about their future budgets, we will do so.

**Fiona Mactaggart:** This is a very local authority pattern. You, Mr Lauener, said that charities law protects academies in some ways. But we know of many charities that have borrowed much more than they can afford and as a result have gone bankrupt.

**Peter Lauener:** On that point, academies are not allowed to borrow without the agreement of the Secretary of State, so that is quite a substantial assurance.

The other risk factor I want to identify, in addition to what Sarah was talking about—

**Q49 Fiona Mactaggart:** And we are sure that associations of academies cannot do it.

**Peter Lauener:** No, not without agreement of the Secretary of State. An academy trust cannot do that.

The other risk factor at the moment is falling pupil numbers in some age ranges. That is one of the things we look for. A well-managed organisation of any kind—whether it is an academy, a maintained school, a college or an independent provider—will have the good strategic perspective and the financial acumen to adjust quickly to that. If there are rapid changes in numbers—numbers of 16 to 19 in the cohort are falling at the moment—that can be quite a substantial risk to financial viability, if it is not addressed quickly enough. That is one of the things we look for.

**Sarah Healey:** That's one of the reasons why schools run short-term deficits. They see a fall in their pupil numbers but haven't quite managed to adjust their staffing to account for that. But frequently they do manage to adjust that.

**Q50 Chair:** It struck me that the current climate is that per pupil funding is either static or declining. You've got a weaker system of oversight, whether it's at local authority or departmental level, in whatever system you've got. You've also got change. All those are risks.

I hear what you say about the problem not being systemic, but I think that 18% of secondary schools being in deficit at any one time sound pretty systemic to me. What is your view about where that is going over the next year or two? If you came back in a couple of years—let's give it a couple of years—and you've got the new system of funding coming in 2013—

**Sarah Healey:** The earliest it would come in would be 2013.

**Chair:** All that is a heck of a lot of risk.

**Sir David Bell:** I think it's quite interesting the extent to which schools have been pretty conservative in their planning for the last couple of years. One of the reasons—this is just speculation on my part rather than evidence-based, although this is certainly based on lots of conversations with head teachers—was that they saw three and certainly two years ago that chillier times were coming. Quite a lot of secondary schools in particular decided to watch vacancy filling, tighten up teacher contact time of classes, cut back a bit on support staff and trim the maintenance.

**Q51 Chair:** But then you'd expect to see the numbers of schools in deficit going down, and they are not.

**Sir David Bell:** It will be interesting to see what we see next. This is only the first year of the spending review, where, in a sense, all those decisions are compounded by tightening budgets. It's very hard to speculate.

Given the careful financial planning we've seen in most schools, I think that a year or a couple of years from now, unless there is a massive shock—who can predict a massive shock?—to the system, schools will

demonstrate that they are able to cope pretty well in these difficult times. The evidence so far has been pretty encouraging.

**Q52 Chair:** And if the only building programme is a PFI building programme?

**Sarah Healey:** We have funded local authorities significant amounts of money to maintain their schools and to deal with basic need, including the extra money that we allocated.

**Chair:** Yes, but we as a Committee know that PFI is a first call on your resources and tends to be higher than traditional local authority build.

**Sir David Bell:** You mean for individual schools that call on their budgets and the service charge?

**Chair:** Yes. You've got all these pressures. PFI is bound over time to create financial difficulties for those schools. There is no other way. It's the only show in town; the only way you can get a new building or a new school is by doing PFI. The cost is greater; you're facing declining per pupil funding, etc., etc. It looks a nightmare to me. Your 18% could very well be 30% three years down the line.

**Sarah Healey:** I don't think that the feedback we're getting from schools suggests that that is likely to be the case. The PFI call on their budgets for the new PFI programme will actually be in the next spending period, not in this one. We are obviously looking at how to ensure—

**Q53 Chair:** What, no capital in the spending review?

**Sarah Healey:** No, no, no, it's not no capital. It's just the process of getting to the point where—we're not intending to have any of those buildings open until the last year of this spending period anyway. The call is not going to be within this spending period. That is not necessarily saying that anything is guaranteed about the next spending period. We're also, obviously, looking at that PFI scheme, as you know from other investigations that you've done, to see how we can improve it to ensure it provides better value for money for the schools involved.

**Chair:** Sorry, Fiona, I interrupted you.

**Q54 Fiona Mactaggart:** I was going to ask Mr Lauener how many people are involved in the process of looking at the reports you're getting from academies.

**Peter Lauener:** I have a team of 40 accountants in the department at the moment, and I am seeking within my staffing ceiling to bring that up to 60, because to operate the system, I need a greater quantity of qualified accountants.

**Q55 Fiona Mactaggart:** And how many people did you have doing it last year?

**Peter Lauener:** We had 30. In fact, I think I quoted that figure when I was last before this Committee, talking about academies. We see that as an important area to increase our expertise.

**Q56 Fiona Mactaggart:** So that would be good value for money. You've doubled your number of accountants and increased the number of schools you're looking at by a factor of five or six.

**Peter Lauener:** Since I was here, it is about five times as many academies. We can only do that by putting in really good systems that allow us to process the data much more quickly—instead of data inputting, getting it automatically generated through an extranet system and things like that.

**Q57 Fiona Mactaggart:** Maybe that is why the website hasn't had its certificate renewed. I wanted to ask about some areas which aren't schools. I think that often, value for money in the areas which do not hit everybody's lives is the most worrying. I am particularly concerned about general children's services performance. I am wondering whether you are confident, Sir David, that we actually have frameworks. Your statement seems to talk about new and developing frameworks rather a lot in terms of children's services performance. Have we got comparable data of useful high quality that can ensure that we get value for money for children's services, or are you going to tell me this is the beginning of a process?

**Sir David Bell:** I don't think it's the beginning of a process, because there are currently 19 interventions in local authorities, and 13 of those are safeguarding-related interventions. The others will be for other reasons. Those are not value-for-money interventions, I accept; those are interventions about service delivery, although I would make the fairly obvious point that the amount of money spent on those services that are under threat varies enormously. In other words, this is not related to not having enough money.

The general responsibility for the sound financial management of local authorities, of course, lies with the local authority through the line to the accounting officer of the Department for Communities and Local Government. Therefore, they would be directly responsible for expenditure locally. We are responsible, of course, for the service quality assessments, such as the type that I described on children's services and education. So the short answer to your question is there is not a single DFE-led measure for financial management, because that would be double accountability. Accountability for the financial management of local authorities rests ultimately with the Communities and Local Government Department.

**Q58 Fiona Mactaggart:** So you don't have any role in making sure that children's services are good value for money? You have a role only in making sure that they work?

**Sir David Bell:** In a sense, you cannot necessarily easily separate the two. As I suggested, in many cases, when you look at the provision in an inadequate authority, it is poor value for money. A lot of money may well be spent on a particular service, such as adoption, education standards or safeguarding, but despite that money being spent, there is a clear problem with performance; to that extent, it is a value-for-money issue. I think I would accept that we do not have a systematic overview on financial management, because, as I said, that would probably duplicate what



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CLG has in its oversight responsibility for the local government sector.

**Q59 Fiona Mactaggart:** Can I just ask one other thing, which is not DCLG-complicated, but which does not affect everybody? On the education of 16 to 19-year-olds, our accountability systems do not look at value for money at all; in fact, there is a whole load of rewards for having very good quality, but not very good value for money in 16-to-19 education in sixth forms, for example. Is there any mechanism to allow us to report good value for money in 16-to-19 education and to hold people properly to account? It does not look as though there is.

**Peter Lauener:** There was a recent hearing of this Committee on the 16-to-19 system.

**Fiona Mactaggart:** I am new to the Committee.

**Peter Lauener:** About sixth months ago, we had a good report from the National Audit Office on that topic. It is fair to say that the conclusion of the National Audit Office and the Committee was that there was a partial system and that there is more work to do on the system. Some quite significant changes are being planned, which will definitely have a value-for-money focus. For example, the Government have decided to implement a single level of funding for all 16 to 19-year-olds, regardless of where the young person studies. But the thing we definitely need to improve is the framework through which we then report on the outcomes against costs being achieved in different settings.

**Q60 Fiona Mactaggart:** No reporting is planned at course level, is it?

**Peter Lauener:** The intention, as in all parts of Government, is to make a lot more information available on all aspects of performance. I cannot recall whether the intention goes quite as far as providing information at course level. Do you remember, Sarah?

**Sarah Healey:** No, I don't know.

**Peter Lauener:** I would have to take that away and provide a note. I would be very happy to do that.

**Sir David Bell:** One thing we are doing, which is incredibly important, because the Committee raised this previously, is ensuring that there is a single and consistent set of data for all 16-to-19 providers. Quite a lot of FE colleges felt, if I can put it this way, that school sixth forms had been let off the hook when it came to reporting. By 2012 or 2013, we will have a consistent set of indicators.

I would just make one other comment, and, again, Peter might want to add to this. In terms of general financial health and management, there are very robust systems in place for the post-16 system, including the FE colleges, but not just them. We have very robust data on the health of providers and sixth-form colleges.

**Q61 Chair:** The other issue that has been raised is PRUs—pupil referral units. Again, you are delegating budgets. How the hell are we going to know about financial management there? CIPFA has raised that as an issue.

**Sir David Bell:** The majority of those, as you know, will be under local authority control, so, in a sense,

my answer would be the same as what I said earlier: the first line of responsibility for financial management rests with the local authority.

**Q62 Jackie Doyle-Price:** We have had lots of discussion about deficits, but the table on page 15 shows us that more than a quarter of schools are running excessive surpluses, which are defined as being over 5% of the authority's budget for secondary schools, and 8% for primary schools. With that proportion, it looks to me like a sizeable chunk of taxpayers' money is not being used for the purposes for which it was given. I see that it reached its peak in 2000, and the number is coming down. Do you have any observations about that to share with the Committee?

**Sarah Healey:** As you point out, it is coming down and that is the result of a lot of pressure on schools to use excessive surpluses. It will be interesting to see what happens to surpluses over the next year or so, and whether or not some schools have built up surpluses will be precisely an indicator of whether they are doing what we discussed earlier and trying to plan for slightly trickier times ahead. If actually some of them have built up some surpluses in order to be able to do that so under those circumstances, we would want schools to build up surpluses in order to deal with problems they might have ahead.

I think the other thing I would say about surpluses is we know that local authorities can claw back surpluses where they are excessive, and we have removed the requirement on local authorities to have a scheme to be able to do that. We think it is good for schools to be able to gather surpluses where they think it is going to be useful for them. In the current climate, we may well encourage them to do that as long as they have sensible plans to use their surpluses within a reasonable time frame.

**Q63 Jackie Doyle-Price:** Where does the pressure come from to reduce those balances? Is that from the Department or from local authorities?

**Sarah Healey:** Both.

**Q64 Jackie Doyle-Price:** But have local authorities grasped the nettle on this?

**Sarah Healey:** Some of them have, yes. There has been a clawback of excessive balances in some circumstances in the past.

**Sir David Bell:** Can I highlight a pressure that might push the balances up? There has been quite a reduction in devolved capital funding to schools, and therefore schools might say, "Actually, we'll need to keep back a bit more revenue funding." There could almost be a counter-intuitive direction of school balances. You might think this is the time when people deploy them immediately, but actually it might be exactly the time when people do not deploy them.

**Sarah Healey:** And that might be a very sensible thing to do.

**Q65 Jackie Doyle-Price:** It is all very well to have a one-size-fits-all solution, but if the school has a plan and needs to build up some capital it will go from deficit to surplus and vice versa over the lifetime of

the school. However, 25% is quite a proportion. We have been worrying about deficits, but as a proportion that is much higher than the number of schools in deficit.

**Sarah Healey:** It is, but I'd prefer to see that figure than see more schools in deficit, especially at the beginning of a four-year period. That is at the end of the previous spending review period and, as we said earlier, we think it is partly because schools were looking ahead, seeing what was going to happen and not cutting into their surpluses as quickly as they might otherwise have done.

**Jackie Doyle-Price:** But that is not quite right is it? The number in surplus have come down.

**Sarah Healey:** They were coming down.

**Jackie Doyle-Price:** Well, it was approaching 40% in 2007.

**Sarah Healey:** It has not disappeared, and I think that is probably a good thing. We would not want to see the number of schools with surpluses actually going closer to zero. I think we would like to see schools doing some kind of sensible planning.

**Q65 Jackie Doyle-Price:** Tables 3 and 4 tell me that local authorities have fallen down on the job in terms of looking at how schools are managing their finances. To be fair to the Department, we are ultimately looking for LEAs to step up to the plate and do that job. As we are moving to a system that is more based around academies, what will the YPLA do? Would you expect some of those figures to be smaller? How quickly would you pick up on the fact that a school was building up an excessive surplus as opposed to a deficit?

**Peter Lauener:** Under the funding agreement, there is a limit on the surpluses that academies can carry forward. Rather like my colleague, Sarah Healey, I quite like surpluses and it is important for academies to be able to build them up, not least because they cannot borrow. Unlike other parts of the education sector and the post-16 sector and colleges that are able to borrow, academies cannot borrow so they need to build up the surpluses to meet some of the capital needs that Sir David referred to.

**Sir David Bell:** I think it is a difficult balance. Given the size of the budgets that schools are managing, it would be very hard to land the proverbial jumbo jet on a sixpence and have it absolutely in balance.

There is another important bit of pressure here, which is the pressure that parents should bring to bear in asking about the surpluses held in their schools. I certainly know that as a parent of children in maintained schools my view was, "That money is really for my children at this point." On the other hand, you would expect the school to be planning forward, and this is the classic example of where it is difficult to come to a finely grained judgment while sitting in Whitehall about why every school needs this or that. If you believe in the principle of devolved management and the principles of transparency and accountability, you allow schools to make the choice

and then hold them to account, both formally and through the mechanism of publishing the data about why they are holding so much money year on year.

**Q66 Jackie Doyle-Price:** This is the challenge, isn't it? Schools that are good performers will grasp the opportunities that this new liberated regime gives them and will succeed, and you will have your system which, I think, will pick up the failures, but in the middle—this is perhaps evidence of that—there will be those schools that just get on with it. Are you going to be able to pick those up? Ultimately, LEAs have failed to do it, and the YPLA is going to be much more remote than any LEA.

**Sarah Healey:** It is always going to be the case that some schools are carrying balances that they haven't got good plans for and are not intending to use well. That is absolutely right, and certainly in looking at authorities that aren't tackling deficits that go on for a very long time, one might also want to ask questions about surpluses that go on for extended periods.

I am not sure that the fact that the graph has gone down, combined with the fact that local authorities are very close to the decisions that individual schools make about their finances and close to the decision about whether to issue a clawback, or whether they think it sensible for the school to keep the surplus because they are much more aware of what the school is holding it for and what its plans for it are, and the fact that we do not know here whether local authorities have been making, for the very most part—I accept that that will not always be the case—sensible decisions to allow schools to keep their balances, means that they have failed overall in their oversight role.

**Q67 Jackie Doyle-Price:** But inevitably they are going to worry more about the schools in deficit than the ones in surplus, and from what I have just heard, I think that the YPLA will do exactly the same.

**Peter Lauener:** It is important that we have a very sharp eye to the schools in deficit, otherwise things can spiral out of control and you can get bad educational performance on the back of a financially weak institution. It is a very interesting point that you make: does that mean that we are not alive to surpluses not being used properly? I think that in those cases it is as important that the incentives are in the right place and the systems of accountability are right, including the accountability to the community, and to the governors of the academy trust—we have the accountability in charity law. So, it is not just about local authorities and maintained schools, or the YPLA, the Education Funding Agency and academies.

Could I draw just one other point, which connects a couple of the discussions? One of the interesting trends that we are seeing is the development of chains, and one of the most interesting aspects for me is chains that go cross-sector. There are now a number of academy trusts in which the lead sponsor is a

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general further education college or a sixth-form college, with quite a number of academies as part of the trust. We are seeing some very exciting developments, including on the financial and value-for-money case, where the college is able to offer training and human resource development opportunities for a wide group of staff, and there is an opportunity to move staff around and to share back-office services. There are a lot of interesting things happening on that kind of agenda, and I think the use of surpluses across chains to get better value of money—there is still a lot to happen, things are beginning to happen around the country.

**Q68 Austin Mitchell:** Paragraph 2.22 says that in January you began to publish “how much...every school in England received and spent per pupil”; and then it goes on that in August you added to that contextual information, like performance. When it says “every school in England” does that include the so-called public schools, or are they in a different category, like borstals and detention institutions?

**Sir David Bell:** By public schools do you mean—

**Austin Mitchell:** It says “every school in England”.

**Sir David Bell:** I think that probably is shorthand for every local authority-maintained school in England.

**Q69 Austin Mitchell:** It does not include academies, either, does it?

**Sir David Bell:** I think as I indicated earlier, Mr Mitchell, that information will be published as of next year, because the reporting template that we gave out previously was not sufficient to draw the information together. Academies now have that and Peter will be publishing that next year, so you will have every maintained school.

**Q70 Austin Mitchell:** Okay; and will that be true of the other information you publish: paragraph 4.9—financial benchmarking websites “to help schools compare their income and spending with other similar schools.” Will that include academies? It does not now, does it?

**Peter Lauener:** That is correct. As part of the extension of the publication of information for academies, we will definitely publish that information to allow academies to benchmark. It makes sense, because academies have some categories of expenditure that maintained schools do not have. It makes sense, I think, for that to be separate, but linked into the wider benchmarking database.

**Q71 Austin Mitchell:** Don't we need to be able to do a cross-comparison, so I know how much more they are getting than I am getting?

**Peter Lauener:** They will definitely be able to do that cross-comparison, but there are some categories of expenditure for academies that do not run across into maintained schools.

**Q72 Meg Hillier:** I just want to pick up again on this point about surpluses. Across Whitehall, everyone has had to make efficiency savings, and at the end, you

hear the noise of cheques being written, as project money is spent in the last few weeks of the financial year, almost. If you look at the parallel of health, when there were problems in the health service and some PCTs were massively overspending, PCTs like my own, City and Hackney, which had not overspent, were having to bail out those PCTs. So there was a reconciliation done across Departments to get value for money for the taxpayer, so no one organisation was sitting on a large pot of money while another was costing the taxpayer money.

That has not happened with schools. I am a great believer in local management of schools and some of the changes that have come along with that, but they were sitting on very big surpluses. That graph is starker than I thought. I thought it was the case, but I did not think it was quite so many, as Jackie Doyle-Price raised. Why did the Department not do more about it sooner?

**Sarah Healey:** With regard to this power of clawback that local authorities have, that is sometimes used precisely for that purpose that you were referring to.

**Q73 Meg Hillier:** But they have only just started doing it because of the current financial problem, haven't they?

**Sarah Healey:** No, there have been instances of clawback before, in the past, when a local authority, via the schools forum, has taken a view that actually there is an excessive surplus somewhere, and they have redistributed the money among other schools—perhaps, in some cases, some that have been running deficits. I think in some cases, schools that have been running surpluses that they believe they have been running for a sensible kind of purpose, like your Hackney PCT, have actually been quite annoyed about the fact that that money has been redistributed in that way; but in the end it has been a collective decision between the schools in that area that that is allowed to happen.

**Q74 Meg Hillier:** You have monitored that from the Department, have you—how often that has happened?

**Sarah Healey:** Well, now we do not require that local authorities have the power—have schemes—to allow them to do this, precisely because we want to encourage individual schools to build up an appropriate surplus for them. From a national perspective, I think we have always felt that it is not really for us to decide when schools have got far too much money, and take it back again and redistribute it elsewhere—because we could not possibly have the knowledge about what each individual school was planning on doing with it.

**Meg Hillier:** It does not stop other Government Departments.

**Sarah Healey:** But there are fewer PCTs, so it is easier to understand what the circumstances are, whereas to start removing funds from one of 20,000-plus schools, when you do not know why that school has been sustaining that surplus—we have always felt that has not been an easy thing to do.

**Q75 Meg Hillier:** Do you look at trends across the different education authorities; so if there is one with a large number of schools with a surplus would you—  
**Sir David Bell:** Yes, the NAO rightly picks up the point that we have been less activist on that front, and I think there is a clear commitment in response to the recommendation for us to go to, maybe, an authority where there is a larger number of schools either with excess surpluses or deficits. I think that is an absolutely fair point and that is something that we will accept.

**Q76 Chair:** May I just draw in a few issues that we have not covered, and then we will come to an end? One was, in answer to Fiona's question, you said it is DCLG. If we are looking at VFM for children's services, are you saying that we need to get Bob Kerslake involved on this?

**Sir David Bell:** If you are looking at value for money for children's services, that is a combined responsibility, in the sense we have got the lead policy responsibility for issues like safeguarding, adoption and so on, but the funding for those services comes from the local authority formula grant.

**Q77 Chair:** So who does this Committee call?

**Sir David Bell:** Frankly, on value for money you would call both accounting officers, because there is a wider question of local authority expenditure via formula grant, but we have the policy responsibility. So I think, quite legitimately, you could ask both accounting officers to talk about that.

**Q78 Chair:** I have three very quick questions. The second one is, in the appendix to your statement, annex (a), you talk about setting up four new executive agencies. How much are you spending on that transition from existing NDPBs to these new ones?

**Sir David Bell:** I can tell you what we are saving. I cannot tell you off-hand what the transition cost—

**Q79 Chair:** What was the transition cost?

**Sir David Bell:** Well, we've not finished it yet, because only one of the executive agencies is open. Three are due to open next April. It would be reasonable to say after the transition. The most important thing to say is that this is a major contribution to our 33% administration target. It is absolutely essential to achieving that as we move from 13 agencies down to four.

**Q80 Chair:** Can you let us have a note on the transition cost?

**Sir David Bell:** I cannot. We are not through the transition yet. The new agencies are not open until 1 April<sup>6</sup>.

**Chair:** Okay. We will perhaps come back to that. We are following these NDPB reorganisations with interest.

**Sir David Bell:** I think you will find there is a very good and encouraging story from the Department.

**Q81 Chair:** Okay. The third thing is that somewhere in here you say you are expecting a £1 billion saving out of back-office savings in schools. How did you get to that figure?

**Sarah Healey:** What we have looked at is the amount of money that schools are receiving over the period—the amount that they spend on that—and then assumed that they can save a certain proportion of it on back-office expenditure, but that is for re-investment.

**Q82 Chair:** No, I understand that. How did you get to that figure?

**Sarah Healey:** We are not setting a specific target of £1 billion. That is just what we believe that schools are able to actually achieve.

**Q83 Chair:** How did you get to that figure?

**Sarah Healey:** I am not quite sure exactly how we got to the £1 billion figure.

**Q84 Chair:** Finger in the air?

**Sir David Bell:** No, I do not think it was a finger in the air. I think, as Sarah said, we had looked at the total expenditure on back-office type services. We looked at savings that had been made over the previous three or four years—actually, we have two successive spending reviews—but I cannot remember off the top of my head.

**Q85 Chair:** Give us a note within a week. The other thing I was going to ask you is how many schools faced, in 2010–11, a real-terms reduction in per pupil funding?

**Sir David Bell:** Again, off the top of my head, without looking, I cannot tell you that, but I will make sure that that is added to the note.

**Q86 Chair:** Okay, because I think that that gives us a feel for both the surpluses and deficits and so on. Finally, I am really looking at the Treasury. What is your view on where we are in relation to the accountability statement? What comfort does it give you, or where do you think there is further work?

**Paula Diggle:** I think that, as the Department made clear, it is a work in progress. My Permanent Secretary promised you, in a letter of 14 November, that we would take a close interest. There is a dialogue taking place.

**Q87 Chair:** Then can I ask you—because I like time frames on things—basically, I think there is a lot of work to be done on VFM. There is work done on probity, as I have been saying consistently. I think there is lots of work left to be done on VFM. So if I were to say to you, “We would like a letter back from you on your progress on VFM within three months”, is that a doable?

**Sir David Bell:** I think it is entirely doable, Madam Chairman. I am smiling because it won't be me who is doing it.

<sup>6</sup> The National Audit Office is currently undertaking a study of Reorganising central government bodies.

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**Q88 Chair:** We might ask you back to comment on it. We are getting better at asking responsible officers back to be accountable to us. Your view?

**Paula Diggle:** I wonder if that is fast enough, because you are having a hearing on the accountability statements sooner than that, aren't you?

**Q89 Chair:** What do you think?

**Paula Diggle:** And you actually asked for a draft by the end of November, if you remember.

**Sir David Bell:** Madam Chairman, I was quite surprised. I thought you were going to say three weeks, but you said three months.

**Q90 Chair:** Okay. So when is our hearing? I cannot remember.

**Several hon. Members:** January.

**Sir David Bell:** I think that is reasonable.

**Chair:** Okay. So we will need it before Christmas. Good. Thank you very much, and all the best for the future.

### Written evidence from the Permanent Secretary, Department for Education

#### NAO REPORT ON OVERSIGHT OF FINANCIAL MANAGEMENT IN LOCAL AUTHORITY MAINTAINED SCHOOLS

Since the publication of the above report, a problem has come to light with the last column of the table in Figure 12, showing changes in per pupil funding between 2010–11 and 2011–12. After discussion with NAO, I am sending the Committee a note explaining the problem and setting out the Department's revised best estimate. The note has been reviewed by NAO.

I apologise for the fact that this problem was not picked up before the report was finalised.

#### PAC HEARING ON OVERSIGHT OF FINANCIAL MANAGEMENT IN LOCAL AUTHORITY MAINTAINED SCHOOLS

##### NOTE BY THE DEPARTMENT OF EDUCATION

##### FIGURE 12 IN NAO REPORT ON OVERSIGHT OF FINANCIAL MANAGEMENT IN LOCAL AUTHORITY MAINTAINED SCHOOLS

The Department for Education has realised that there are problems with the figures we supplied for the last column of Figure 12 in this report, which shows annual change in per pupil funding between 2010–11 and 2011–12. We apologise for this. This note sets out the three issues concerned; the size of effect they cause; and the figures we now believe to give the most accurate view of changes in per pupil funding in maintained schools.

There are no problems with the published data in any of the other columns of the table in Figure 12.

The table below shows the three issues we have identified and the size of effect of each. Each issue is then discussed in turn.

	<i>Figure 12 as published</i>	<i>Baseline + using CFR grants</i>	<i>Baseline + 10–11 EY FTE error fix</i>	<i>Baseline excluding EY schools</i>	<i>With all changes made</i>
Primary					
Decrease	26%	42%	16%	16%	32%
Incl < 2.5%	14%	18%	15%	17%	23%
Incl 2.5%–5%	19%	17%	21%	24%	21%
Incl > 5%	41%	24%	48%	42%	24%
Total	100%	100%	100%	100%	100%
School no		15,573	16,573	9,860	9,860
Secondary					
Decrease	12%	33%	12%	12%	34%
Incl < 2.5%	23%	34%	23%	23%	34%
Incl 2.5%–5%	29%	19%	30%	30%	19%
Incl > 5%	36%	14%	35%	35%	13%
Total	100%	100%	100%	100%	100%
School no		2,683	2,682	2,678	2,671

Description (terms used are explained in later paragraphs of the note):

- Data is 2011–12 budget share plus pupil premium per pupil versus 2010–11 budget share plus grants per pupil (excluding 10–11 Early Years FTEs in pathfinder LAs, unless otherwise noted).
- This covers schools present on all of 10–11 Section 251, 11–12 Section 251, and 10–11 CFR, open throughout the year in both 2010–11 and 2011–12. It includes middle deemed schools, and excludes those recorded as having zero pupil numbers.
- Column “Baseline + using CFR grants” uses grants taken from the 2010–11 CFR.

- Column “Baseline + 10–11 EY FTE error fix” includes EY FTEs in 2010–11 pupil numbers.
- Column “Baseline excluding EY schools” excludes all schools with Early Years pupils in 2011–12.
- Column “With all changes made” makes all of these adjustments plus a very minor change relating to secondary schools in Warrington.

Note:

By excluding EY schools, we implicitly remove the distortion caused by the 2010–11 EY FTE error at the same time. Because of this the column “Baseline excluding EY schools” shows the effect of addressing both the 10–11 and 11–12 EY FTE issues.

#### MAINSTREAMING GRANTS

The first issue, which has the greatest effect on the figures, is to do with the mainstreaming of specific grants into the Dedicated Schools Grant (DSG).

When officials scrutinised the figures supplied for the last column of Table 12, it appeared that the average increase for schools was unexpectedly high. On the settlement basis of flat cash per pupil plus the Pupil Premium, we were expecting an average per pupil cash increase of around 2%. However, the figures as supplied showed an average per pupil cash increase of around 4%. We realised that this was because of the mainstreaming of grants.

Before grants were mainstreamed in 2011–12, local authorities did not need to allocate all their grant funding to schools at the start of the year, and often held back fairly large amounts to allocate later in the year. Since the section 251 budget data is returned at the start of the financial year, this data did not contain the total amount of grants allocated later in the year.

In 2011–12, all grant funding other than the Pupil Premium was mainstreamed into the DSG, and from there into individual schools’ budgets. Local authorities are required to give the full year allocation of schools budgets in the section 251 budget data, and in 2011–12 these included almost all funding from grants that had been mainstreamed (a small amount is still held centrally). This includes funding that had not been allocated at the start of the year in previous years, and so would not have appeared in previous years’ budget statements.

The data in the last column of figure 12, subject to the adjustments arising from the two issues discussed later on in this note, correctly records the change between 2010–11 and 2011–12 in what schools received at the start of the year. This substantial cash increase is of benefit to schools in knowing their full budget earlier and being able to plan their spending. However, it does not reflect the change in schools’ budget between the two financial years as a whole.

We have addressed this by using data from the Consistent Financial Reporting (CFR) system to get a better indication of school level grants for the whole of 2010–11. CFR data is collected at the end of each financial year, and so covers all funding that schools receive over the course of the year. While it is mostly used to classify schools’ expenditure, it also contains data on the sources of schools’ income, and we have used this to get a better idea of total grants funding. It does, however, involve the mixing of data from different sources, which may not be entirely comparable, and therefore the results must be seen as approximate estimates.

This issue applies to both primary and secondary schools. It has the effect of substantially lowering the average increase per pupil, so that the percentages of schools in the lower bands are greater and in the upper bands are smaller than in the published table. The effects are bigger for secondary than primary because of the first two issues having lowered the average increase in the published figures for primary.

The other two issues concern the quality of data in the budget returns made by local authorities under section 251 of the Apprenticeships, Skills, Children and Learning Act 2009.

#### EARLY YEARS PATHFINDER FULL-TIME EQUIVALENT NUMBERS IN 2010–11

In 2010–11, roughly half of all local authorities allocated their funding for early years pupils under a new Early Years Single Funding Formula (EYSFF). These local authorities were known as “pathfinders”, and used a slightly different format for their Early Years data from that used by non-pathfinder LAs. For non-pathfinders, the column “total pupil FTEs” contained all full-time equivalent numbers in every school, whereas for pathfinders Early Years FTEs were recorded in a separate column. This chiefly affects nursery schools, but also primary schools with nursery classes.

The original calculations supplied for the table did not include Early Years FTEs in pathfinder authorities. This meant that the funding per pupil of affected schools in 2010–11 would have been too high, and so they would appear to have larger decreases in funding than would actually have been the case.

This has been addressed by changing the calculation to include the EY FTEs in pathfinders in the calculation of funding per pupil in 2010–11 that is used as the baseline for comparison with 2011–12.

This second issue affects primary schools only. Taken on its own, it would not change the broad message of the figures that the largest group of schools is that with increases of over 5% per pupil, but it would show

more schools in that band and fewer schools with funding decreases, and an average change in the four bands of 5 percentage points.

#### EARLY YEARS DATA QUALITY IN 2011–12

In 2011–12, all local authorities were using the EYSFF, so there was no longer a split between pathfinder and non-pathfinder local authorities. However, rather than collecting Early Years Hours and Early Years FTEs separately, as had happened in pathfinders in 2010–11, the decision was taken to collect Early Years Hours only and derive Early Years FTEs from them. Since an Early Years week was defined as 25 hours, Early Years FTEs were defined as Early Years hours divided by 25.

When the first returns of data were collected, we discovered that while some local authorities were showing sensible data, other authorities were showing huge numbers of FTEs, while still showing normal funding levels. These authorities were recording the total number of Early Years hours taught over the course of a year, and the associated cost. So if one pupil was taught at 25 hours per week, 38 weeks per year, this would show as  $25 \times 38 = 950$  hours, and their FTE would be shown as  $950/25 = 38$ .

The decision was taken to adjust the calculation, so that FTEs would be calculated as hours divided by 950. Local authorities were written to and informed of this, and those who had originally entered data as hours per week were asked to change their data. However many did not, meaning that for those LAs their EY FTEs will be one thirty eighth of what they should be.

This has been addressed by removing primary schools with Early Years hours from the comparison. This removes 40.5% of primary schools and 48.6% of primary school pupils from the analysis.

This third issue also affects primary schools only. It does not alter the broad pattern of changes shown in the original table or that results from addressing the second issue. The average change to the four bands resulting from adding this issue to the second issue is 2 percentage points, and from the two issues taken together remains 5 percentage points.

Both of these issues show a need for more rigorous checking of the data. The Department has reviewed and is now changing its internal data checking processes. First, we are considering what additional validation can be added to the initial collection to help ensure the quality of the data. The extra validation will be based on the knowledge and analyses of the subject matter by the teams who lead on particular data areas.

We are also reviewing our processes for checking back data with local authorities and ensuring that the final data is sensible. For the 2012–13 section 251 budget data collection, we will be involving Departmental staff with expertise in particular areas of policy and expenditure to check the initial figures and ask local authorities to change them if necessary. This will help build a better understanding of the data and the approaches used by local authorities when completing the returns. These additional quality control procedures should strengthen our sense checking processes and provide reassurance that the data is fit for purpose when it is released.

#### DFE'S REVISED BEST ESTIMATE

The table below shows the figures that result when we have corrected for all three issues discussed in this note, with columns showing the difference from the published table in Figure 12. This is the Department's revised best estimate of the change in schools' funding between 2010–11 and 2011–12, looking at the position over the year as a whole rather than just the start of the year.

	<i>Primary (c 60% of schools)</i>	<i>Difference % points from Fig 12</i>	<i>Secondary</i>	<i>Difference % points from Fig 12</i>
Decrease	32%	+ 6	34%	+22
Increase < 2.5%	23%	+9	34%	+11
Increase 2.5–5.0%	21%	+2	19%	–10
Increase > 5%	24%	–17	13%	–23

#### Notes:

- Data is 2011–12 bUdget share plus pupil premium per pupil vs 2010–11 budget share plus grants per pupil.
- All data is taken from Section 251 Budget except for 2010–11 grants, which are taken from the 2010–11 CFR lines 104, 105, 114 and 115.
- This only covers schools present on all three data sources and open throughout the year in both 2010–11 and 2011–12. It includes middle deemed schools, but excludes schools with Early Years funding in 2011–12, and those recorded as having zero pupil numbers. It also excludes schools in Warrington, whose Section 251 Budget return for 2011–12 did not contain the numbers of primary and secondary pupils.

### Further written evidence from the Department for Education

Questions 2–3 (Chair) and 138 (Fiona Mactaggart): *The level at which Academies' finance data will be provided to the YPLA and published by the Department and the level at which Academies provide wider financial reporting information to the YPLA*

1. The Department plans to publish Academies' finance data for 2010–11 in spring 2012, using the information Academy Trusts supply to the YPLA in the new Abbreviated Accounts Return (AAR). Academies' data will be published at the level it is provided to the YPLA ie at individual school level unless the Academy is in a federation, in which case it will be for the federation as a whole.

2. A federation of Academies is defined to be where one Academy Trust operates a number of Academies within a single legal entity.

3. For 2010–11, YPLA expects to receive 385 AARs from single Academy Trusts (ie individual Academies) and 34 AARs from federated Academy Trusts. These federated Academy Trusts cover between them 138 Academies. 56% of the federated Trusts consist of only two Academies and a further 12% consist of only three (see table below for full details). Academy Trusts (including federations) are required to submit financial statements and AARs as federations for 2010–11 if they were incorporated before 1 March 2011.

4. For 2011–12 we do not have a full and accurate picture yet. However, YPLA's experience of those incorporated since 1 March 2011 is that not many new large federations are being created and that any which have been created tend to be federations of two, for example a primary and secondary school.

5. The YPLA monitors wider financial performance at an individual Academy level. All Academies (regardless of whether they are federated) are required to submit budget returns within agreed timescales. The information contained in the budget returns is used to assess financial health and areas of concern are raised with the Academy. Although financial statements are prepared for the federation as a whole, the YPLA have ensured the AAR captures key information at Academy level (for example current assets/liabilities and fund balances) to enable the monitoring of financial performance for each Academy. The focus of monitoring is at an Academy level rather than the overall federation because:

- Academies are funded on an individual basis so the requirement for separate returns within a federation increases the accountability for funds;
- funding agreement conditions stipulate that it is the responsibility of the Academy Trust to ensure that each Academy balances its budget from financial year to financial year. Having a budget return per Academy enables YPLA to monitor adherence; and
- educational performance is monitored at an Academy level and in considering this financial performance is a relevant factor.

#### THE FEDERATED ACADEMY TRUST RETURNS FOR 2010–11

<i>Federation</i>	<i>Number of Academies expected to be included in the 2010–11 Accounts submitted to YPLA</i>
Academies Enterprise Trust	5
ARK	8
Bexhill and Town End Academies Trust	2
Basildon Academy Trust	2
Cabot Learning Federation	4
City of Wolverhampton Academy Trust	2
Chatham and Clarendon Grammar School Federation	2
Collegiate Academies	2
David Ross Academies	2
E-ACT	11
Girls Day Schools Trust (GDST)	2
Gosforth Academies Trust	2
Grace Academies	2
Greenwood Academies Trust	2
Haberdashers' Aske's Federation	3
Harris Federation	9
Kemnal Academies Trust	7
Learning Schools Trust	3
Landau Forte Charitable Trust	2
Leigh Academies Trust	2
Manchester Creative and Media Academies	2
Future Schools Trust	2
Oasis	12
Ormiston Academies Trust	7
Outward Grange Academies Trust	2



<i>Federation</i>	<i>Number of Academies expected to be included in the 2010–11 Accounts submitted to YPLA</i>
Pegasus Academy Trust	3
Priory Federation of Academies	4
Richard Rose Federation	2
Ridings Federation of Academies	2
School Partnership Trust Academies	3
The Canterbury Primary and High School Trust	2
United Learning Trust (also works in partnership with Emmanuel Trust on four academies)	17
West Grantham Academies Trust	4
Woodard	2

Question 6 (Fiona Mactaggart): *Changes to the location of the Schools Financial Benchmarking website*

1. As part of the Department's website rationalisation, the teachernet website, [www.teachernet.gov.uk](http://www.teachernet.gov.uk) and its contents, have been archived and/or included in the Department's website, [www.education.gov.uk](http://www.education.gov.uk).

2. The User Resource Locator (URL) to the Schools Financial Benchmarking (SFB) website was changed on 23 November from the Teachernet website (<https://sfb.teachernet.gov.uk/login.aspx>) to the Department's website (<https://www.education.gov.uk/sfb/>) and users' passwords remain the same. The security ("SSL") certificate for the old Teachernet site (of which SFB was a part) expired after Teachernet was closed down earlier this year. This certificate expired on 24 November 2011 which is why users using the old URL were encountering a security warning before being redirected to the new URL. At no point were users being redirected to an insecure website.

3. As soon as we became aware of this security warning we began looking for a solution. We have now resolved the problem by reinstating the SSL on the old URL (as of 7 December). Users are now automatically redirected from the old to the new URL without a security warning appearing.

Questions 34 (Meg Hillier): *National College training for head teachers and school business managers*

1. The National College training course *Strategic Financial Leadership in times of Austerity* has had more than 750 participants. In addition the College has trained around 10,000 school business managers since 2002.

2. The detailed information on the training courses is as follows:

- The National Professional Qualification for Headship (NPQH) offers a course on *Strategic Financial Leadership in times of Austerity*. In the past two years the online course has been delivered 29 times to approximately 638 Trainee Heads.
- In addition, a similar course is offered to NPQH Graduates through the Head Start programme which in the current academic year has had 135 graduates.
- Therefore, in total, the College's courses on financial management in times of austerity have had more than 750 participants.
- The number of school business managers trained by the College since 2002 is around 10,000.

Questions 40 (Meg Hillier): *Support and training available to school governors*

1. The Department's National Training Programme for school governors comprises three strands aimed at: clerks to governing bodies; new governors; and chairs of governing bodies. The programme was distributed to local authorities, Diocesan Boards and independent trainers to provide face-to-face training to governors and clerks. The programme is still used by many training providers and we had intended to update it in 2010. The programme includes a limited overview of finance.

2. Funding pressures reduced the amount available to refresh the training programme and we have had to focus our efforts on ensuring that chairs of governing bodies are properly trained and supported to fulfil their leadership role. This meets the commitment made in *The Importance of Teaching—The Schools White Paper* published in November 2010 that we would offer high-quality training for chairs of governors.

3. The National College for School Leadership has done valuable work in strengthening school leadership in England and we have given them a remit to develop a programme of training and support for chairs of governing bodies. The first of the outcomes of this programme has been a governors' handbook *Leading governors: The role of the chair of governors in schools and academies*. Further training and support for chairs of governors will be available in 2012. This will include a module on finance and will be available to chairs (and other governors) in maintained schools, Academies and Free Schools. The programme will also recruit a number of National Leaders of Governance who will support and mentor chairs of governors.

4. Whilst the Department does not offer dedicated training, we know that a number of independent providers offer finance training. These include:

- *School Finance* offered by Modern Governor;
- *Finance training for school governors* offered by The Ten Group (The Key); and
- Governors e-Learning (GEL) are currently preparing a module on the *Schools Financial Value Standard*.

All these providers offer services to schools and local authorities through subscription to their services. The services offered by the providers are available to maintained schools and Academies.

5. In July 2009 the Audit Commission released a briefing for school governors: *Valuable lessons—Improving economy and efficiency in schools*. The briefing helps governors to understand value for money and how to include it in their planning.

6. The Schools Financial Value Standard (SFVS), launched in July 2011, is much simpler than its predecessor, the Financial Management Standard in Schools. The Department therefore does not consider that formal training funded by the Department is necessary for schools or governors to complete the standard. We know that many local authorities are offering advice and training to schools in relation to the SFVS requirements.

Question 59–56 (Fiona Mactaggart): *Is reporting on 16–18 education planned at course level?*

1. The Committee considered the NAO report “*Getting value for money from the education of 16–19 year olds*” in June. One of the recommendations in the PAC Report was that the Department should require all providers to compile and publish comparable performance information to support the assessment of value for money, to enable prospective students to use this information in order to find the right course, thereby improving student engagement and retention.

2. The Government partially accepted this recommendation, stating that it was already committed to publishing comparable measures of performance for post-16 education and training as set out in the Schools White Paper. The commitment is to publish comparable measures of performance across all 16–19 providers. The Department is reviewing published performance measures for post-16 education and training, with the aim of having new arrangements, including comparable performance measures, in place by 2013. Where appropriate this will cover data relating to models of partnership delivery, such as collaboration through federations.

3. The Department also intends to reform performance tables to include destinations data alongside new attainment measures and trend data, established on a comparable basis across all 16–19 provision.

4. Progress to date is that reformed post-16 tables from 2012 will measure pupil retention, achievement of high quality level 2 qualifications as well as those at advanced level—particularly in English and mathematics where they were not achieved by pupils at 16. These will be supported by progress and destinations measures alongside measures which compare the achievements of low attainers with those of other pupils. In addition to the headline indicators, parents and others will be able to access a wealth of additional information about schools and colleges, *including results at individual qualification and subject level*. This will enable parents and local communities to find out how well schools and colleges are doing in providing children with a broad and rounded education.

5. However, the Department does not intend to require providers to compile and publish information, although it encourages them to do so.

Questions 81–84 (Chair): *How the Department reached the figure that schools should be able to save £1 billion on procurement and back office spending by 2014–15*

1. The Department approached this calculation from two angles. In July 2010 we engaged ATOS Consulting to undertake a detailed piece of research and analysis of the categories of expenditure across schools’ non pay spend. We gathered detailed line item data of non-pay expenditure from a statistically representative sample of 100 schools. This data was then reviewed and analysed and detailed opportunity assessments were developed which outlined the savings potential for each of the key categories of expenditure. External sources were also used to supplement the data collected from the 100 schools—this included CFR data for 2006–07, 2007–08 and 2008–09, benchmarking data from a number of sources including catalogues and websites, subject matter experts (for example local authorities, Public Sector Buying Organisations’ staff) and supplier interviews.

2. Three levels of savings estimates were identified as being achievable during the April 2011 to March 2014 period: Low—£345 million, Medium—£585 million and High—£1.041 billion. The analysis showed that savings of £1 billion were achievable over the period to March 2014.

3. This estimate was corroborated by the Department’s analysis of all schools’ Consistent Financial Reporting data for 2008–09. We grouped similar schools together based on school phase, percentage of pupils eligible for free school meals (as an indicator of deprivation) and location. Then, for each group, we modelled how much could be saved if those schools spending above the 75th percentile on procurement and back office

reduced their spending to the level of the 75th percentile by 2014–15. Aggregating the figures provided a total of just over £1 billion.

4. There is no doubt that achieving savings of £1 billion from procurement and back office reductions will be challenging for schools but the evidence suggests that this is a sensible level of ambition at a time when school budgets are under increased pressure.

Question 85 (Chair): *How many schools faced, in 2010–11, a real-terms reduction in per pupil funding?*

1. The Department's Section 251 Budget data return records the amount of funding that local authorities allocate to maintained schools in each financial year. It does not cover Academies or independent schools.

2. The Office of National Statistics GDP deflator showed inflation of 2.75% between financial years 2009–10 and 2010–11. Comparing school level funding and pupil numbers from the Section 251 returns for those two years shows:

	<i>Number of schools with a real terms decrease in per-pupil funding between 2009–10 and 2010–11</i>		<i>Percentage</i>
	<i>Total schools in analysis</i>		
Nursery	171	415	41%
Primary	6,390	16,780	38%
Secondary	1,129	3,023	37%
Special	420	947	44%

Source: Section 251 Budget Financial Data Collection 2009–10 and 2010–11 (Table 2, last updated 31 March 2011), and ONS GDP deflators

Notes:

- Covers all maintained schools open in both financial years, not marked as opening or closing, with non-zero pupil numbers, with distinct school identifier codes, and with the same phase in both years.
- The Primary and Secondary rows include middle-deemed primary and middle-deemed secondary schools respectively.
- Includes sixth form funding and sixth form pupils, and early years funding and pupils.
- Funding includes school budget share, plus specific grants allocated at the beginning of the financial year.

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