



National Audit Office

REPORT BY THE  
COMPTROLLER AND  
AUDITOR GENERAL

HC 1042  
SESSION 2012-13

15 MARCH 2013

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Department for Education

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# Capital funding for new school places

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National Audit Office

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Department for Education

# Capital funding for new school places

Report by the Comptroller and Auditor General

Ordered by the House of Commons  
to be printed on 14 March 2013

This report has been prepared under Section 6 of the  
National Audit Act 1983 for presentation to the House of  
Commons in accordance with Section 9 of the Act

Amyas Morse  
Comptroller and Auditor General  
National Audit Office

13 March 2013

The need for school places has increased in recent years. The Department for Education has increased its capital funding to 2014-15 to over £4.3 billion for new school places.

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2547064 03/13 PRCS

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This report can be found on the National Audit Office website at [www.nao.org.uk/school-places-2013](http://www.nao.org.uk/school-places-2013)

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## Key facts

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**256,000**

estimate of new primary and secondary school places needed in England by 2014

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**£4.3bn**

in capital funding being allocated by the Department to local authorities for new school places in England from 2010 to 2014, excluding March 2013's Targeted Basic Need Programme

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**12,000**

National Audit Office's estimate of additional pupils in reception classes in England each year to 2014

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- 5 per cent** fewer primary school places available in 2010 than 2004, in response to falling school rolls
- 16 per cent** increase in the number of four-year-olds starting reception classes between 2006/07 and 2011/12
- 20.4 per cent** of primary schools were full or over capacity, at May 2012
- 29 per cent** of local authorities were funded less than the Department had assessed they needed for new school places in 2012-13 using authorities' own forecasts for pupil numbers

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**In this report:**

2011-12 refers to the financial year (April to March)

2011/12 refers to the academic or school year (September to August)

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# Summary

## Introduction

**1** In 2011/12, 6.8 million 4- to 16-year-olds attended state-funded schools in England, 3.9 million were in primary schools, 2.8 million in secondary schools, and 78,000 in special schools. Around 600,000 children start reception classes in primary school each year.

**2** The number of children starting school fluctuates annually, increasing if the birth rate and inward migration grow. New school places may be needed to meet increases in demand, initially in reception classes and later in other primary and secondary classes. A lack of sufficient places can create local 'hotspots' where demand outstrips places available within a local area, even though the local authority may not have an overall shortage of places.

**3** **Figure 1** overleaf shows roles and responsibilities for providing school places. The **Department for Education** (the Department) is responsible for the policy and statutory framework. It aims to give parents "the choice of a good local school" for their children, and "to use available capital funding to best effect to provide sufficient places in schools parents want to send their children to". The Department makes a substantial financial contribution to local authorities' costs in delivering places, and is accountable for overall value for money delivered from its funding.

**4** **Local authorities** are statutorily responsible for ensuring that there are sufficient schools, and therefore school places. Authorities assess demographic changes, plan and finance new school places, including using funding provided by the Department. There is a range of possible solutions to provide new places, mainly:

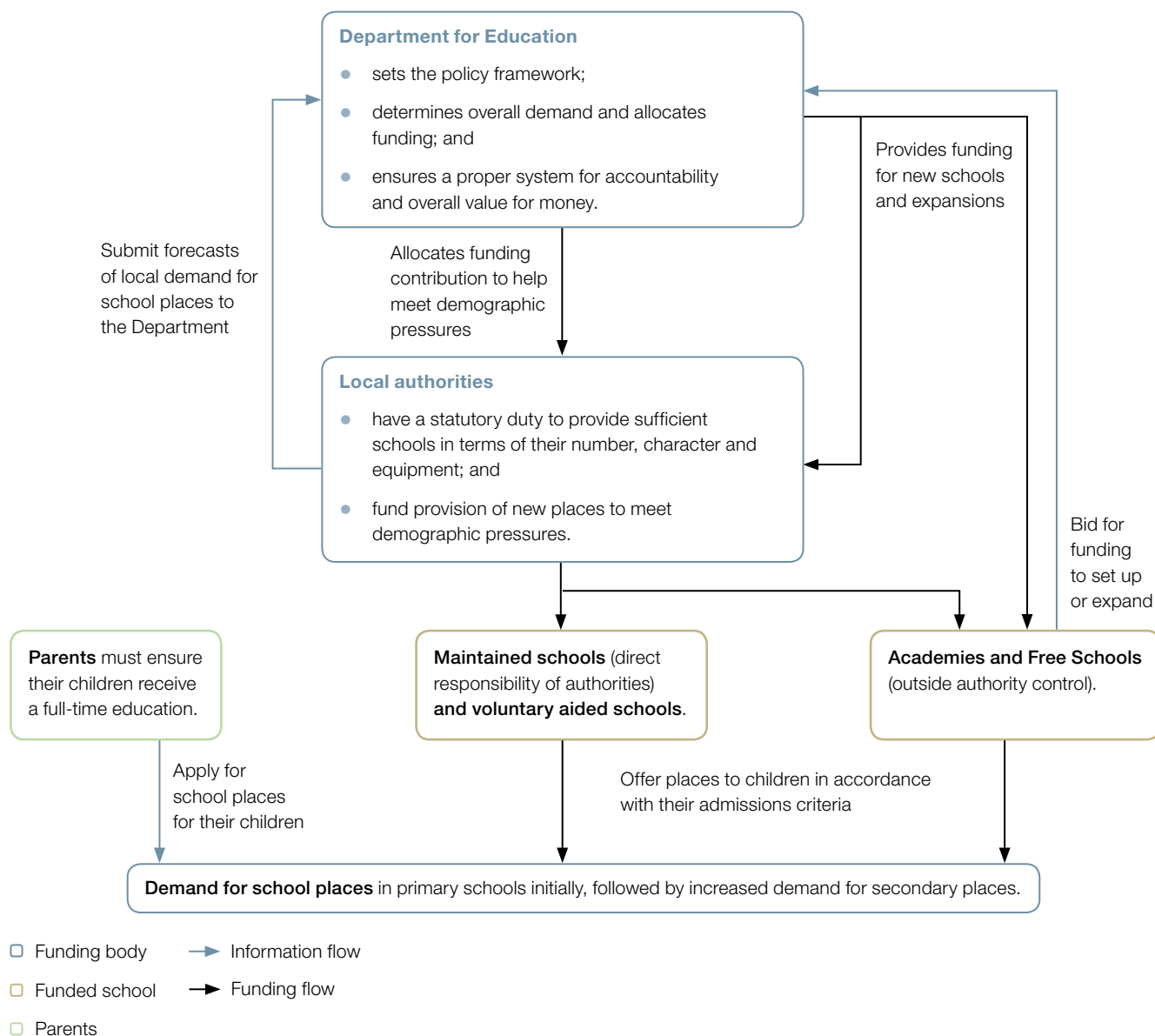
- building new schools;
- permanent or temporary extensions; or
- converting existing spaces for use as classrooms.

**5** Local authorities rely on cooperation from individual **schools** to expand existing provision. An authority can direct the expansion of community and voluntary controlled schools, but not others. There are legal limits on the size of certain primary classes, and space on existing school sites may be constrained. For children required to travel more than either two or three miles, depending on their age, to school, authorities must arrange transport at no charge to parents.

**Figure 1**

## Roles and responsibilities in providing school places

The Department is responsible for the policy framework and overall value for money. Local authorities are responsible for delivering sufficient schools



Source: National Audit Office analysis of Department for Education documents and legislation



## Scope of the report

**6** This report assesses whether the Department is securing overall value for money, including:

- how far the Department's objectives are being achieved (Part One);
- how well it determines its financial contribution to local authorities (Part Two); and
- how well it allocates funding to areas that have the greatest need (Part Three).

**7** The report covers school places for 4- to 16-year-olds. It does not assess the educational impact of different types of building programmes, or judge how well local authorities deliver new places.

## Key findings

### Achievement of the Department's objectives

**8 The rise in children born in England between 2001 and 2011 was the largest ten-year increase since the 1950s and increased demand for primary school places.** Between 2001 and 2011, live births rose by 22 per cent to 688,000. Between 2006/07 and 2011/12, the number of children starting in reception classes in primary school increased by 16 per cent to 606,000. Previously, many local authorities faced falling school rolls and had reduced primary places by 5 per cent nationally between 2003/04 and 2009/10 (paragraphs 1.8 and 1.9).

**9 At May 2012,<sup>1</sup> there was an estimated national surplus of primary places of 10 per cent.** However, 13 per cent of local authorities (19) had less than the minimum 5 per cent surplus the Department assumed in its planning as necessary to support operational flexibility and some parental choice, with 16 of these in London. The Department adopted this planning assumption in the context of a challenging Spending Review when preparing its funding bid. It recognises that it needs to undertake work to identify levels of surplus which realistically enable parental choice (paragraphs 1.16 to 1.18).

**10 Despite a net increase of almost 81,500 primary places from 2010 to May 2012, 256,000 new school places are still needed from May 2012 by 2014/15. Forecasts of future need are inevitably uncertain but the demand for school places is projected to increase beyond 2014/15.** 240,000 of the places required by 2014/15 are primary places, of which 37 per cent are in London. In 2010, the Department had estimated that 324,000 additional places would be needed by 2014/15. In 2012, the Department expected demand to continue to rise, and 400,000 further places could be required by 2018/19. The Department is undertaking work to consider the uncertainty in these long-term estimates (paragraphs 1.14, 1.20 and 1.23).

<sup>1</sup> The Department published May 2012 data in March 2013.

**11 The Department considers that all local authorities have so far met their statutory duty to provide sufficient schools. There are, though, indications of stress on school places.** In May 2012, 20.4 per cent of primary schools were full or had more pupils than their capacity. Numbers of children in infant classes (up to age seven) of 31 or more pupils have more than doubled in five years, from 23,200 in 2007 to 47,300 in 2012. Thirty-four per cent of authorities responding to our survey in August 2012 reported that rising demand for places has had a significant impact on children's average journey times to school. Appeals as a percentage of primary school admissions to infant classes increased from 1.7 per cent in 2004/05 to 4.8 per cent in 2010/11 (paragraphs 1.19, 1.21 and 1.22, and Figures 6 and 7).

The Department's funding for new school places

**12 The Department's assessments of funding required to meet expected demand are based on incomplete information.** Local authorities' costs in providing places vary depending on the mix of solutions they use, and local prices. In 2010, the Department initially estimated the cost of delivering 324,000 places at £5 billion, covered by the Department's funding and financial contributions from authorities. This figure was based on 2007 data, inflated to 2010 prices, and did not include, for example, the cost of land acquisition for new schools. The Department assumed that the majority of new places would be delivered as extensions to existing schools. The Department is revising its estimates to create more up-to-date costings, including considering the impact of standardised designs for schools announced in October 2012. These indicate potential for reducing building costs for new schools by 30 per cent. Developing a more robust estimate of funding needs is vital for the Department to respond efficiently to the forecast increase in need (paragraphs 2.14 to 2.16 and 2.19).

**13 The Department has supplemented its 2010 spending settlement to increase its contribution to local authorities for new school places to around the level it originally estimated.** The 2010 Spending Review settlement reduced the Department's overall capital spending in real-terms by 60 per cent. Within this, the Department increased its specific funding for new places to £3.2 billion up to 2014-15. Subsequent injections of funding from savings on other programmes and from HM Treasury increased this to £4.3 billion by November 2011. The Department's effective funding contribution per place had thus increased from £9,875 to £13,780. As the Department has yet to update its estimate of the total cost of places required, it is not yet clear whether this level of funding represents an accurate assessment of the resources required to meet forecast need. In addition, a further £982 million capital funding for schools was announced in December 2012. The Department has invited bids from local authorities which will determine how much of this is for delivery of new places in 2014-15 and how much for 2015-16. It is therefore not yet clear how much funding in total the Department will be providing for the delivery of places by 2014/15 (paragraphs 2.4, 2.7 and 2.8, and Figure 9).

**14 Local authorities report that they made a higher funding contribution in 2012-13 than the Department's original assumptions implied, although the Department has subsequently increased its funding.** The Department assumes that authorities meet any difference between actual costs and the funding it provides. Local authorities' required contribution therefore varies depending on the level of the Department's funding and the actual costs of providing places. The Department initially assumed that local authorities would contribute 20 per cent towards the cost of new places. This planning assumption was not evidence-based and was not communicated to authorities. In our survey, authorities reported making an average contribution in 2012-13 of 34 per cent. Most authorities drew on other sources of funding to finance new places, including maintenance funding provided separately by the Department (64 per cent), potentially storing up future costs by deferring repair work (paragraphs 2.17 and 2.18, and Figure 12).

**15 The Department's capital priorities have changed since 2010 and new capital programmes will deliver some additional places by 2014/15.** The Department has changed its capital priorities since 2010, including cancelling many Building Schools for the Future projects and the Primary Capital Programme. These programmes were primarily aimed at enhancing the quality of school buildings and the Department has not estimated how the total number of school places available may have been affected. The Free Schools Programme has been allocated capital funding of £1.7 billion to 2014-15. It is expected to increase the number of available places, although this is not the primary purpose of the programme. We estimate that Free Schools opened in September 2012 could provide up to 24,500 places, 58 per cent in local authorities with a shortage of places. However, only 8,800 of the 24,500 places are in primary schools and most Free Schools will not be operating at their full capacity by 2014/15 (paragraphs 2.5 and 2.6).

### The Department's allocation of funding

**16 The Department's funding framework for new school places could be better aligned with its objectives.** The Department adopted a planning assumption about the scale of surplus places required to support some degree of operational flexibility and parental choice. However, local authorities' statutory duty for providing sufficient schools does not oblige them to maintain a surplus of places for parental choice, nor does the Department set expectations about the assumed level of surplus required (paragraph 1.17).

**17 The Department has used four different methods to allocate funding for school places since 2007, although its current approach provides a clearer focus on the areas of greatest need.** It has moved gradually to a method which most closely reflects local authorities' need for new places, and, until 2012-13, its data was insufficiently detailed to enable it to identify 'hotspots' of demand within individual authorities. The Department has yet to decide how its future allocations will reflect the places authorities expect to deliver using the funding they have already received in prior years. Uncertainty over future levels of funding from the limited duration of allocations and changes in the Department's allocation methods has increased planning uncertainty for authorities (paragraphs 3.4, 3.5, 3.9, and 3.18, and Figure 14).

**18 For 2012-13 only, the Department sought to provide local authorities with some funding stability, and consequently allocated some £56 million (7 per cent of core funding) away from authorities with most need.** The Department introduced a transitional mechanism to afford authorities some protection as it changed the method of allocating core funding. As a result, 57 per cent of authorities received more funding than the Department assessed them to need according to authorities' own forecasts of pupil numbers, while 29 per cent received less. These forecasts were not at a detailed enough level to identify demand 'hotspots' (paragraphs 3.14 and 3.15, and Figure 16).

**19 The Department lacks sufficient information about the local impact of its funding, and has limited feedback to assure itself that overall the system for new school places is achieving value for money.** In 2012, the Department collected more detailed data by planning area within local authorities and data on forecast capacity to identify local need and potential 'hotspots'. It also intends to collect more information on the use made of its funding. However, it currently lacks a full understanding of the impact its spending is having on the number of places created, and how funding is being used (paragraphs 2.19, 3.17, and 3.19).

## **Conclusion on value for money**

**20** Delivering value for money in providing new school places requires effective partnership working, while the scale of future need is inherently uncertain. The Department has ambitious objectives to provide sufficient places and an effective choice for parents. There was a net increase of almost 81,500 primary places by May 2012 and the Department has increased funding to 2014-15 to over £4.3 billion. However, a further 256,000 new school places are still required by 2014/15 and, despite a national surplus, there are indications of real strain on school places.

**21** To improve value for money, the Department needs to build on the incremental improvements to the information it uses to make its funding allocations. It needs a better understanding of costs, clarity about how it will allocate funding to areas of need, and a better understanding of the impact its funding contribution is having on the ground.

## Recommendations

**22** The Department should:

- a** **Clarify the costs of new places and the scope of its funding contribution to local authorities to better inform its future decisions on the total amount of funding it should contribute.** The Department needs an updated understanding of costs. It does not make clear to local authorities the scale of its financial contribution or the extent to which it is intended to enable parents to choose schools.
- b** **Consider how its funding allocations reflect the places which local authorities already expect to deliver.** The Department needs to ensure that its chosen method is underpinned by robust data to support accurate funding allocations.
- c** **Monitor the impact of reforms to the school system on the delivery of new places.** Local authorities increasingly have less direct control over the provision of new places, given the growth of Academies and Free Schools.
- d** **Develop its assurance framework to better understand whether it is achieving value for money in its distribution of funding.** There is a lack of coverage of capital spending in the Department's Accountability Statement and the Department lacks information to support benchmarking of authorities' cost per place.

# Part One

## Achievement of the Department's objectives

**1.1** Parents have a legal duty to ensure their children receive a full-time education. In January 2012, there were 6.8 million 4- to 16-year-olds in state-funded schools in England, with 3.9 million in primary schools, 2.8 million in secondary schools and 78,000 in special schools.

**1.2** This part focuses on how far the Department for Education (the Department) is achieving its objectives for the provision of school places, including whether the overall system is delivering the places required. It describes the responsibilities for providing places and examines:

- the demand for new school places;
- the likelihood of the Department's objectives being met in the period to 2014-15; and
- future demand and challenges.

### Responsibilities for providing school places

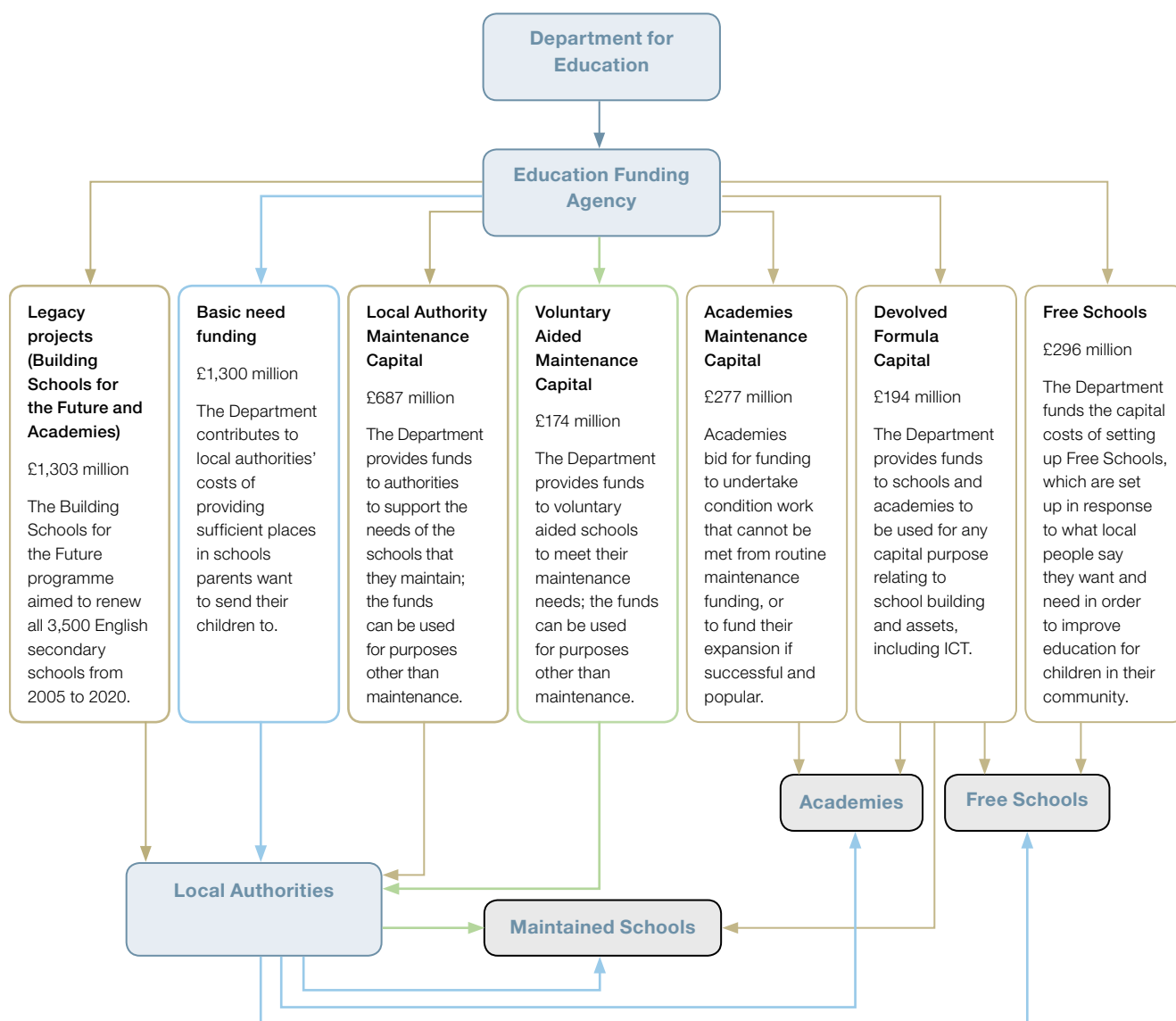
**1.3** Responsibility for delivering value for money in new school places is shared between the Department, local authorities and schools. The Department is responsible for:

- setting the policy direction for school places, including the statutory framework;
- assessing overall demand and determining its overall funding to support creation of new places (Part Two of our report);
- allocating funding to authorities (£1.3 billion in 2012-13 (**Figure 2**)) to help meet the costs of providing new places (Part Three); and
- having assurance that, overall, the system is delivering value for money, through a robust accountability framework covering the resources it distributes (Part Three).

**Figure 2**

## The Department's capital funding 2012-13

The Department's capital funding of schools totalled £4,231 million<sup>1</sup>, of which £1,300 million was specifically for new places



□ Funding body    □→ Funding stream

□ Funded School

**NOTES**

- 1 In October 2010, the Secretary of State announced that capital funding should focus on “ensuring that there are enough school places to meet demographic pressures and to address urgent maintenance needs”.
- 2 The Department allocates Basic Need funding in the form of a capital grant to local authorities specifically for the creation of new school places. The grant is not ring-fenced and authorities are free to use it for any capital purpose.

Source: National Audit Office analysis of Department for Education Capital Allocations

**1.4** Local authorities have a statutory responsibility for ensuring there are sufficient schools, and therefore school places, for children.<sup>2</sup> To meet this responsibility, they need to:

- understand demographic patterns so that they can plan and fund new school places where the capacity of existing schools is projected to be insufficient to meet increased numbers of pupils; and
- determine and implement solutions to provide the places required, largely through their capital programmes.

**1.5** Local authorities may meet increased demand for places in several ways: using surplus places at existing schools and transporting children to these if necessary; expanding existing schools through converting existing spare accommodation or constructing a new extension; or facilitate the opening of new schools.

**1.6** Local authorities need to consider the following in seeking to meet their statutory duty:

- **Cooperation with the school community.** If individual schools are unwilling to take more pupils, an authority can direct their community and voluntary controlled schools to expand, but has no such powers to direct other types of school, such as voluntary aided schools, academies or free schools. Expansion of academies and free schools is a matter for the Secretary of State.
- **New schools.** Authorities cannot open new community schools.
- **Space to expand** on existing school sites may be limited, while alternative sites may not be available at an affordable price.
- There are **legal limits on class size** of no more than 30 children per teacher in infant classes in primary schools.<sup>3</sup> Regulations only allow a child to be admitted above these limits in certain, very limited circumstances.
- **Travelling distances for children.** Authorities must arrange transport at no charge to parents for children required to travel longer distances to their nearest suitable school than two miles for pupils aged up to eight, and three miles for those aged eight and over.<sup>4</sup>

<sup>2</sup> The Education Act 1996.

<sup>3</sup> The School Standards and Framework Act 1998 limits class sizes for Reception and Years 1 and 2 classes, for children reaching ages five to seven during the school year.

<sup>4</sup> The Education Act 1996.



## The demand for new school places

**1.7** Neither the Department nor local authorities have control over the number of children starting school each year. To meet their responsibilities, the Department and authorities need accurate forecasts of expected pupil numbers. The Department needs to understand demographic trends in order to determine what funding it requires over a spending period to support the provision of new places, and where to direct its funding. Authorities similarly need to identify the likely number of places required and how to fund them.

**1.8** The need for school places has increased in recent years, reversing previous trends. The number of children starting primary school is closely linked to the number of children born five years previously. Throughout the 1990s the birth rate declined, with fewer children starting school each year. However, between 2001 and 2011, the population of England and Wales showed the largest ten-year growth since the census began in 1801. In that period the number of live births in England rose by 22 per cent from 564,000 to 688,000, the largest ten-year increase since 1954 to 1964 (31 per cent). Reasons for this include a 6 per cent increase in the number of childbearing women since 2003 and women who postponed having children in their twenties in the 1990s having children in the 2000s. The effect of the increased births has been a 16 per cent increase in the number of children starting reception classes in primary school since 2006, with almost 606,000 starting in 2011/12, up from 523,000 (**Figure 3** overleaf). The number of births is projected to carry on increasing to levels last seen in the 1970s.

**1.9** Prior to the increased birth rates, the challenge facing the Department and local authorities was to remove excess capacity. Consequently, the number of primary places fell by almost 207,000 (5 per cent) between 2003/04 and 2009/10. The challenge now is making sure there are sufficient places.

**1.10** Accurately forecasting demand has proved difficult. Both the Department and local authorities use Office for National Statistics (ONS) population projections, among other sources of evidence, to help forecast the school population. All forecasts are uncertain, and ONS projections have been subject to major revisions upwards to reflect the demographic changes.

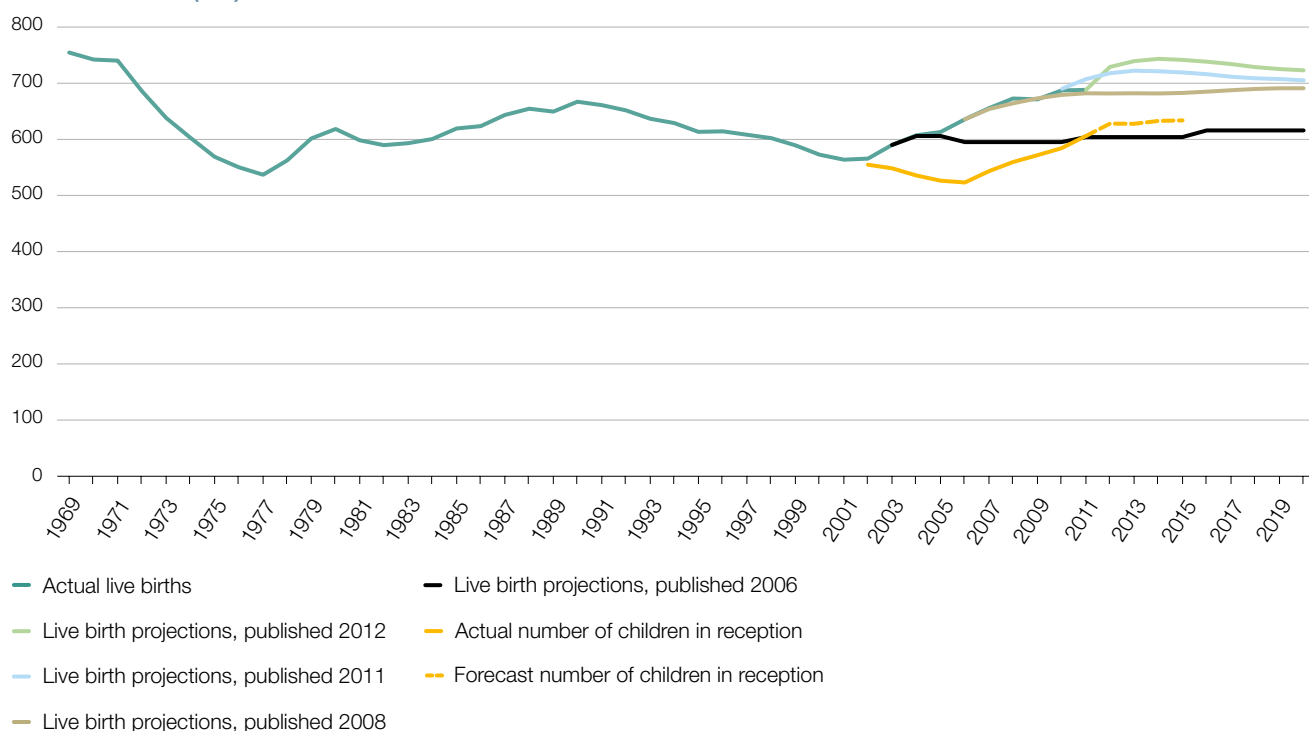
**1.11** One component of population change that ONS projects is live births (**Figure 3**). Although the turnaround in the birth rate started from 2001, ONS did not factor this into its projections until those it published in March 2008 using mid-2006 data, as it wanted to be sure that this change represented a sustained trend. The changes it made then were its first revisions upwards to estimated fertility levels since the 1960s. Once ONS factored this effect into its calculations, its projections of the number of births to 2020 increased significantly from previous levels. Subsequent ONS projections have projected further increases in the number of live births, although ONS has cautioned that its 2012 projections may over-project future births.

**Figure 3**

## Live births and reception class children in England

**Births have increased markedly in the past ten years**

## Annual live births (000)



## Annual live births

Selected years	1970	1975	1980	1985	1990	1995	2000	2005	2010	2015	2020
Actual live births	742,000	569,000	618,000	619,000	667,000	613,000	573,000	613,000	687,000	–	–
Live birth projections:											
Published 2006	–	–	–	–	–	–	–	–	595,000	604,000	616,000
Published 2008	–	–	–	–	–	–	–	–	679,000	683,000	691,000
Published 2011	–	–	–	–	–	–	–	–	690,000	719,000	705,000
Published 2012	–	–	–	–	–	–	–	–	–	741,000	723,000
Reception children	–	–	–	–	–	–	–	526,000	584,000	634,000	–

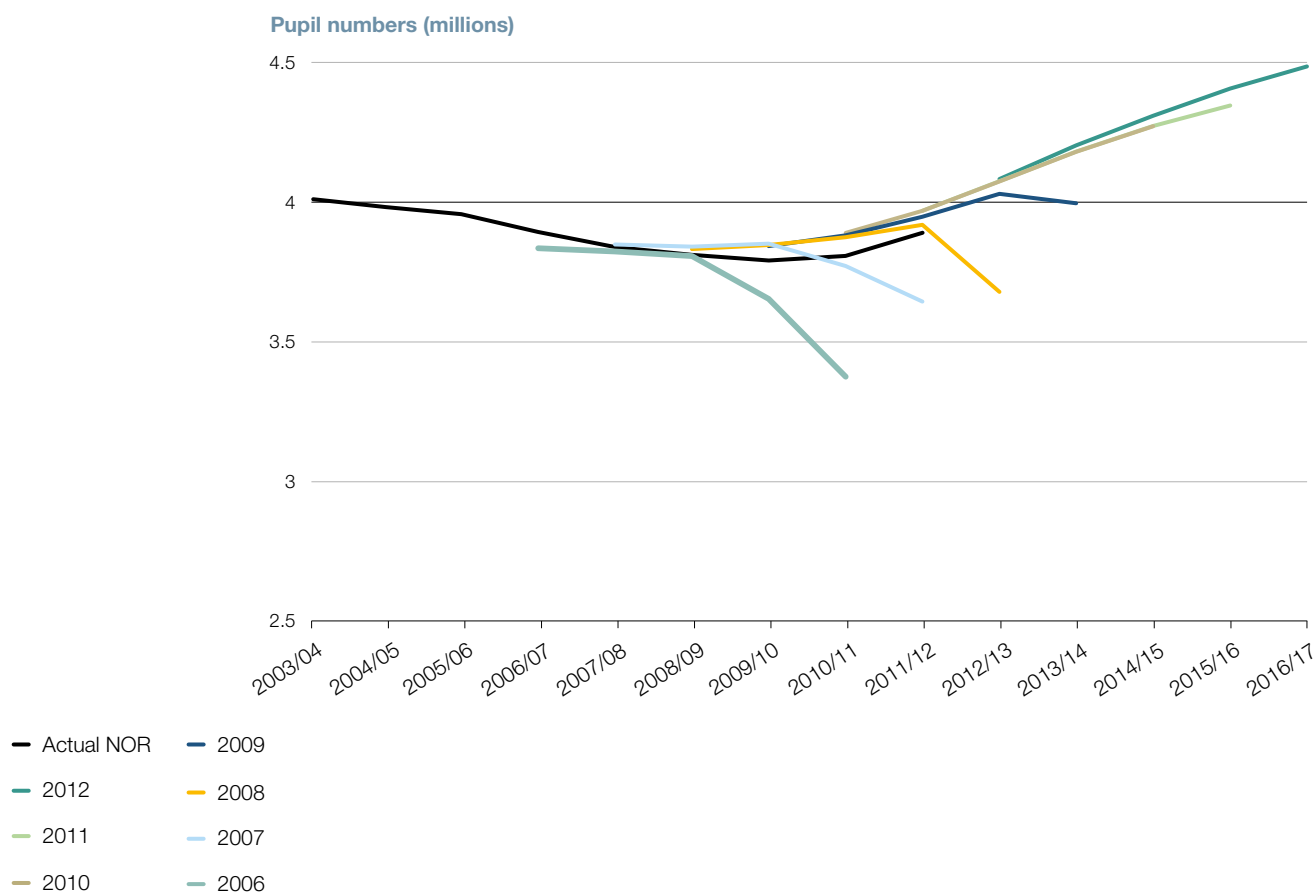
Source: National Audit Office analyses of Office for National Statistics Vital Statistics: Population and Health reference tables 2012 and National Population Projections, 2006, 2008, 2012 for Live Births, and of Department for Education School Census returns, 2003 to 2012 and School Capacity forecasts, 2011

**1.12** As increased ONS projections were first published in March 2008, it was not until their 2008 forecasts that local authorities began to forecast rises in pupil numbers (**Figure 4**). This change was significant as it is the authorities' projections that the Department uses to estimate future need for places. In June 2009, the Department confirmed a national increase of 3 per cent in reception class pupils for the year to January 2009, with 126 authorities experiencing an increase.

**Figure 4**

## Aggregated local authority forecasts of primary pupil numbers

It was not until 2008 that local authorities started to predict increased pupil numbers and their projections failed to predict the longer-term rise until 2010

**Pupil numbers (millions)**

Selected years	2003/04	2005/06	2007/08	2009/10	2011/12	2013/14	2015/16
2006 estimate	–	–	3.82	3.65	–	–	–
2007 estimate	–	–	3.85	3.85	3.64	–	–
2008 estimate	–	–	–	3.85	3.92	–	–
2009 estimate	–	–	–	3.84	3.95	4.00	–
2010 estimate	–	–	–	–	3.97	4.18	–
2011 estimate	–	–	–	–	3.97	4.18	4.35
2012 estimate	–	–	–	–	–	4.20	4.41
Actual NOR	4.01	3.96	3.84	3.79	3.89	–	–

**NOTE**

1 NOR - Number on roll.

Source: National Audit Office analysis of local authority aggregated forecasts, 2004–2012

## Meeting the Department's objectives

**1.13** The Department's objective in providing funding is to support local authorities in their statutory duty, in order to "ensure there are enough school places to meet demographic pressures" (Figure 2). It also aims "to use available capital funding to best effect to provide sufficient places in schools parents want to send their children to".<sup>5</sup> This aim is reflected in the Permanent Secretary's objectives, with a performance measure of the number of new places to be created by the end of the spending review period (2014/15).

### Meeting the overall need for school places

**1.14** In September 2010, the Department forecast a 330,000 rise in the number of children attending primary school between 2010/11 and 2014/15 to 4.2 million, and an increase in the number starting school from 584,000 to 633,000. It estimated that 260,000 new places would be needed in primary and 64,000 in secondary schools by September 2014 (a total of 324,000 new places).

**1.15** The places required were not evenly spread across England. Although all regions predicted need for more primary places, the greatest pressure was in London, which accounted for a third of places required.

**1.16** The Department compiled its estimate of places required by examining local authorities' forecast data for pupil numbers in 2014/15 and existing capacity in May 2010 in each authority, and, for county councils, for each district within that authority. It then calculated the number of extra places needed to achieve a surplus of places of at least 5 per cent in each authority or district. The Department adopted this planning assumption in the context of a challenging spending review when preparing its funding bid to HM Treasury. It considered that on average 5 per cent was the bare minimum needed for authorities to meet their statutory duty with operational flexibility, while enabling parents to have some choice of schools. As at September 2010, 37 of 152 authorities were forecasting a surplus of primary places of below 5 per cent by 2014/15 without any spending on new places, while another 62 would be in deficit, with fewer primary places than children.

**1.17** The Department's overall framework for supporting the delivery of new school places is not fully aligned with its twin objectives of ensuring that there is a place for each child and some spare capacity to facilitate parental choice. Local authorities' statutory duty to provide sufficient schools does not require them to maintain surplus capacity for parental choice. Although the Department issued guidance in June 2009 that it was reasonable for authorities to aim for between 5 and 10 per cent primary surplus to allow them some opportunity to respond to parental choice, it did not subsequently communicate to authorities its September 2010 figure of a minimum of 5 per cent surplus. This is because this was a planning assumption, rather than a target it expected authorities to meet. The Department recognises that it needs to undertake work to identify whether its assumption realistically enables parental choice.

5 Department for Education, *Vision, Aims and Objectives* (September 2011).

**1.18** Nationally, in May 2012, there was a surplus of 10 per cent of primary places. However, 13 per cent of local authorities (19) had primary school surplus places of less than the Department's planning assumption of a minimum of 5 per cent. Of these 16 were in London and three in the North West. According to our survey, once their capital programmes to provide new places are complete, 41 per cent of authorities expected to have an operational surplus of less than 5 per cent in their primary schools. This percentage is likely to fall once authorities fully factor into their work programmes the funding announcements the Department made after our survey.

**1.19** According to the Department, by September 2012, no local authority had failed to meet its statutory duty to provide each child with a place. However, the Department has not established clear metrics to enable it to monitor authority compliance. Its ability to spot early warning signs of system failure, or identify authorities who could support others by sharing good practice, is therefore limited. It has also not set out the action it would take should an authority fail to provide sufficient places.

**1.20** It is not possible to identify how many new places local authorities have delivered. The Department does not currently collect these data in line with the government's policy of limiting the information it collects on authorities' use of non-ringfenced grants. Instead, it collects data on the number of places available each year. It is therefore only possible currently to calculate the net change in the number of places from one year to the next as additional places delivered in areas of need are netted off against place reductions in areas of unneeded spare capacity. Since the Department's September 2010 estimate, there has been a net increase of almost 81,500 in the number of primary places to May 2012. The Department estimated in February 2013 that 256,000 places, 240,000 primary and 16,000 secondary, are still required from May 2012 to 2014/15, reflecting the fact that local authorities have continued to forecast increasing numbers of pupils (Figure 4). In this latest estimate 37 per cent of the primary places are required in London (**Figure 5** overleaf).

## Indications of pressure within the school system

**1.21** In addition to the increased demand, there are other indications of pressure on the school system:

- Class sizes at Key Stage 1 in primary schools have been increasing and the number of infant classes of over 30 children has more than doubled since 2007 from 1.2 per cent of all such classes to 2.7 per cent (**Figure 6** on page 21). Our analysis found that local authorities with greatest need were also those most likely to have larger average class sizes.
- As at May 2012, 20.4 per cent of primary schools were full or had pupils in excess of capacity, slightly higher than 20.3 per cent in May 2010.
- By September 2012, according to our survey of authorities, at least 81,900 children in 98 authorities were being taught in temporary accommodation, up from 74,000 in 69 authorities in 2010.
- According to our survey, 34 per cent of authorities said that rising demand for places has had a significant impact on average journey times to school.

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**Figure 5**

Primary places required across England by 2014/15

Increasing pressure for primary school places will become severe in some parts of the country, in particular, in London

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**NOTE**

- 1 Need is defined as the number of additional pupils as a proportion of capacity. It is assumed each district needs a minimum of 5 per cent surplus to ensure some parental choice and to allow for operational flexibility.

Source: National Audit Office analysis of 2012 School Capacity data

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**Figure 6**  
Primary class sizes

**Key Stage 1 class sizes and the number of oversize classes have risen since 2008**

	2007	2008	2009	2010	2011	2012
<b>Average class size</b>						
Key Stage 1 (Years 1 and 2)	25.6	25.7	26.2	26.6	26.9	27.2
Key Stage 2 (Years 3 to 6)	27.2	27.0	26.8	26.8	27.0	27.0
Number of infant classes of 31 or more pupils <sup>1</sup>	660	720	830	1,000	1,370	1,510
As a percentage of all infant classes	1.2	1.4	1.6	1.8	2.5	2.7
Number of children in infant classes of 31 or more pupils	23,200	24,800	28,900	31,300	43,100	47,300
As a percentage of all children in infant classes	1.7	1.8	2.1	2.2	2.9	3.1

**NOTE**

<sup>1</sup> Class sizes for Reception and Years 1 and 2 classes are legally limited to 30 pupils per teacher. Schools are only permitted to breach these limits in certain circumstances – see paragraph 1.6.

*Source: Schools, Pupils & their characteristics 2011/12, Department for Education, January 2012*

**1.22** Rising pupil numbers appear to be having some impact on parental choice. Fifty-six per cent of local authorities in our survey reported that rising demand had had a significant impact on the percentage of children not offered a place at their first-choice school. We found no relationship between authorities with the highest pressure on places and the numbers of appeals by parents against the infant class place offered to their children in primary school in 2010/11. However, the Department's data show that, overall, increasing numbers of parents are unhappy with the place offered and have appealed (**Figure 7** overleaf). The proportion of successful appeals has also reduced.

**Figure 7**

Appeals by parents against primary schools not admitting their children into infant classes

**Admissions appeals have risen and the percentage decided in favour of parents has fallen**

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Number of admissions	594,700	590,200	592,000	610,400	621,900	633,000	644,000
<b>Appeals made by parents</b>							
Number	10,100	10,000	13,000	18,500	23,800	27,900	31,200
As a percentage of admissions	1.7	1.7	2.2	3.0	3.8	4.4	4.8
<b>Appeals decided in parents' favour</b>							
Number	1,300	1,300	1,600	2,100	2,600	3,100	3,000
As a percentage of appeals	12.9	13.4	12.3	11.1	10.9	11.1	9.6

**NOTES**

1 Infant classes include Reception class.

2 Numbers have been rounded to the nearest 100.

Source: *Admissions Appeals for Local Authority Maintained Primary and Secondary Schools in England 2010/11*, Department for Education, October 2012

**Future demand and challenges**

**1.23** In July 2012, the Department forecast that the numbers of pupils in state-maintained primary and nursery schools will continue to increase beyond the current Parliament. By 2020, they are estimated to be 18 per cent (736,000) higher than in 2012, reaching levels last seen in the 1970s (**Figure 8**). The number of secondary pupils is also forecast to increase from 2016 as the higher number of primary pupils starts to feed through. The Department's tentative estimates suggested that, in addition to the places required by 2014/15, a further 400,000 places could be needed between 2014/15 and 2018/19, 300,000 primary and 100,000 secondary. The Department is undertaking work to consider the uncertainty in these long-term estimates.

**1.24** Many local authorities also told us that increasing numbers of Academies and Free Schools may make providing new places more difficult as authorities have no powers to direct them to expand to take more pupils. Reviews by the Department in 2012 found examples of Academies which were keen to expand, but also examples of Academies not wishing to expand. The Department argues that schools have a range of very valid individual reasons for these decisions.

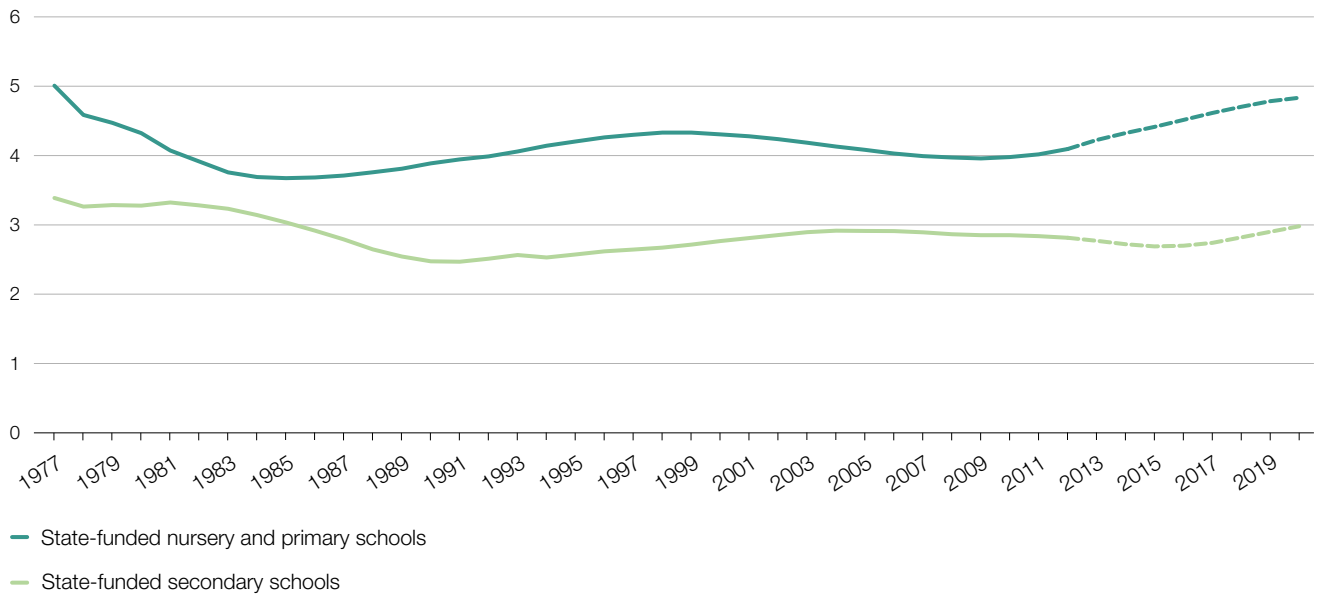


**Figure 8**

## The pupil population in England

Primary pupil numbers are predicted to rise to levels last seen in 1970s

## Total pupil numbers (millions)



## Total pupil numbers (millions)

Selected years	1977	1980	1985	1990	1995	2000	2005	2010	2015 (forecast)	2020 (forecast)
State-funded nursery and primary schools	5.01	4.32	3.67	3.89	4.20	4.31	4.08	3.98	4.43	4.85
State-funded secondary schools	3.39	3.28	3.04	2.47	2.57	2.77	2.91	2.85	2.69	2.98

**NOTE**

1 Full time equivalent (FTE) numbers count part-time pupils as 0.5.

Source: National Pupil Projections: Future trends in pupil numbers, July 2012 Update, Department for Education, July 2012.

## Part Two

### Funding new school places

**2.1** This part assesses how the Department determines the funding required to support the provision of school places by local authorities. It focuses on the information the Department used to determine the funding and how its information is being improved. Although the Department intends its funding to make a significant contribution to the cost of providing new places, it has always expected authorities to make a contribution from their own resources.

#### The Department's specific funding for new school places

**2.2** In the 2000s, the Department recognised that, although the overall need was for the removal of surplus places, local pockets of growth in school-age population could occur, particularly in larger local authorities. It therefore provided core capital funding to authorities totalling £400 million a year from 2007-08 to 2010-11, to help cover local growth in need for places.<sup>6</sup>

**2.3** The Department also operated an annual 'safety valve' whereby local authorities could apply for extra funding to address exceptional growth. Until 2009, very few authorities applied for this additional grant funding. In autumn 2009, in response to the first forecasts that substantial numbers of new places would be required, the Department ran a larger safety valve exercise, allocating an extra £266 million for 2010-11 to 36 authorities to provide primary places for September 2010 and September 2011.

**2.4** Under its 2010 Spending Review settlement in October 2010, the Department doubled its specific core funding for new places to £800 million a year from 2011-12 to 2014-15. In total £3.2 billion was expected to be paid over the period to local authorities through non-ringfenced capital grants (**Figure 9**). In parallel, it reduced planned spending on its other capital programmes to reflect the 60 per cent real-terms reduction in its overall capital budget under the settlement.

<sup>6</sup> The Department provided revenue support, via the Formula Grant administered by the Department for Communities and Local Government. This allowed authorities to take out additional capital borrowing totalling £400 million a year for providing new places. This was not ringfenced.

**2.5** The Department reduced Devolved Formula Capital funding for schools' maintenance, and cancelled the Primary Capital Programme and many Building Schools for the Future projects (**Figure 10** overleaf). The primary purpose of these two programmes was the refurbishment of existing schools, but some local authorities had started to consider how they could be used to expand schools to provide extra places in areas of need. The Department did not assess the impact of reducing these programmes on the provision of new places as it lacked the necessary data. Consequently, there is no complete evaluation of how total funding which may have contributed to new places changed across all the Department's capital funding streams.

## Figure 9

The Department's funding of new school places over the 2010 Spending Review period

The Department has increased its funding of new school places after the 2010 Spending Review

		Places to be delivered by 2014/15	Department's estimate of total cost of places (£m)	Departmental funds for extra places (£m)	Implied local authority contribution <sup>1</sup> (£m)	Implied local authority share of total costs <sup>1</sup> (%)	Departmental funding per place <sup>1</sup> (£)
Funding bid	September 2010	324,000 (2010 baseline)	5,000	4,000	1,000	20	12,345
Funding settlement	October 2010	324,000	5,000	3,200	1,800	36	9,875
Departmental revision to cost assumptions	May 2011	324,000	4,700	3,200	1,500	32	9,875
Departmental savings	July 2011	324,000	4,700	3,700	1,000	21	11,420
Extra Treasury funding	November 2011	324,000	4,700	4,300	400	9	13,270
Revised places forecast	February 2013	312,000 (2011 baseline)		4,300			13,780

### NOTE

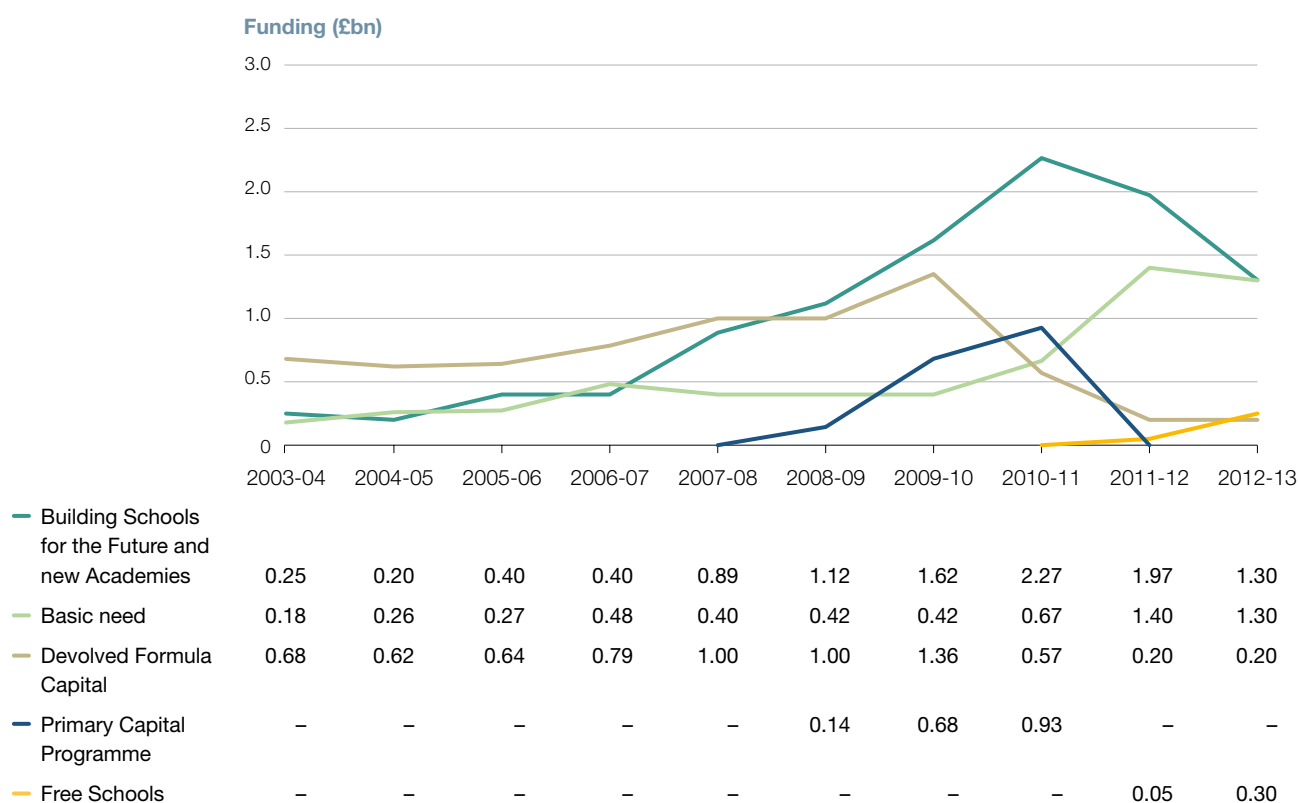
- <sup>1</sup> The above figures take no account of the time lag between the allocation of funding and delivery of places or of the extra capital funding for schools of £982 million provided by the Treasury in December 2012. The Department has invited bids from local authorities which will determine how much of this funding is for the delivery of new places in 2014-15 and how much for 2015-16.

Sources: National Audit Office analysis of Department for Education Spending Review 2010 Capital Bids, subsequent Department for Education announcements and 2012 Autumn Statement, July 2010 – March 2013

**Figure 10**

The Department's capital expenditure on schools

Capital funding specifically for new places has increased threefold since 2009-10



Source: Department for Education Capital Allocations

**2.6** The Department's other new capital programmes will deliver some extra places. For example, the Department's Free Schools Programme will increase the number of places available, although it is not primarily intended by the Department to deliver places in areas of shortage. Geographical distribution is one factor that the Department considers in assessing applications to open Free Schools, along with others such as parental demand. Some Free Schools may therefore open in areas which already have a surplus of places. The Department has allocated capital funding of £1.7 billion to 2014-15 for Free Schools. Our analysis of the capacity of 45 Free Schools that opened in September 2012 suggests that they could provide up to 24,500 new places, around 10 per cent of the 256,000 places that need to be delivered between May 2012<sup>7</sup> and 2014/15 (paragraph 1.20). We estimate that 58 per cent of the places that could be offered by these schools are in local authorities with a shortage of places. However, only 8,800 of the 24,500 places are in primary schools and most Free Schools will not be operating at their full capacity by 2014/15. The establishment of Free Schools will be the subject of a separate National Audit Office review.

7 The Department's revised estimate of the number of places required by 2014/15 takes account of the capacity of Free Schools opened in September 2011.

**2.7** The Department has increased its specific funding for school places since the October 2010 Spending Review settlement to meet revised assessments of the funding required (Figure 9). Extra funding of £500 million in July 2011 came from further savings on its other capital programmes, and HM Treasury provided additional capital funds for new places in November 2011 of £600 million. The extra funding has effectively increased the average amount of the Department's funding per place from £9,875 in October 2010 to £13,780. The figure is higher than the £12,345 implied in its September 2010 funding bid. As the Department has not produced an updated estimate of the total cost of delivery, it is not clear whether this represents an accurate assessment of the resources required to meet forecast need.

**2.8** In December 2012, the Treasury announced additional capital funding of £982 million for schools. Subsequently in March 2013, the Department launched its Targeted Basic Need Programme. It invited local authorities to submit, by the end of April, bids for funding to deliver extra places in areas of need by September 2014 and September 2015. It is therefore not yet clear how much funding in total the Department will be providing for the delivery of places by 2014/15.

### **The Department's information base for determining funding**

**2.9** To support its funding bid in the 2010 Spending Review, the Department needed to have robust, up-to-date information on:

- the likely number of new places required, based on forecast population pressures within individual local authorities and data on how far local capacity could meet these pressures;
- the total cost of providing these places, given the mix of solutions authorities were likely to use; and
- the proportion of the costs authorities would meet from their own resources.

**2.10** Producing accurate estimates at a national level of the costs of local delivery is difficult. However, gaps in the Department's evidence for each of these areas meant that it could not present a fully robust bid for funding. The Department's decision was to allocate £3.2 billion for new places following the funding settlement, given competing priorities for its reduced total capital budget. This figure did not, however, reflect a robust revision of its original cost estimates.

### **The number of places required**

**2.11** The Department based its initial bids on high-level analyses of need, using national ONS projections to produce an estimate of 170,000 places required. These analyses underestimated the true extent of places required as they were insufficiently detailed to reflect localised demand. Once it received detailed local authority data, the Department carried out a more detailed analysis in September 2010, late in the Spending Review process, using local authorities' forecast pupil numbers in 2014/15 and existing capacity in May 2010 (paragraph 1.16) to identify the need for 260,000 new primary and 64,000 secondary places by September 2014.

**2.12** In compiling the estimate of 324,000, the Department used existing capacity in May 2010 as its baseline as it lacked data on the likely capacity in each local authority in April 2011, the start of the 2010 Spending Review period. Once it had the necessary May 2011 capacity data, it used this as its baseline to produce a more accurate estimate of 293,000 as the number of places required over the actual Spending Review period. In March 2013, it used May 2011 capacity data and local authorities' 2012 increased forecasts of expected pupil numbers in 2014/15 to increase its estimate of the number of places required to 312,000 (288,000 primary and 24,000 secondary).

**2.13** These estimates take no account of the time lag between the Department's allocation of funding and the delivery of places by local authorities. They therefore do not reflect that funding allocated in 2010-11 would help deliver some places in 2011/12 nor that 2014-15 funding would deliver some places in 2015/16.

### The total cost of providing the places required

**2.14** The Department estimated the cost of providing the 324,000 places required at £5 billion (approximately £15,430 per place), using cost data from Partnerships for Schools. These data dated from 2007 and the Department had to adjust for inflation to 2010 in its costings. The costings also included a 25 per cent uplift (from £4 billion to £5 billion) to reflect the cost of items, such as ICT and other equipment and furniture and fittings, which it expected local authorities to fund. While the Department's inflation of the cost data to 2010 values was reasonable in the absence of up-to-date data, more up-to-date cost information would have produced a more accurate cost estimate. The Department had no evidence to support the 25 per cent uplift.

**2.15** The Department based its costings on an assumption that all new places would be in permanent accommodation, with no use of temporary classes and no contribution from its other capital programmes. It assumed that building extensions would provide 75 per cent of places in existing schools and new schools would provide the remainder. It subsequently examined, both during and after the 2010 Spending Review, the impact of varying its assumptions about the solutions used by local authorities to deliver places. For example, in early 2011, it altered these assumptions to 85 per cent extensions and 15 per cent new schools, reducing the estimated cost to £4.7 billion (approximately £14,510 per place) (Figure 9). Our survey revealed that authorities have taken more varied approaches to providing places than the Department assumed, with some using non-accommodation solutions not involving capital expenditure (**Figure 11**).

**2.16** There are significant omissions from the Department's costings. They made no allowance for the costs of providing new places in voluntary aided schools, where some works can be subject to VAT, as the Department did not know the extent to which local authorities would fund extra places at such schools. The costings also omitted the cost of land acquisition. This cost is likely to become increasingly significant as local authorities reach the limits of existing school sites. Two-thirds of authorities in our survey said lack of space on existing sites was a major constraint on providing new primary places.

**Figure 11**  
Local authority solutions for providing primary places

**Local authorities use a broad range of solutions**

**Solution used**

**School organisation**

Increased numbers of Forms of Entry

Bulge classes

More pupils in existing classes

More mixed-age classes

Opening of a new school

Support for a new Free School proposal

**Accommodation solutions**

Construction of a new permanent extension

Installation of temporary accommodation

Conversion of non-classroom space

Reduction in playground space

Construction of a new school

Reopening 'mothballed' space

Reduction in space standards

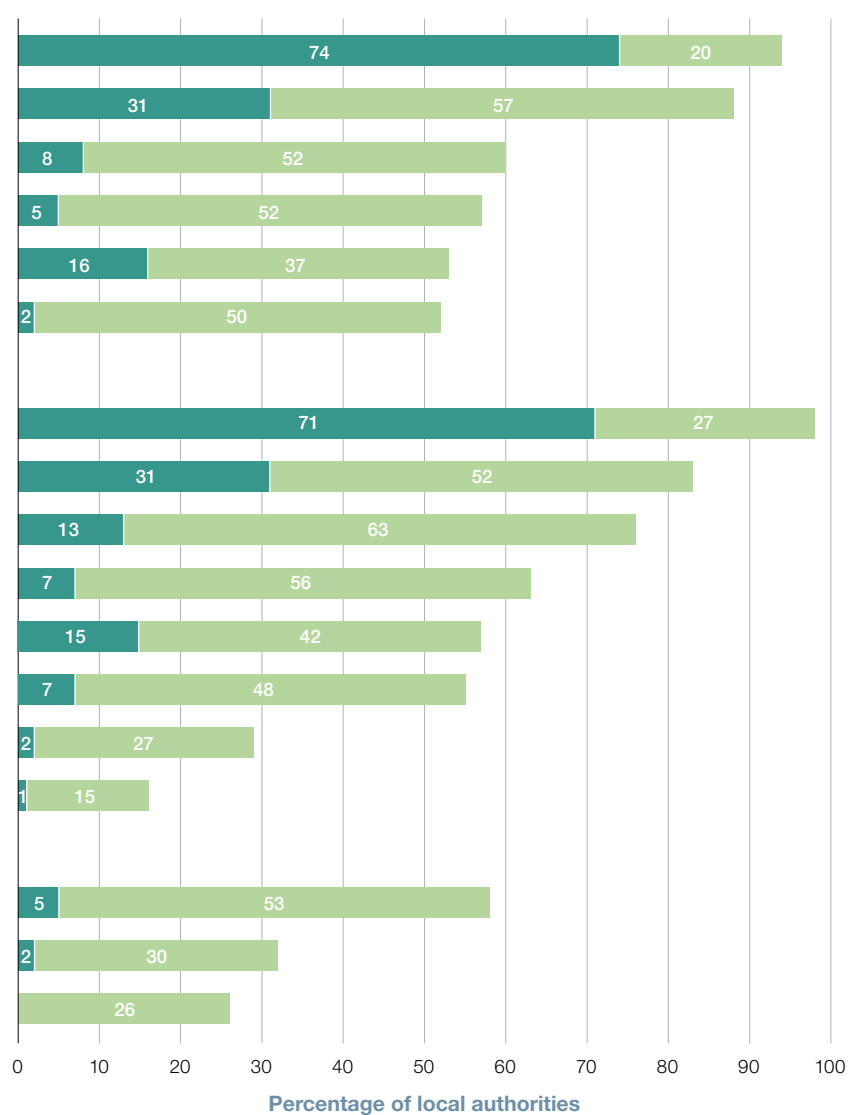
Use of non-school properties

**Non-accommodation solutions**

Acceptance of increased pupil travel times

Increased local authority funded bussing of children

Other local authority funded transport solutions  
(eg taxis)



■ Great extent

■ Some extent

**NOTES**

1 Base: 122–125 local authorities.

2 A 'bulge class' is an additional class within a particular year group, not involving a permanent expansion of the total number of forms of entry for a school as a whole.

Source: National Audit Office survey of local authorities

## The proportion of costs to be met by local authorities

**2.17** The contribution from local authorities implied by departmental funding has varied from 36 per cent to 9 per cent (Figure 9). In its September 2010 funding bid the Department assumed authorities would contribute 20 per cent of the total cost of providing new places (£1 billion – paragraph 2.14). It had no evidence to support this assumption or its impact on authorities as it does not collect data on the extent to which authorities finance new places from their own resources and the sources of their funding. Nor did it communicate to authorities its planning assumptions on the scale of their contributions. According to our survey the average contribution authorities were making in 2012-13 to the cost of delivering new places was 34 per cent.

**2.18** Our survey also found, in addition to the Department's specific funding for new places, local authorities are using a variety of funding sources to finance their programmes (Figure 12). Sixty-four per cent are spending some of the capital funds they receive from the Department for maintenance on places. This potentially stores up future costs by deferring repair work.

## Improvements to the Department's information

**2.19** The Department has taken steps to address the weaknesses in its information for the next Spending Review. However, the impact of these actions has yet to be fully felt:

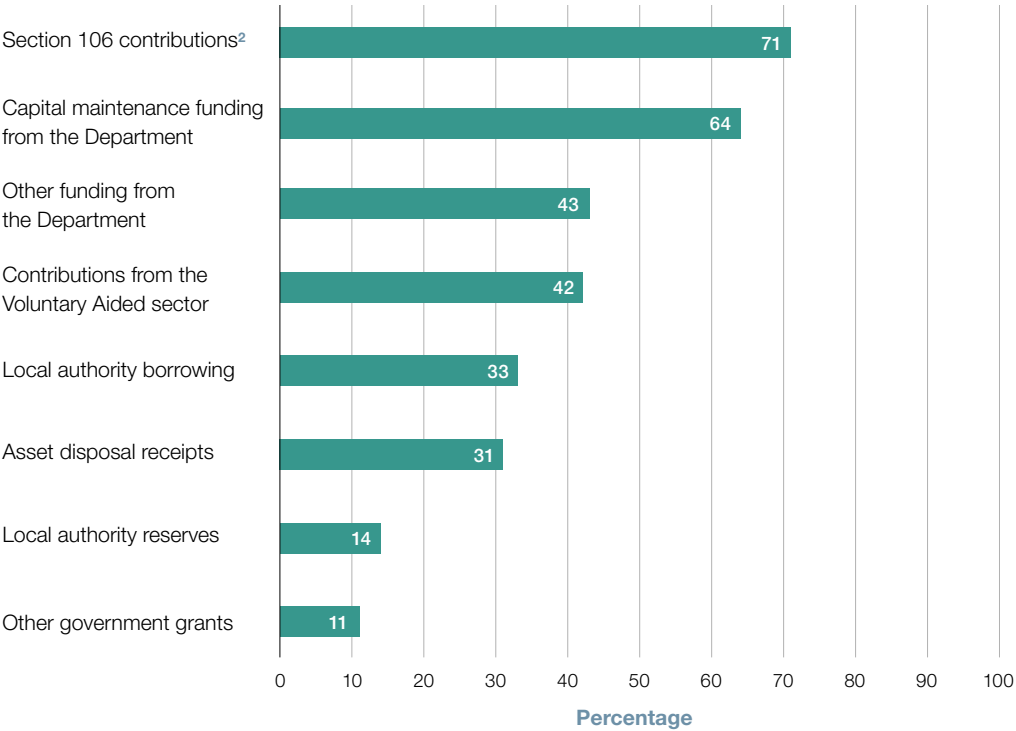
- The Department recognised that, to produce a more accurate estimate of places, it required a more detailed understanding of local need than it had in September 2010, and data on future capacity. In 2012, it collected for the first time information on the forecast number of pupils and available school capacity at a more detailed level, by local planning area<sup>8</sup> within each local authority, and data on local authorities' forecast capacity in 12 months' time.
- The Department is currently revising its unit costs to ensure they are up-to-date. In doing this, it is considering the impact of its new standardised designs for schools announced in October 2012, which indicate the potential for reducing building costs for new schools by up to 30 per cent.
- In summer 2012, the Department examined how authorities were providing the places required and the mix of delivery solutions used. In March 2013, it announced that it would require authorities to provide data annually on the number of new places delivered and the schools providing them.
- The Department requires more evidence to support its judgement on the size and impact of the financial contribution from authorities. As part of its March 2013 announcement, it stated that it would also require authorities to provide annual data on the costs and sources of funding.

<sup>8</sup> Local authorities group their primary and secondary schools into 'planning areas' for the purposes of place planning. Authorities are free to determine the size and composition of these groupings.



**Figure 12**  
Local authority sources of financing their share of costs for new places

**New places funding often comes from section 106 funds and maintenance funding**



- NOTES**
- 1 Base: 104 – 118 local authorities.
  - 2 Section 106 contributions are contributions from developers under the planning system towards improving local infrastructure.

Source: National Audit Office survey of local authorities

## Part Three

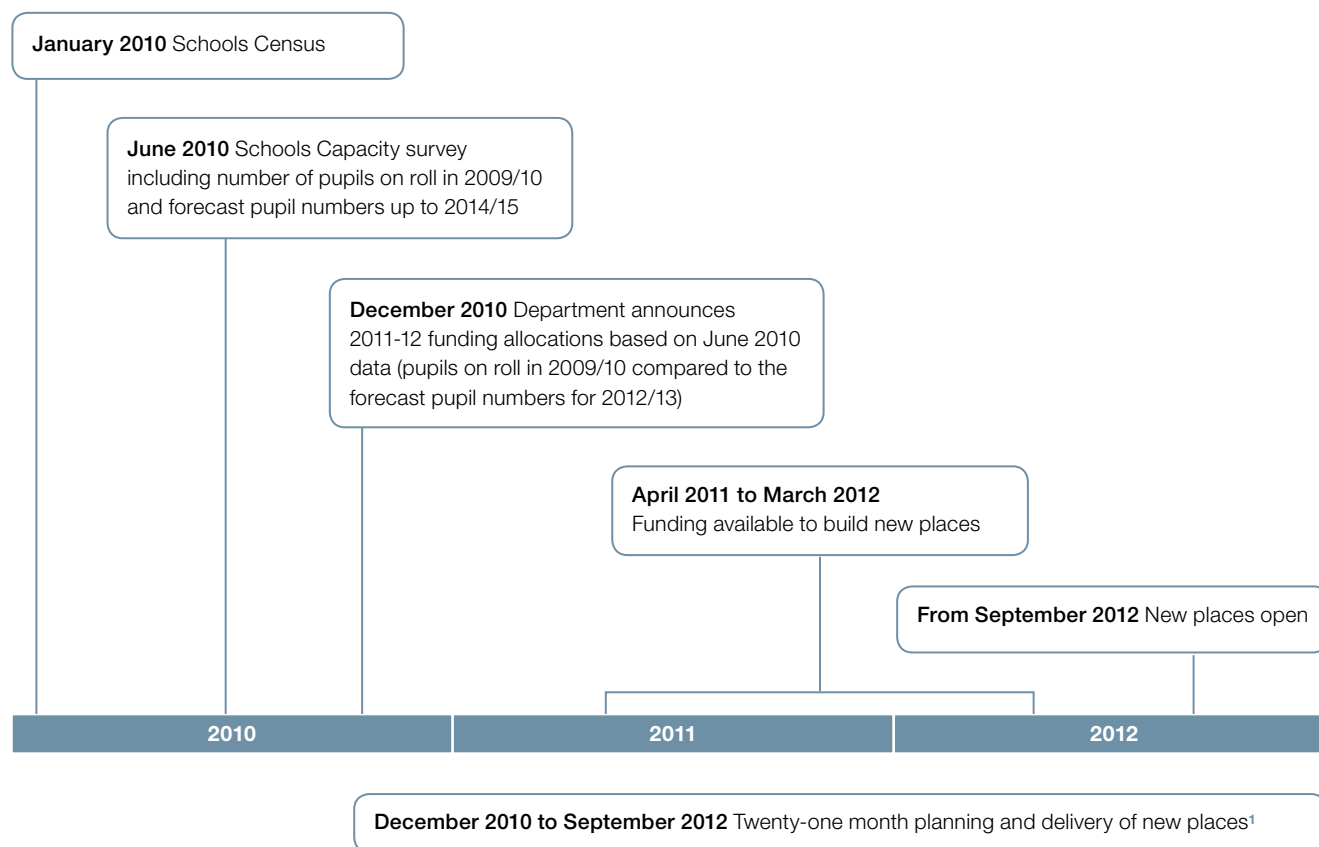
### The Department's funding allocation

**3.1** This part of our report examines how the Department, once it has determined the scale of funding required (Part Two), allocates its funding contribution to help local authorities provide school places. **Figure 13** sets out the process for 2011-12.

**Figure 13**

The funding allocation process for 2011-12

It takes around two years from identifying need to providing new places



**NOTE**

<sup>1</sup> Some places may be provided sooner, depending on the solutions local authorities use.

Source: National Audit Office review of Department for Education documents

**3.2** We assessed the Department's allocation process for its funding by drawing on our review of local public service funding.<sup>9</sup> It set out criteria for effective formula funding, which are:

- set clear, precise objectives and design formulae which address these directly and are based on reliable data from appropriate data sources;
- distinguish between factors requiring political judgement and those which should be grounded in empirical evidence; and
- be transparent in operating the funding formulae.

### **The Department's objectives and indicators for allocating places funding**

**3.3** Clear objectives mean that allocations can better reflect priorities, and that the basis of funding, monitoring and value for money is also clear. The Department's objective in providing funding for places is to ensure that there are enough school places to meet demographic pressures (paragraph 1.13).

#### **The Department's indicators for allocating funding**







**3.4** The Department defines local authorities in demographic need as those with surplus places of less than 5 per cent in any district. An indicator most closely reflecting this definition would compare the forecast number of pupils against an estimate of the number of places anticipated to be available at that time. The resulting capacity surplus or shortfall would reflect the relative funding needs in each area. The Department used a 'capacity' indicator to allocate the supplementary funding of £500 million in 2011-12, and £600 million in 2012-13. In contrast, when allocating core annual funding, the Department has used four different methods since 2007 (**Figure 14** overleaf).

**3.5** The Department has moved gradually to using 'capacity' in allocating its core funding. It moved gradually to ensure that all local authorities received some funding to deliver extra places. Up to and including the core allocation for 2012-13, every authority received some funding for extra places. In contrast, use of the 'capacity' indicator for supplementary funding resulted in 41 authorities not receiving any funding. The Department knew that its data was insufficiently detailed to enable it to identify 'hotspots' of demand within individual authorities and that, consequently, there was a risk that, if it moved completely to allocation using 'capacity', an authority with a 'hotspot' might receive no funding in a year. Allocations for 2013-14 and 2014-15 are based fully on 'capacity', using the detailed planning area level data the Department collected from authorities for the first time in 2012 (paragraph 2.19). Seven authorities will receive none of the £1.6 billion funding allocated for these years.

<sup>9</sup> Comptroller and Auditor General, Cross-government landscape review: *Formula funding of local public services*, Session 2010-2012, HC 1090, National Audit Office, July 2011.

**Figure 14**  
Changes to the Department's allocation methodology

The Department has changed how it allocates funding four times since 2007

Financial year	Core annual funding				Supplementary funding			
	Funding available	Funding allocations announced	Allocation indicator <sup>1</sup>	Indicator fit with need definition <sup>2</sup>	Funding available	Funding allocations announced	Allocation indicator <sup>1</sup>	Indicator fit with need definition <sup>2</sup>
Previous Spending Review period, CSR07								
2008-09 to 2010-11	£400 million per year	October 2007	Pupil numbers and growth (40:60)		Safety valve exercises: Funds allocated to successful bids			
Current Spending Review period, SR10								
2011-12	£800 million	December 2010	Growth		£500 million	November 2011	Capacity shortfall	
2012-13	£800 million	December 2011	Growth and capacity shortfall (50:50) with stability mechanism		£600 million	April 2012	Capacity shortfall	
2013-14 and 2014-15	£800 million per year	March 2013	Capacity shortfall		Targeted Basic Need Programme: Funds allocated to successful funding bids			

#### NOTES

- 1 Funding allocation indicators: Pupil numbers = actual number of pupils attending school in local authority;  
Growth = forecast increase in pupil numbers within authority; Shortfall = level of capacity surplus or shortfall forecast by authorities
- 2 National Audit Office assessment of indicator fit: Red = Indicator used to allocate does not reflect basic need;  
Amber = Indicator used partly reflects basic need; Green = Indicator used closely reflects basic need

Source: National Audit Office review of Department for Education Capital Allocations, 2006 to 2013

## The impact of forecasting accuracy on allocations

**3.6** The Department relies on the accuracy of local authorities' forecasts of pupil numbers to allocate its funding accurately. Authorities make annual returns<sup>10</sup> to the Department which include forecasts of expected pupil numbers in primary schools for the next five years and the next seven years in secondary schools. The Department based its single-year funding allocations in 2011-12 and 2012-13 on the three-year forecasts, for example, allocating 2011-12 funding using authorities' forecasts for 2013, submitted in 2010 (Figure 13).

<sup>10</sup> Schools Capacity survey.

**3.7** We compared local authorities' forecasts of pupil numbers with actual pupil numbers over several years and found that, overall, longer-term forecasts were less accurate than shorter-term forecasts (**Figure 15**). The use of longer-term forecasts when allocating funding therefore increases the risk of funding not being allocated to where it is most needed.

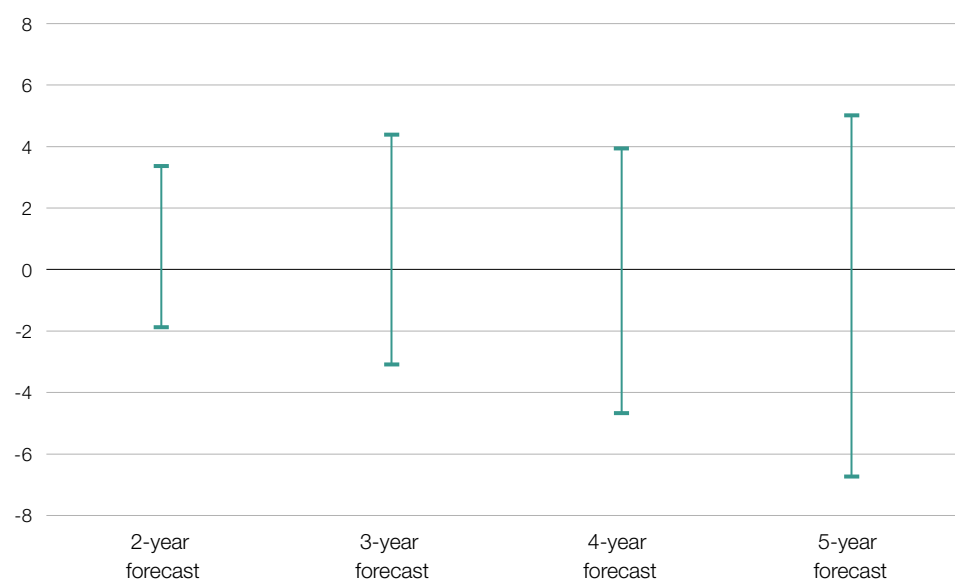
**3.8** To illustrate the impact of forecasting uncertainty on funding allocations, we analysed the accuracy of local authorities' 2007 forecasts of expected pupil numbers in 2012 compared to the actual numbers in 2012, as it was these forecasts that the Department used to allocate the annual funding of £400 million for 2008-09 to 2010-11 (Figure 14). We found that a quarter of authorities forecast within 1.3 per cent of actual primary numbers and 1.7 per cent for secondary, and that, if all authorities had achieved this level of accuracy, 29 per cent of the funding for this period, £350 million, would have been allocated differently.

**Figure 15**

Accuracy of local authorities' forecasts of expected pupil numbers

The risk of inaccuracies increases as authorities forecast further into the future

Difference between forecast and outturn (%)



**NOTE**

1 Eighty per cent of forecasts fell within these bars.

Source: National Audit Office analysis of Department for Education data and local authority forecasts, 2006 to 2008

## The impact of two-year funding allocations

**3.9** The Department's 2013-14 and 2014-15 allocations were the first for more than one year since the 2007 Comprehensive Spending Review period. This two-year allocation of funding should improve planning certainty for local authorities. The effect of single-year allocations, changing allocation methods, and announcements of extra funding was to increase planning uncertainty for local authorities, as their income from allocations fluctuated unpredictably from year to year. In our survey, 94 per cent of authorities reported uncertainty over funding levels as a major constraint on their ability to deliver new primary places, and 62 per cent for secondary places.

**3.10** Local authorities' planning decisions are affected by the certainty they have over future funding levels, as some solutions require longer for planning and construction. For example, constructing a new one-form entry school can take up to 36 months, a one-form entry extension to an existing school up to 24 months and the purchase and installation of one-form entry temporary accommodation up to nine months. If the Department's funding mechanism is not to distort local choices in responding to need, it must consider the timescales of all significant options for creating new places.

**3.11** Although the switch to a two-year allocation for 2013-14 and 2014-15 should improve certainty for local authorities, there is a trade-off to be made between greater certainty and the accuracy of the Department's allocation. For this two-year allocation, the Department used forecasts of pupil numbers in four years' time, which are less accurate than forecasts for fewer years' ahead (Figure 15).

**3.12** If the Department continues to make funding allocations for more than a single year, improving local authority forecasting accuracy will be crucial if it is to allocate funding to the areas of greatest need. The Department's quality assurance of authorities' forecasts identifies authorities that have submitted incomplete information or forecasts that have changed by more than 5 per cent since the previous year's submission, and it contacts authorities which do not pass these checks. However, it does not routinely compare authorities' forecasts to actual outturn in pupil numbers in order to identify authorities that have repeatedly over- or under-forecast and thus received allocations not reflecting their true need. The Department intends to consult with authorities on how the accuracy of their forecasts can be taken into account in future allocations.

## The Department's use of stability funding

**3.13** Our review of formula funding found that departments have to balance allocations according to need with decisions about funding stability. They may build in stability measures to support financial planning and providing stable services, but these judgements should be based on objective analysis of the changes in income that organisations can absorb.

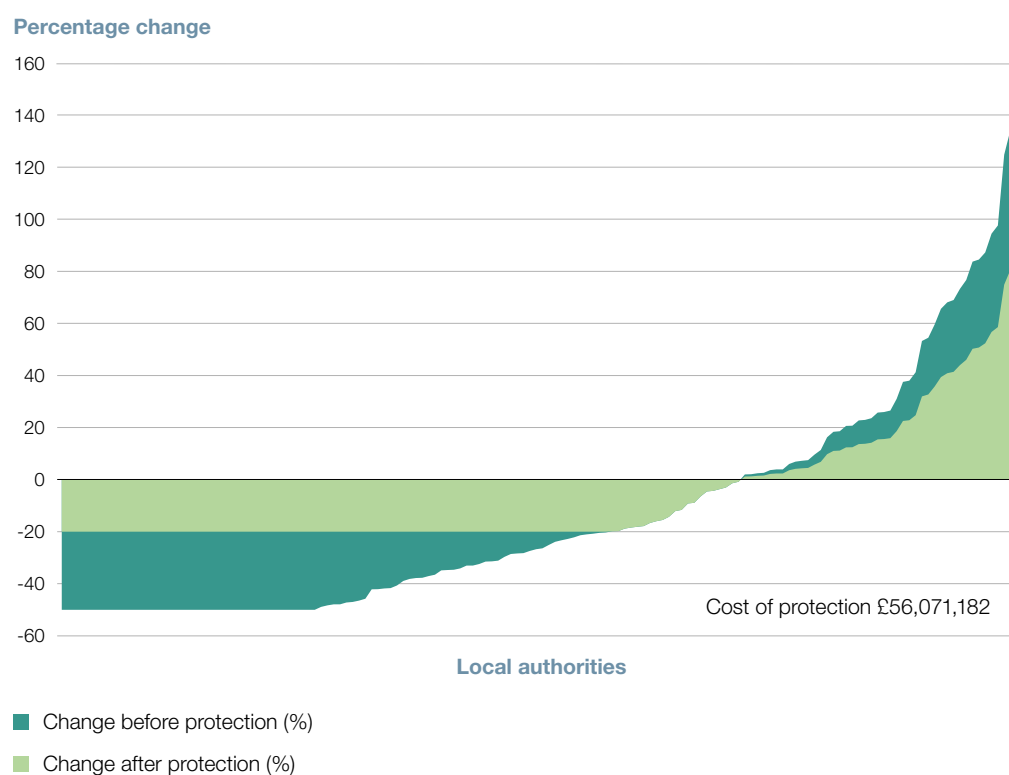
**3.14** For its school places funding, the Department decided to make a ‘protection’ adjustment to funding allocations for 2012-13. It aimed to provide stability by maintaining authorities’ 2012-13 core funding at a roughly similar level to 2011-12 despite a change in the allocation method (Figure 14). Consequently, in 2012-13, each local authority received at least 80 per cent of the funding it would have received had the methodology not changed. To achieve this, the Department reduced the funding allocated to those authorities who were most in need of places by £56 million (7 per cent of core funding) (**Figure 16**).

**3.15** The use of this stability mechanism resulted in 57 per cent of local authorities being funded more than the Department had assessed they needed using authorities’ own forecasts of pupil numbers, while 29 per cent were funded less. The authorities’ forecasts were not at a detailed enough level to identify ‘hotspots’ of demand (paragraph 3.5). The Department’s intention was that the use of a stability mechanism would be a transitional approach. For 2013-14 and 2014-15, funding allocations are fully based on ‘capacity’, which more closely reflects authorities’ needs, without any further stability mechanism.

**Figure 16**

Impact of protection on allocations to local authorities for 2012-13

Protection reduced allocations to those authorities with the biggest need



Source: National Audit Office analysis of Department for Education allocations data

### **The Department's transparency in operating its funding formula, and its tracking of impacts**

**3.16** Our review considered that departments' operation of funding formulae should be transparent, to enable those receiving funding to check and, if necessary, challenge allocations. For capital funding for new school places, the Department's decision-making for allocations lacks transparency. According to our survey, 79 per cent of local authorities did not understand the link between their allocations from the Department and the data they submitted to the Department. The Department intends to improve the transparency of its funding by providing each authority with an explanation of how the data the authority provided resulted in its allocations for 2013-14 and 2014-15.

**3.17** The Department collected more detailed local information by planning area and on forecast capacity for the first time in 2012 (paragraph 2.19). These new data should enable the Department to develop a better understanding of hotspots of demand, changes in the number of current and future places within local authorities, and authorities' place planning and use of the Department's funding.

**3.18** There is also scope for the new data to inform funding allocations. When using the 'capacity' indicator to allocate funding, the Department has used as its baseline data on the number of places available at the time of the allocation. This baseline means that the allocation does not fully reflect the places local authorities expect to deliver using funding they have already received in the previous year owing to the time lag in delivery (paragraph 2.13 and Figure 13). To get a better idea of this time lag effect, the Department could use the new forecast capacity data from authorities. It was unable to use this forecast capacity data as the baseline for its calculation of the 2013-14 and 2014-15 allocations as it was concerned that the data it received was insufficiently robust and complete. It therefore intends to consult with authorities on options for reflecting expected place delivery in its funding allocations.

**3.19** The Department is currently analysing its new data, but is not planning to use it to analyse the relationship between the funding it allocates to local authorities and the places those authorities have delivered. It therefore has no basis to set benchmarks for authorities' cost per place. This omission is reflected more widely in the lack of coverage of capital spending in its Departmental Accountability Statement. It therefore needs to develop further its assurance framework to understand whether it is achieving value for money in its distribution of funding to authorities.



# Appendix One

## Our audit approach

**1** We reviewed:

- how far the Department's objectives are being achieved;
- how well it determines its financial contributions to local authorities; and
- how well it allocates funding to areas that have the greatest need.

**2** We analysed what arrangements would have been optimal in terms of:

- how the Department understands whether its objectives for new school places are being met;
- how effective the Department's modelling and analysis was to support its planning for providing school places; and
- how effectively the Department has distributed resources.

**3** By 'optimal' we mean the most desirable possible, while acknowledging expressed or implied restrictions or constraints. Restrictions or constraints in this context are:

- local authorities' duty to provide sufficient schools; and
- the limitations imposed by a public spending settlement that must reconcile accountability for public funds with the policy aim of autonomy.

**4** Our audit approach is summarised in **Figure 17** overleaf. Our evidence base is described in Appendix Two.

**Figure 17****Our audit approach****The objective of government**

"To use available capital funding to best effect to provide sufficient places in schools parents want to send their children to".

**This will be achieved by**

The Department tries to meet these twin aims through a combination of policies. Local authorities have a statutory duty to provide sufficient schools. The Department seeks to encourage choice through expanding well-performing schools, expanding Academies, and introducing Free Schools.

**Our study evaluates**

How far the Department's objectives are being achieved; how well it determines its financial contributions to local authorities; and how well it allocates funding to areas that have the greatest need.

**Our evaluative criteria**

Does the Department's modelling and analysis effectively support its planning for school places?

Has the Department's funding allocation process distributed resources effectively?

Has the Department understood whether sufficient school places are being delivered?

Has the Department made appropriate arrangements to address gaps in the provision of places?

**Our evidence base**  
(see Appendix Two for detail)

We considered the effectiveness of these approaches by:

- interviewing departmental officials;
- reviewing published and internal client documents;
- reviewing the Department's modelling of pupil and place numbers; and
- reviewing ONS data on population projections.

We analysed the effectiveness of the distribution of funding allocations by:

- interviewing departmental officials and stakeholder organisations;
- reviewing the Department's mechanism for allocating funding to local authorities;
- analysing the Department's results; and
- visiting, and analysing survey responses from, local authorities.

We assessed the Department's knowledge of the sufficiency of place delivery by:

- reviewing the departmental data and analyses of its funding;
- mapping and analysing projected place requirements;
- reviewing published and internal departmental documents; and
- visiting, and analysing survey responses from, local authorities.

We evaluated the arrangements by:

- interviewing departmental officials and stakeholder organisations;
- reviewing published and internal departmental documents;
- performing information mapping;
- visiting, and analysing survey responses from, local authorities; and
- comparing the Department's approach to capital allocations with those of other departments.

**Our value-for-money conclusion**

Delivering value for money in providing new school places requires effective partnership working, while the scale of future need is inherently uncertain. The Department has ambitious objectives to provide sufficient places and an effective choice for parents. There was a net increase of almost 81,500 primary places by May 2012 and the Department has increased funding to 2014-15 to over £4.3 billion. However, a further 256,000 new school places are still required by 2014/15 and, despite a national surplus, there are indications of real strain on school places.

To improve value for money, the Department needs to build on the incremental improvements to the information it uses to make its funding allocations. It needs a better understanding of costs, clarity about how it will allocate funding to areas of need, and a better understanding of the impact its funding contribution is having on the ground.

## Appendix Two

### Our evidence base

**1** We reached our conclusion on value for money after analysing evidence we collected between April and September 2012.

**2** We applied an analytical framework with evaluative criteria to consider what would be optimal, both in the system for providing school places, of allocating funding for new school places, and overseeing whether the Department is achieving its objectives. Our audit approach is outlined in Appendix One.

**3 We examined the impact of increasing demand for school places on local authorities, schools and children.**

- We conducted **semi-structured interviews** with 15 local authorities, including visits to schools.
- We carried out a **census of local authorities** with questions about the planning and provision of school places, and the impact of demand for school places in local authorities. We achieved an 83 per cent response rate (126 local authorities). However, not all local authorities that responded answered each question, hence the base varies between questions.
- We **analysed departmental data** about travel times to school, appeals, class sizes, and parental preferences in applications for schools for their children.

**4 We examined the Department's Spending Review settlement and financing of new school places.**

- We reviewed **internal departmental documents** and published evidence to establish the Department's assumptions in its 2010 Spending Review bid and settlement, and the historic data available to inform planning and funding for new school places.
- We **interviewed departmental officials** to understand how the Department constructed bids for the 2007 and 2010 Spending Reviews, and the impact of the settlements on the Department's planning.

- We **analysed forecasting, pupil projections and other data** used to inform the Department's Spending Review bid.
- We reviewed the assumptions the Department and local authorities made about how the cost of funding new school places would be met.
- Our **census of local authorities** collected evidence on local authorities' funding programmes for delivery of new school places.

**5 We assessed how effective the Department was at allocating its financial contribution to local authorities for providing new school places.**

- We analysed data the Department collected from local authorities to inform its decision-making on allocating funding.
- We examined what feedback the Department gave local authorities about the data they had provided.
- We examined the information available to the Department to determine the impact of its funding locally.
- We reviewed evidence from investigations the Department had conducted in March 2011 and June 2012, examining the impact of its allocations on the capacity within local authorities to provide new school places.
- We carried out an **information mapping** exercise with departmental officials to examine the responsibilities, information flows, funding streams and the accountability framework for the system, and the action the Department took to track the likelihood of local authorities failing to provide sufficient school places.
- We interviewed 15 local authorities about their capital planning, financing and provision of new school places.
- We drew on **previous National Audit Office work on Formula funding of local public services**<sup>11</sup> and *Central government's communication and engagement with local government*.<sup>12</sup>

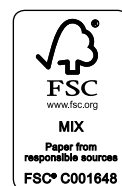
**6** We conducted **semi-structured interviews** with stakeholder organisations, including the Local Government Association and voluntary-aided organisations to triangulate our findings by investigating their experiences, insights and key issues.

<sup>11</sup> Comptroller and Auditor General, Cross-government landscape review: *Formula funding of local public services*, Session 2010-2012, HC 1090, National Audit Office, July 2011.

<sup>12</sup> Comptroller and Auditor General, *Central government's communication and engagement with local government*, Session 2012-13, HC 187, National Audit Office, June 2012.







Design and Production by  
NAO Communications  
DP Ref: 10089-001

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ISBN 978-0-10-298135-3

