

Department for Education:

Managing the expansion of the Academies Programme - Public Accounts Committee

Summary

Academies are publicly funded independent state schools. They are funded directly by central government, directly accountable to the Department for Education (the Department), and outside local authority control. They have greater financial freedoms than maintained schools, for example to set staff pay and conditions. In May 2010, the Government announced its intention to allow all schools to seek academy status. By September 2012 the number of open academies had increased tenfold, from 203 to 2,309.

Academies are the Department's chosen vehicle for school reform, but increasing schools' autonomy and removing them from local authority control gives the Department responsibility for ensuring value for money. The Department has a direct responsibility to ensure that taxpayers' funds are used wisely at academies. The Department has incurred significant costs from the complex and inefficient system it has used for funding the Academies Programme and its oversight of academies has had to play catch-up with the rapid growth in academy numbers. The Department and its funding agency need to increase their grip on the risks to public money as more and more schools become Academies.

In the two years from April 2010 to March 2012, the Department spent £8.3 billion on Academies; £1 billion of this was an additional cost to the Department not originally budgeted for this purpose. Some of this expenditure led to unnecessary extra money being used by the Department which was not recovered from local authorities. To give Parliament and the public confidence that the Programme is being properly run in the interests of taxpayers, the Department must improve the efficiency of its funding mechanisms and stop the growth in other costs. Although the Department has decided to radically reduce its own running costs, it still needs to demonstrate that its oversight regime can keep pace with increasing academy numbers. It needs to ensure that accountabilities, roles and responsibilities are clear, and that it has robust mechanisms for identifying and tackling academic or financial failure in academies. Furthermore, the Department has yet to establish effective school-level financial accountability for academies operating within chains.

What will determine whether the Department ultimately achieves value for money is academies' impact on educational performance relative to the investment from the taxpayer. If the Department is to be held properly to account for its spending on academies, it must insist that every Academy Trust provides it with data showing school-level expenditure, including per-pupil costs, and with a level of detail comparable to that available for maintained schools. The Department must then publish this data so that proper judgments and comparisons can be made by Parliament and the public.

On the basis of a report by the Comptroller and Auditor General,^[1] we took evidence on the expansion of the Programme from the New Schools Network and the Local

Schools Network, and from the Department for Education and the Education Funding Agency.

Conclusions and recommendations

1. The value for money of the Academies Programme will ultimately depend on its impact on educational performance relative to the investment from the taxpayer. The Department has chosen to expand the Programme rapidly, incurring an additional cost of £1 billion since April 2010. While it is too early to assess the impact of the expansion on school performance, the Department will need to be able to demonstrate whether value for money has been achieved. It has yet to state how it will do so, or when. The Department should set out what outcomes it aims to achieve from the expansion of the Programme, and how and when it will demonstrate whether progress is on track and value for money has been achieved.

2. Inefficient funding systems and poor cost control have driven up the cost of the Programme. A large part of the £1 billion additional cost since April 2010 has been caused by the excessively complex and inefficient academy funding system which has reportedly led to overpayments and errors in payments to Academies. There was around £350 million extra paid to Academies which was not recovered from local authorities. This system does not operate effectively alongside the local authority system, and makes it hard for the Department to prove that academies are not receiving more money than they should. The Department has not yet brought other types of cost growth under control, for example academy insurance. It should report back to us by the end of 2013-14 on how its funding reforms have reduced systemic problems such as the under-recovery of academy costs from local authorities, and on how far it has brought down other additional costs.

3. We are not yet satisfied that individual academies' expenditure is sufficiently transparent to parents, local communities or Parliament. Despite some improvements, key information on what academies actually spend is still only available at trust, rather than individual academy, level. This limits the ability of parents to scrutinise how their child's school is spending its money, and of communities to hold their local school to account. The Department must publish data showing school-level expenditure, including per-pupil costs, and with a level of detail comparable to that available for maintained schools, so that proper judgments can be made and comparisons drawn to assess value for money. The Department should state how it will make robust, line-by-line information on individual academies' expenditure publicly available in the most cost-effective way.

4. New governance, compliance and oversight arrangements for academies remain vulnerable to failure. Some serious cases of governance failure and financial impropriety in academies have gone undetected by the Department's monitoring, raising concerns that central government may be too distant to oversee individual academies effectively. Irregular expenditure by academies and gaps in the oversight framework led the Comptroller and Auditor General to qualify the 2011-12 accounts of the Department and the Young People's Learning Agency. Academies' compliance with mandatory monitoring is not good enough, and it is not yet clear how well revised audit arrangements will address these issues in future. The

Department and the Education Funding Agency should review the operation of the new audit and oversight regime put in place this year, and assess whether it is reducing risks to regularity, propriety and good governance.

5. Forthcoming staff cuts at the Department and its agencies may threaten effective oversight as the Programme continues to expand. We are sceptical that the Department has sufficient resources to properly oversee the expanding Programme, especially as schools now joining are less high-performing and may require greater oversight and scrutiny. The Department should review the Programme's central resource requirements, and the extent to which efficiency savings expected from new IT systems and assurance processes are being realised, and are sufficient to offset the need for further resources.

6. The Department has still not made completely clear the roles, responsibilities and accountabilities of different organisations across the changing schools system. Roles previously carried out by local authorities around accountability, performance monitoring and intervention are unlikely to be operating consistently and effectively across different localities and academy structures. We are particularly concerned that interventions in failing academies may be delayed if the respective roles of central and local government, as well as academies and academy trusts, are not clear. The Department should clarify and properly communicate the roles and responsibilities of local authorities, academy sponsors, the Education Funding Agency, the Department, the Office of the Schools Commissioner and Ofsted regarding these aspects of the Programme.

1 Financial implications of the expanding Programme

1. Academies are publicly funded independent state schools. They are directly accountable to the Department, and outside local authority control. Unlike maintained schools, which receive their funding via local authorities, academies are funded directly by central government, and have greater financial freedoms—for example, to set staff pay and conditions.[2]

2. The Academies Programme was originally launched in 2002, and was aimed chiefly at replacing underperforming secondary schools in disadvantaged areas.[3] In May 2010, the Government announced its intention to allow all schools to seek academy status. The Academies Act was passed in July 2010, and by September 2012 the number of open academies had increased by 1,037%, to 2,309, compared to 203 in May 2010.[4]

3. Along with this rapid increase in numbers, the Programme has seen considerable growth in costs. Of the £8.3 billion which the Department spent on academies between April 2010 and March 2012, around £1 billion was an additional cost which it had to meet from existing budgets while remaining within overall spending limits.[5] Some of this expenditure appears to have risen because of errors leading to overpayments.[6]

4. Some of the budgets the Department drew upon to fund the expansion had been previously earmarked for other purposes - most notably £95 million originally intended for improving underperforming schools. There is a risk that the Department's decision to solely use this money to create academies—many of which were already high-performing—may have been at the expense of weaker non-academy schools which could potentially have benefitted from it more.[7] This is a particular risk in the primary sector.

5. In due course the Department will have to demonstrate that such funding decisions have achieved value for money, and that it has achieved tangible improvements for the additional public money it has put into the Programme since the expansion began.[8] The Department told us that it will consider value for money to be achieved if academies raise educational standards without receiving additional financial inputs.[9] However, it is not clear precisely how, or when, the Department intends to assess progress and ultimately reach a judgement on value for money.[10] Nor is it clear how, in doing so, the Department will recognise the £1 billion of additional costs already incurred in operating and expanding the Programme since April 2010.[11]

6. The Department is responsible for the design and operation of the system through which it funds academies. We heard that funding arrangements are very complex, partly because the current system was not designed to fund academies alongside maintained schools as the Department is currently doing.[12] The resultant issues with the funding system have contributed significantly to the £1 billion additional cost of the Programme since April 2010. For example, to avoid double-funding across the system the Department aims to recover from local authorities the majority of the funding it pays to academies.[13] However, between April 2010 and March 2012 the Department paid academies some £350 million which it did not recover from local authorities, creating an additional cost pressure which it had to meet from existing budgets.[14]

7. In addition the interplay of the local authority and academy systems has generated other costs. For example, to ensure the sustainability of local authority services such as special educational needs support, the Department has chosen not to recover the associated funding from local authorities. The resultant double-funding has cost an additional £21 million since the expansion began.[15] A further cost has arisen because the Department calculates academies' funding for central services using local authority budget returns.[16] This makes academy funding sensitive to changes in local authorities' budget assumptions, and leads to volatility in academies' income from one year to the next.[17] Over the two years from April 2010, the Department spent £59 million topping up academies' income to protect them from the impact of this volatility.[18] The Department has also had to provide an extra £92 million for insurance, which is more expensive for academies as they are unable to benefit from the economies of scale or self-insurance arrangements available to local authority schools.[19]

8. In addition to these obvious inefficiencies and additional costs, we expressed concern that the Department could not clearly demonstrate that academies are funded on a genuinely equivalent basis to other schools.[20] We heard media reports and analysis suggesting that academies receive more funding than maintained schools in the same local authority area.[21] There is a risk that the expectation of increased funding may be a perverse incentive for schools to convert.[22] The Department acknowledged that its method of calculating academies' funding for central services may result in some academies receiving too much whilst others receive too little.[23] However, the Department told us that, with the exception of the known additional costs identified in the C&AG's report, individual maintained schools and academies are funded on an equivalent basis.[24]

9. The Department is planning to reform the entire education funding system from 2013-14, including arrangements for funding academies. It told us that it expects these reforms to make the system simpler to manage and more transparent, and that it anticipates the additional cost of the Programme will reduce in future.[25]

10. Despite some improvements, academies' governance is still not sufficiently transparent for parents to scrutinise how their child's school is spending its money, and for communities to hold their local school to account. There are gaps in the availability of

key information such as academy funding agreements and governing body minutes, with less than 20% of academies surveyed by the National Audit Office publishing this information on their websites.[26]

11. Moreover, individual academies' expenditure is still not sufficiently transparent or comparable with the maintained sector. Maintained schools' spend is recorded and published at individual school level, allowing parents to understand how much money their local school is spending on all aspects of their children's education. However, while academy trusts are required to report their income and expenditure in audited accounts and published summary returns, data for trusts containing more than one academy are not broken down to individual school level.[27]

12. The Department is seeking to maximise school autonomy and minimise bureaucracy, and is reluctant to impose any requirement for academies to produce and publish individual school-level expenditure data.[28] This means that local parents, Parliament and the public cannot make a proper value-for-money comparison of individual academies and maintained schools. We asked the Department why it was not doing more to ensure publication of academy-level data, as the necessary information must already exist to allow multi-academy trusts to run their operations and prepare consolidated financial statements. [29] The Department told us that it wanted to publish only audited financial information so that it could be sure the figures were accurate.[30] It did not commit to publishing individual academy expenditure data, but said it was prepared to consider including additional information in the trust accounts, for example a segmented note breaking down expenditure to individual academy level.[31]

2 Governance, oversight and accountability

13. Our previous report on academies highlighted the vital need for robust accountability and oversight arrangements across the expanding Programme.[32] However, we expressed concern that governance, compliance and oversight systems have not kept pace with academy numbers, and that the Department is only now—over two years into the expansion—starting to address key risks to value for money.[33]

14. In 2011-12 the Department and the Agency did not have proper mechanisms in place to ensure the regularity of academies' expenditure.[34] The C&AG qualified the 2011-12 accounts of the Department and the Young People's Learning Agency (YPLA) because their oversight framework could not provide assurance over academies' severance payments in excess of contractual commitments.[35] As academies had made such payments without obtaining the required approval from HM Treasury, and the Department could not show that all such cases had been identified and retrospectively approved, the C&AG could not certify that the public funds provided to academies had been used for the purposes intended by Parliament.[36]

15. For 2012-13, the Department and the Education Funding Agency (EFA) have agreed revised arrangements with HM Treasury, which give academies delegated authority to make such payments up to £50,000 without prior approval.[37] It is important, however, that the Department remains aware of all such payments, and is able to report them for scrutiny by Parliament and the public.[38]

16. There have been a number of serious cases of governance failure and financial impropriety in academies, some of which the Department and its Agency failed to detect until alerted by whistleblowers.[39] One example is the Priory Federation of Academies Trust, where the Chief Executive resigned following the inappropriate use of public funds, which remain the subject of a police investigation. We were particularly concerned to learn that the Priory trust had previously assessed its own financial management and

governance as outstanding, and that this grade was subsequently validated by the YPLA.[40]

17. The Department tells us that it has since overhauled its assurance and monitoring arrangements. It now focuses more on the trust, rather than the individual academy, and places greater reliance on local academy auditors to obtain assurance over regularity.[41] It is too early to conclude whether these new arrangements will address such risks in future, and we will continue to challenge both Departmental and academy trust Accounting Officers to ensure they understand their responsibilities for proper use of public funds.[42]

18. Since May 2010, the number of central staff overseeing finance and assurance in academies has doubled, while the number of academies has seen a tenfold increase in the same period.[43] We would not necessarily expect the ratio of central staff to academies to remain constant as the Programme expands, but we are concerned that the number of academies may be outstripping the Department and EFA's ability to oversee them—particularly given academies' continuing poor compliance with mandatory monitoring and information returns. In 2011-12 over half of academies submitted their self-assessment returns late, and nearly 100 academy trusts failed to file their statutory accounts on time.[44]

19. The Department and EFA could not tell us how many staff they are intending to employ to oversee academies in future, although they suggested that headcount will not need to increase in proportion with academy numbers owing to economies of scale and efficiency savings from new IT systems.[45] However, we remain sceptical that the Department has sufficient systems and resources to oversee the Programme as it continues to expand, especially given the wider reductions to central resources and headcount which the Department has recently announced.[46] Keeping a grip on governance and performance in individual academies will be all the more challenging in future, since schools now joining the Programme are less high-performing, and may require greater oversight and scrutiny than those which have done so to date.[47]

20. The Programme is driving far-reaching changes to the landscape of education provision in England. Various roles and responsibilities are shifting away from local authorities and onto other players, who are likely to be more distant and centralised than under previous arrangements.[48]

21. When schools become academies, responsibility for their academic and financial performance passes from the local authority to the Department and the EFA respectively.[49] However, local authorities retain some overall statutory responsibilities for young people in their area. The Department suggested that, in addition to these specific responsibilities, it would expect local authorities to retain some detailed knowledge of all educational provision in their area, including academies.[50] At the same time, the Department and other witnesses suggested that academy trusts, particularly multi-academy chains, should also play a key performance-monitoring and intervention role in between academies and the Department and EFA.[51]

22. We heard conflicting views about whether inconsistency or uncertainty in the roles of these various players had created an accountability gap. [52] We are not convinced it is clear who is accountable for performance monitoring and intervention in academies, nor how the Department can know whether the system is operating consistently, effectively and with minimum bureaucracy across different localities and academy structures.[53] We expressed concern that interventions in failing academies may be delayed if roles and responsibilities are not clear, or if central oversight is too distant to identify school-level problems before young people's futures are put at risk.[54]