

Written evidence from the National Governors' Association

The National Governors' Association (NGA) exists to improve the well-being of children and young people by promoting high standards in all our schools and improving the effectiveness of their governing boards. The NGA is the only independent body representing school governors and trustees at national level across England. We support and advise governing boards in both local authority maintained schools and academies.

We are submitting evidence taking the three core parts of the National Audit Office's report – Financial sustainability of schools.

Summary of key points

- NGA is increasingly concerned about the sustainability of schools and their ability to offer what should be core services to their pupils.
- While the Department for Education (DfE) has improved and increased the materials it produces to support schools to use funds more efficiently and effectively, these are not communicated well.
- NGA supported the new national funding formula (NFF) in principle as a mechanism for achieving fairer funding, but as proposed the NFF will not in NGA's view end the school funding postcode lottery and will simply make life harder for many schools in the lowest funded areas.
- The DfE is operating in silos: its funding approach is not working hand in hand with those looking at school organisation. The DfE is wanting to encourage schools to group together, but the funding proposals do not incentivise this, in fact they make it more sensible for schools to remain as single entities.

1. Challenges to Schools Financial Sustainability

1.1. NGA is increasingly concerned about the financial health of many schools. While we accept that compared to some other sectors school budgets have been 'protected' since 2010 this has largely been on what is called a 'flat-cash' basis and the reality is that budgets have not kept pace with increasing costs. Indeed, during this period schools have had to cope with some significantly increasing costs (over and above any inflationary rises) for example changes to national insurance and pension contributions which came into force in September 2015 and April 2016. These will have increased school costs for even many primary schools by tens of thousands of pounds.

1.2. In April we are anticipating further costs to many school budgets through the apprenticeship levy. This will impact directly on any school which is the direct employer of staff (foundation, voluntary aided maintained schools and academy trusts) where the wage bill is over £3million. However, it will not simply impact on these larger entities but very many smaller schools which are still maintained by local authorities, but not the direct employer of staff (community and voluntary controlled schools) and schools within a multi-academy trust (MAT). As the local authority is deemed the employer of staff in community and voluntary controlled schools the salary costs of these schools will be included in the levy applied to the local authority. Local authorities will in turn (understandably) use mechanisms to claim the cost of the levy back from these schools. These schools, and it is likely to affect most community and voluntary controlled primary schools, will be affected by the levy in a way they would not be if they were the direct employer. Indeed, it is possible that two schools in the same authority with a similar budget and

similar pupil numbers will be treated entirely differently for the purposes of the apprenticeship levy – a voluntary controlled school will be subject to the levy as a result of the local authority being the employer of staff whereas a similar voluntary aided school will not have to pay. All those schools which would not qualify to pay the levy if they were direct employers should be excluded from the levy.

1.3. Academy trust funding has been subject to cuts during the period as a result of changes to the funding they receive for services previously provided by the local authority, but which as academies they automatically become responsible for themselves. While there is no doubt that the way in which Local Authority Central Spend Equivalent Grant (LACSEG) was calculated provided generous funding for academy trusts, over the period since 2010 LACSEG has been changed to Education Services Grant and significantly cut year on year.

1.4. It is also the case that, although the schools budget has been protected since 2010, even maintained schools have had to absorb additional costs, as services previously provided by the local authority have been curtailed or stopped as a result of the very significant cuts to local authority budgets during the same period. Schools have not received additional funding to cope with this reduction in local services, consequently they are trying to make existing funding go further.

1.5. Each year the NGA conducts a survey of school governors and trustees in conjunction with TES and an annual question is about the financial constraints facing schools. (5,000 responses, April-June 2016).

Asked whether financial constraints mean that they will need to reduce spending on staff over the next two years, 59.5% of respondents agreed that they would. This is compared to 47.5% in 2015.

- 26% of respondents reported having made redundancies in the previous 12 months. This is compared to 15% in 2015.
- Asked whether financial constraints mean that the school's offer to pupils has been reduced, 33.2% agreed that it had. This is compared to 26.6% in 2015.
- Those that said financial constraints had reduced the offer to pupils gave the following examples*:
 - 41% reported a reduction in the number of teaching staff.
 - 29% reported a reduction in the number of subjects on offer
 - 29% reported increased class sizes
 - 15% reported a reduction in the number of qualifications on offer

*Respondents could select as many answers as applicable.

- 78% of governors and trustees gave a negative verdict on the government's performance on education issues since May 2015 and only 12% gave a positive verdict (the remainder had no view). Funding was among the issues cited most frequently by respondents explaining their views. These comments are illustrative of reasons given:

"Absolute chaos – confused changes to assessment and concentration on academisation whilst failing to ensure schools receive adequate funding to improve education." Chair, standalone academy

“Far too much change being delivered at one time, together with real terms reduction in funding, is seriously impacting our school’s efforts to provide the very best education to our pupils.”

1.6. In NGA’s membership survey (conducted in October 2016), 65% of members who responded said that balancing the budget was a key focus for the coming year and 68% said that school funding should be a key focus for NGA’s campaigning in the coming year.

1.7. While NGA has campaigned for a number of years for a change in the way that school funding is distributed, a change on its own is not enough. Even if the proposed formula does what it purports to do - ‘end the postcode lottery of school funding’ - it would still be a fairer share of not enough. NGA does not believe that the proposed formula will even achieve the end to the postcode lottery. While those schools currently in the lowest funded authorities did not expect to come out at the top, they certainly did not expect to be potentially worse off under the new formula – but this is what a number of them are facing. Schools in the lowest funded authorities have already made significant efficiencies and are now faced with further decisions about cuts, not to niceties but to what should be core provision. This is simply not sustainable.

1.8. The other significant issue with the new formula is that the school funding team and those responsible for school organisation appear to be operating in isolation. At a time when over-arching policy has been to encourage schools to convert to academy status and form or join a multi-academy trust (MAT), the introduction of a NFF was an opportunity to provide financial incentives to do this – but instead it will continue to fund all schools as though they remain separate entities. There is no encouragement for infant and junior schools to become single primary schools or other types of schools to join together in groups, which have advantages in terms of educational provision for pupils as well as more scope for financial efficiencies.

1.9. The formula also builds in significant protection for very small schools. NGA recognises that it is unpopular to talk about closing any schools and ‘village’ schools are a particularly thorny issue, but the truth is that some of these schools are exceedingly expensive to run. Of course, when the schools are genuinely serving sparse and remote communities where young children would otherwise have to travel long distances it is important to keep provision open – but in a number of cases there is another school less than five miles away. Indeed, the actual sparsity factor only requires the next school to be 2 miles away. Few people would claim that 2 miles to the next provision is sparse. The point is often made that these schools provide a ‘community’ hub, but this is education funding and support to sustain communities should be provided from a different budget. There are currently a significant number of small schools in England: in May 2015, 816 primary schools had 60 or fewer pupils (according to the school capacity survey 2015). The funding in very small schools can amount to well over £10,000 per pupil when others have to manage on less than £4,000. The protection for these schools impacts on the viability of other schools. More thought needs to be given to the viability and sensibility of preserving all schools at any cost. While many of these schools receive good Ofsted ratings and provide a good level of education, it is also the case that some activities (team games for example) are simply not possible if you only have twenty children ranging from 4-10 in your school.

2. The Department's understanding of, and support for, schools' financial sustainability

2.1. The DfE has recognised that with a flat cash budget, increasing costs and reduced support from local authorities, schools are facing significant financial challenges. Whether it has fully realised the extent of schools' financial difficulties is another question.

2.2. Over the last 12-18 months in particular, the DfE's provision of materials to help schools spend their budgets more efficiently has been significantly enhanced. In 2016 it relaunched its financial efficiency pages - <https://www.gov.uk/government/collections/schools-financial-health-and-efficiency>. Many of these materials have been developed in consultation with practitioners including the NGA. Many of the materials provided are helpful.

2.3. The Government's ongoing restrictions on communications with schools may have hindered the extent to which these materials have been brought to the attention of schools. NGA certainly communicated to our members when the materials were launched – but we know that the benchmarking report cards which were emailed directly to schools did not reach a significant number. The DfE, through the National College for Teaching and Leadership, also invested money in developing a workshop which can be delivered free of charge to up to three governors from each school but, again, its existence has not been widely publicised. When NGA has delivered presentations to governors and asked about these workshops in a significant number of cases blank faces look back at us. While schools of course do not want to be bombarded with unnecessary communications, it seems counterproductive to produce useful materials which then remain unused because their existence is not adequately communicated. This is itself a perfect example of financial inefficiency.

3. How the Department identifies and addresses the risk of financial failure in schools

3.1. With over 20,000 schools there will undoubtedly be some that could and should be using their funding more efficiently and effectively, but a significant number are facing extremely challenging decisions (see survey results above).

3.2. The DfE is directly responsible for over-seeing the financial health of academy trusts. Local authorities remain responsible for over-seeing the financial health of maintained schools. As charitable companies academies are audited every financial year by independent auditors. Maintained schools are not subject to the same audit arrangements. Given the cuts to local authority budgets since 2010 their capacity to audit maintained schools is very variable; to our knowledge not every maintained school is subject to thorough audit every year and indeed in some cases it may be more than three years since this has happened.

3.3. Having said that, the external audit of academies is an annual event and much can go wrong over a 12 month period. It is not clear whether the mechanisms the Education Funding Agency (EFA) has in place to monitor academy spending through the year provide the right level of information to enable swift engagement (and if necessary intervention) to take place. Likewise, the mechanisms the EFA uses to assess the rigour of budget setting are not clear.

3.4. The number of schools already in a deficit budget situation or anticipating one is growing. This is a concern for all schools, but academies in particular are not allowed to have a deficit which cannot be covered by existing reserves. It is clear from reports that the EFA has offered financial

assistance to academies in difficulties, but there is a lack of transparency about the basis on which these payments are made. This lack of transparency could undermine academy trustees' understanding of their responsibilities in ensuring that their schools/MATs remain 'going concerns' as they might instead assume there will be a 'handout' available from the EFA.

3.5. It is also the case that some school leaders are now being paid significantly above the maximum of the teachers' pay framework (the School Teachers' Pay and Conditions Document). Although this document is non-statutory for academy trusts, many still use it and it provides a useful benchmark of what is appropriate. While some of these higher salaries are for those working as chief executive officers of large multi-academy trusts, there are a number of headteachers of single schools now earning £200,000. The DfE was slow to take any action on this subject, arguing that schools and academies were autonomous and could make their own decisions. However, on 21 October, Lord Nash wrote to the chairs of all academy trusts highlighting the need for good governance and sound financial decisions.

"We are making good progress in raising awareness of the importance of good governance but we cannot be complacent. Where there is weak governance this can lead to a lack of oversight and failure to provide appropriate challenge, including for financial transactions. Certain types of transactions rightly attract scrutiny such as those with related parties; excessive salaries for senior staff which are not linked to their performance; and excessive or inappropriate expenses payments to employees or trustees. As well as safeguarding the use of public funds, sound financial management and governance is essential to retaining the confidence of parents and the wider public."

3.6. The third core function of governing boards is "overseeing the financial performance of the organisation and making sure its money is well spent"; consequently there is an onus on those governing in both maintained schools and academies to have robust mechanisms in place for monitoring expenditure and to contact the relevant authorities if difficulties are foreseen. The DfE's new Competency Framework for Governance has placed considerable emphasis on the financial competency of boards.

3.7. Although schools do not get multi-year budgets (even on an indicative level) one of the consequences of the flat cash budgets of the last several years is that it is relatively easy to predict future funding. All governing boards should be ensuring that their school finance staff provide them with forward forecast for three years.

Conclusion

Schools are facing significant financial challenges at a time when they are also facing demands to improve their performance and introduce new demanding curriculum and qualifications. Although the DfE has recognised some of these challenges, the proposed NFF is not going to solve them and its failure to communicate available resources effectively negates some of its good work in producing them.

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