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Financial sustainability of schools

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to the report*

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The Committee of Public Accounts

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Summary

Schools in England are now facing the most significant financial pressure since the mid-1990s. Funding per pupil is reducing in real terms. If they are to manage within the funds available, schools will have to find efficiency savings rising from £1.1 billion in 2016–17 to £3.0 billion (equivalent to 8% of the total budget) by 2019–20 because of costs which are outside their control, such as pay rises, higher employer contributions to national insurance and the teachers' pension scheme, and the apprenticeship levy. They will also have to cope with the consequences of reductions in the Education Services Grant and the cost of implementing other policy changes, such as changes to the curriculum and assessment. Drawing on a desk-based benchmarking exercise, the Department for Education (the Department) believes schools can save £1.3 billion through better procurement and the balance of £1.7 billion by using staff more efficiently. Schools have already been making savings in a number of ways, but the Department considers they can save more, such as through better energy deals. However, staff account for three-quarters of schools' spending, and savings here will be harder to achieve without detrimental effects on the quality of education and educational outcomes. It is not clear how the Department will monitor both spending and performance so that it can intervene quickly where schools make efficiency savings in ways that risk causing damage. Without effective and timely monitoring of areas such as the breadth of the curriculum and class sizes, there is a real risk that the Department will not be able to prevent declining standards.

Introduction

The Department for Education (the Department) is accountable for securing value for money from spending on education services in England. At January 2016, there were 20,179 state-funded primary and secondary schools across England, educating 6.4 million pupils aged between 5 and 15. The Department delegates responsibility for oversight to the Education Funding Agency, which oversees financial management and governance in academies directly and in maintained schools through local authorities.

The Department's overall schools budget is protected from inflation. In the 2015 Spending Review, the Government increased the core schools budget by 7.7% in cash terms, from £39.6 billion in 2015–16 to £42.6 billion in 2019–20. However, pupil numbers are expected to increase over the same period by 6.3%, from 7,262,000 in 2015–16 to 7,720,000 in 2019–20. This means that the amount that schools receive per pupil will, on average, rise only by 1.3%, from £5,447 in 2015–16 to £5,519 in 2019–20, a real-terms reduction once inflation is taken into account. The Department estimates that mainstream schools face cost pressures rising from £1.1 billion (equivalent to 3.1% of the total budget) in 2016–17 to £3.0 billion (8.0%) in 2019–20. Schools will have to counteract these cost pressures by making economies or efficiency savings. The Department aims to support schools to ensure that, by 2020, schools have the skills, capabilities and tools to manage pressures on their budgets while maintaining or improving educational outcomes.

Conclusions and recommendations

1. **The Department for Education does not have the necessary arrangements in place to identify, and therefore act, if the actions schools take to make efficiency savings threaten the quality of education and educational outcomes.** The Department for Education (the Department) expects over half of the required savings (£1.7 billion by 2019–20) to come from schools using staff more efficiently. Schools spend half of their budgets on teachers and have tended in the past to reduce the proportion of spending that goes on teaching staff faster than other categories. To reduce staff costs, schools are likely to increase teachers' contact time and class sizes, rely more on unqualified staff and staff teaching outside of their specialism, and require head teachers and other senior staff to do more teaching. The head teachers who gave evidence told us that they plan to make savings by, among other things, dropping subjects and scaling back on school trips to avoid the cost of teaching cover. The actions schools take are likely to increase teachers' workload, with implications for recruitment and retention, and put at risk the quality of education. The Department said that it will gain assurance that schools are achieving desirable efficiency savings and that educational outcomes are being maintained from existing information, such as Ofsted inspections, key stage tests and exam results. However, these indicators are time lagged and we may not know the full impact on educational outcomes until 2021 when the new GCSE results come through. This will be too late for the children who are in school now. The Department does not seem to have a plan to monitor in real-time how schools are making savings and the impact on the education provided. Without this monitoring the Department will not be able to identify concerns and take action in a timely way.

Recommendation: *The Department should develop and publish by the end of June 2017 a set of indicators, which it will monitor to gain assurance that the quality of education and the outcomes schools achieve are not being adversely affected by the need to make savings. These indicators might include the breadth of curriculum, class sizes and pupil-teacher ratios.*

2. **The Department does not seem to understand the pressures that schools are already under.** The Department's view that schools can make the necessary savings is drawn from its desk-based statistical benchmarking analysis that compared schools with different levels of spending but similar pupil characteristics and levels of attainment. The Department is developing guidance and support to help schools improve their financial management and make savings. However, the head teachers who gave evidence told us that the Department does not understand the budgetary pressures that they are facing. They reported that they have already made cuts in important areas and their ability to make further savings is limited. For example, they have already cut maintenance costs, reduced how much they spend on recruiting teachers and not updated IT equipment. They have also had to cut back on support staff, including counselling and other pastoral services, which provide valuable support for vulnerable students. These cuts are being made at a time when schools are expected to do more to look after the mental health of children and young people. We are concerned that the Department has not spoken enough to schools to understand what savings they can realistically make. Our report on training new teachers in June 2016 highlighted similar concerns about how the

Department engages with schools. In response to that report, the Department accepted that it should set out when and how it would talk more to school leaders about the recruitment challenges they face and agreed to put in place arrangements for this from July 2017.

Recommendation: *The Department should build on the arrangements it is putting in place from July 2017 to speak to head teachers about the efficiency challenges they face, how useful they find the Department's guidance and support, and what more the Department could do to help schools make savings.*

3. **The apprenticeship levy will be an additional cost for schools but they will only be able to benefit in a limited way from the funds.** From April 2017, all employers with an annual pay bill of over £3 million must pay the apprenticeship levy to fund apprenticeship training. For schools, the levy will amount to a cost pressure worth 0.4% of the total core budget. The Department views the apprenticeship levy as an opportunity rather than a cost, as schools will be able to use the funds from the levy to increase the training available. However, schools have to use the funds within two years and the only way that schools can currently use apprentices is in back-office administrative roles, precisely the areas where the Department expects schools to make savings. The Department said that it plans to introduce a teaching apprenticeships scheme from September 2018 but agreed that it needed to avoid further complicating the routes into teaching.

Recommendation: *The Government should set out by the end of June 2017 the financial impact of the Apprenticeship levy on schools.*

4. **In calculating the £3 billion of required efficiency savings, the Department has not assessed the impact of all the cost pressures that the Government is placing on schools.** While the Department must assess and fund extra costs for local authorities from new powers, duties and other government-initiated changes, it does not have to do the same for schools. The Department's savings estimates do not take account of the cost implications for schools of its policy changes. We heard from head teachers, the National Union of Teacher and the National Governors' Association examples of uncosted policy changes, for example curriculum changes that require new textbooks and learning materials. Head teachers and the National Association of Head Teachers also highlighted the withdrawal of the Education Services Grant, which funded the education services that local authorities provide to maintained schools and that academies provide for themselves. This funding will be phased out by 2018–19, saving £615 million per year. The Department has not yet completed its work to assess the impact on schools of withdrawing the Education Services Grant. It said that around £190 million of the money saved is expected to be returned to schools and local authorities to use for school improvement.

Recommendation: *The Department should publish by the end of April 2017 the results of its work to assess the impact of withdrawing the Education Services Grant; and it should routinely assess and make public the cost implications of policy changes including curriculum and assessment changes.*

5. **The Education Funding Agency’s approach to oversight and intervention means it has not intervened in all cases where schools are at financial risk.** The Education Funding Agency (the Agency) regards schools as at financial risk if, for example, they have persistent or excessive deficits. The way in which the Agency has applied its intervention criteria means it has not intervened as often or as early as it should have in local authorities with maintained schools at financial risk. For example, the Agency did not intervene in the Isle of Wight even though it was the local authority with the highest proportion of maintained schools in deficit in 2014–15 (13%). The Agency has agreed to adjust how it applies the criteria it uses to decide whether to intervene in local authorities and to consult local government on further changes to its approach. The Agency is also piloting a preventative approach to support academy trusts at risk of getting into financial difficulty and expects to implement the approach in full from March 2017. It undertook to speak to local government about the potential to use this preventative approach for the maintained school sector. The Agency has not evaluated whether its interventions are helping schools to address financial risk. The evidence indicates that its interventions may not always result in academy trusts successfully tackling the financial issues that led the Agency to take action in the first place. The Agency has now agreed to evaluate the effectiveness of its interventions on schools’ financial sustainability.

Recommendation: *The Education Funding Agency should set out by the end of June 2017 how it will refine its approach to intervening with local authorities and academies, including how and when it will evaluate the effectiveness of its interventions.*

6. **Schools are now facing similar pressures to other sectors but the Department does not seem to be learning from this experience, in particular from how over-ambitious efficiency targets in the NHS proved counter-productive.** In recent years, the Government has protected school funding compared with most other areas of public spending. However, schools are now entering a period of reduced spending power not experienced since the mid-1990s. This brings risks as schools seek to reconcile financial, workforce and quality expectations. The Department needs to help schools to manage these risks. We reported last month on the ever worsening state of NHS finances as trusts struggle to meet increasing demand for services while also attempting to achieve unrealistic targets for efficiency savings. Twice in 2016, in our reports on the sustainability and financial performance of acute hospital trusts and then on the supply of clinical staff, we reported how the unrealistic efficiency targets set for the NHS had caused long-term damage to trusts’ finances. NHS England and NHS Improvement do not dispute these points. For example, the focus on reducing staff costs in order to meet efficiency targets led to trusts consistently understating how many staff they would need and resulted in gaps in staffing, which then had to be filled with more expensive agency staff. The Department of Health had provided ineffective leadership and support, giving trusts conflicting messages about how to balance safe staffing with the need to make efficiency savings. We asked the Department about the risk that schools could end up in a similar position to the NHS, but the Department said that it was not in a position to comment on the NHS. We are concerned that the Department does not seem to recognise the similarities and the opportunity to learn lessons.

Recommendation: *The Department should write to us by the end of June 2017 outlining how its approach to schools' financial sustainability reflects lessons from the experience of other sectors, in particular the Department of Health and the NHS.*

1 Financial pressures

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Department for Education (the Department) and the Education Funding Agency (the Agency) on the financial sustainability of schools.¹ We also took evidence from three head teachers and the general secretary of the National Association of Head Teachers.

2. At January 2016, there were 20,179 state-funded primary and secondary schools in England, educating 6.4 million pupils aged between 5 and 15.² The Department sets the policy framework for schools and is accountable for securing value for money from spending on education services. It aims to “deliver educational excellence everywhere, so that every child and young person can access high-quality provision, achieving to the best of his or her ability regardless of location, attainment or background”.³

3. The Department expects schools to achieve good outcomes for their pupils while managing their finances efficiently and sustainably. It delegates responsibility for financial oversight to the Agency, which oversees academies directly and maintained schools through local authorities.⁴

4. In the 2015 Spending Review, the Government increased the total schools budget by 7.7% from £39.6 billion in 2015–16 to £42.6 billion in 2019–20. This protected the total core budget from forecast inflation.⁵ The Department forecasts that pupil numbers will rise over the same period by 6.3%, from 7,262,000 in 2015–16 to 7,720,000 in 2019–20. As a result, the funding that schools receive per pupil is not protected from inflation and will increase by only 1.3% in cash terms over the same period, from £5,447 in 2015–16 to £5,519 in 2019–20.⁶

5. As well as the cut in real-terms funding per pupil, schools face significant cost pressures. The pressures come from: pay rises; the introduction of the national living wage; higher employer contributions to national insurance and the teachers’ pension scheme; the apprenticeship levy; and non-pay inflation.⁷ The Department estimates that, to counteract these cost pressures, mainstream schools will need to make economies and efficiency savings worth £1.1 billion (3.1% of the total budget) in 2016–17 rising to £3.0 billion (8% of the total budget) by 2019–20.⁸

The impact on education

6. The Department told us that achieving savings of the magnitude required would not be easy for schools but would be “doable” without affecting educational outcomes.⁹ It had reached this conclusion by drawing on its statistical benchmarking exercise that compared schools with different levels of spending but similar pupil characteristics and levels of educational attainment. It had assessed the level of savings that could be achieved if the

1 C&AG’s Report, *Financial sustainability of schools*, Session 2016–17, HC 850, 14 December 2016

2 [C&AG’s Report](#), para 1 (The January 2016 school census, published in June 2016, is the most recent complete data available)

3 [C&AG’s Report](#), para 1

4 [C&AG’s Report](#), para 2

5 [C&AG’s Report](#), para 7

6 [C&AG’s Report](#), para 1.4 and Figure 2

7 [Q 5; Fair Funding for All Schools \(FSS0002\)](#) para 7; [C&AG’s Report](#), Figure 3

8 [C&AG’s Report](#), Figure 4

9 [Qq 37, 42, 58, 61, 62](#)

highest spending schools reduced their spending to lower benchmarks achieved by similar schools.¹⁰ It also examined procurement spending by other government departments through Crown Commercial Service frameworks to determine the potential for schools to save through such frameworks. Overall, the Department's analysis indicated that schools could save £1.3 billion by 2019–20 through better procurement, with the balance of £1.7 billion coming from deploying and using staff more efficiently.¹¹

7. Schools spend three-quarters of their budgets on staff, half on teachers. The Department believes that the quality of teaching is more important to pupil outcomes than anything else a school can control. However, in the past schools have tended to reduce the proportion of their spending that goes on teaching staff faster than other categories.¹²

8. The National Association of Head Teachers told us that in its view the scope for savings through measures like better procurement would be extremely limited and that schools would need to cut spending on staff to make efficiency savings.¹³ To reduce staff costs, schools are likely to take steps such as: increasing teachers' contact time and class sizes; relying more on unqualified staff and staff teaching outside of their specialism; replacing more experienced higher-paid teachers with younger recruits; and requiring head teachers and other senior staff to do more teaching.¹⁴ The National Union of Teachers noted the impact of efficiencies on recruitment and retention and that the actions schools take were likely to increase teachers' workload, putting at risk the quality of education.¹⁵

9. We asked the Department how it would know if schools started to make savings in ways which damaged the quality of the education that children received.¹⁶ It told us that it would gain assurance that schools were achieving 'desirable' efficiency savings and that educational outcomes were being maintained from existing information, such as Ofsted inspections, key stage tests and exam results.¹⁷ However, we heard from the head teachers that these indicators are time lagged and that a meaningful year-on-year comparison could not be made until 2021 when the new GCSE results came through.¹⁸ This would be too late for the children who are in school now, as a parent who gave written evidence said, "a child only has one childhood, and it is vital that risks are dealt with during the education process, and not years after a child has left school".¹⁹

Understanding the scale of the challenge

10. The Department told us that it was asking schools to make savings by doing what other schools had done, not by doing something that had never been done before.²⁰ However, the head teachers who gave evidence said that the Department did not understand the pressures that schools were under.²¹ The head teachers reported that they had already reduced their spending and that their ability to make further savings without affecting

10 [Qq 42, 45, 58–62; C&AG's Report](#), paras 1.10 and 1.11

11 [C&AG's Report](#), paras 1.10 and 1.11

12 [C&AG's Report](#), paras 2.3, 2.26

13 [Q 5](#)

14 [Qq 2, 4; C&AG's Report](#), para 2.6

15 National Union of Teachers ([FSS0001](#))

16 [Qq 99, 100, 113, 121](#)

17 [Q 125](#)

18 [Qq 19, 33](#)

19 Louise Mellor ([FSS0006](#)), para 3

20 [Q 45](#)

21 [Qq 28, 55](#)

educational quality was limited.²² They gave a range of examples of how they had made savings, including: increasing the teaching commitment of senior staff; narrowing the curriculum that their schools offered; reducing spending on maintenance; and not upgrading IT equipment. They had also collaborated with other schools to find savings.²³

11. The National Association of Head Teachers highlighted that as a society we now expect much more of our schools. It said that we want arts and sports, and children to grow up as good citizens, but, as there were no measures for these aspects of education, they were cut back when schools were looking to make cost savings.²⁴ We also heard that schools are now expected to provide more support to vulnerable pupils in the wake of decreasing funding to local authorities who once provided these services.²⁵ However, schools do not receive funding for this purpose and the head teachers said they had started to cut back on counselling services.²⁶ One head teacher told us that his school had introduced means testing for counselling and asked some parents to pay for this support. The Department told us that it was aware of the important role that schools played in supporting the mental health of pupils and noted that the Government had recently announced proposals to provide schools with child and adolescent mental health training.²⁷

12. The National Association of Head Teachers referred to a lack of dialogue between the Department and school leaders.²⁸ The Department told us that it did engage with head teachers through channels such as the national funding formula consultation process and regional schools commissioners' head teacher boards.²⁹ It highlighted that schools faced different challenges depending on their particular circumstances and agreed that it was crucial that it engaged well with schools, so that it could understand the issues and support schools as well as possible. The Department said that it saw the potential for it to be engaged in a more active conversation with schools over time about the pressures they face.³⁰

13. In our June 2016 report on training new teachers we raised similar concerns about how the Department engages with schools. We concluded that the Department relied on national statistics to tell it whether schools had the teachers they needed but that it did not talk to schools more directly to understand the difficulties schools could face in recruiting teachers.³¹ We recommended that the Department should set out how and when it would talk to school leaders more and demonstrate how this engagement would inform its approach to allocating future training places. The Department accepted this recommendation and agreed to implement it by July 2017, including establishing a cross-section of schools across England that it could track over time to understand in more detail the recruitment challenges they faced.³²

22 [Q2, 5, 7, 27, 28; C&AG's Report](#), paras 2.8–2.12

23 [Qq 2, 4, 5, 7, 11](#)

24 [Q 19](#)

25 [Qq 28, 106, 112](#); National Governors' Association ([FSS0005](#)), para 1.4

26 [Qq 5, 106](#)

27 [Q 110](#)

28 [Q 28](#)

29 [Q 55](#)

30 [Q 49](#)

31 Committee of Public Accounts, [Training new teachers](#), Third Report of Session 2016–17, HC 73, 25 May 2016

32 HM Treasury, [Treasury Minutes: Government responses to the Committee of Public Accounts on the Thirty Seventh and the Thirty Ninth reports from Session 2015–16; and the First to the Thirteenth reports from Session 2016–17](#), Cm 9351, November 2016

14. The Department has been publishing advice and guidance to help schools improve their financial management and become more efficient, although it has not yet completed work to help schools secure crucial procurement and workforce savings.³³ The National Governors' Association told us that many of these materials have been developed in consultation with practitioners and are helpful.³⁴ Just three days before our evidence session, the Department published school workforce planning guidance and a schools' buying strategy. It told us that it would be important for school buying managers to work together and that it was working to put two regional procurement hubs in place from September 2017 and, with the Crown Commercial Service, to arrange national contracts for schools to use, for example for energy. However, it would be another year before regional procurement hubs were in place across the country.³⁵

Apprenticeship levy

15. From April 2017, all employers with an annual wage bill of over £3 million, including academy trusts and maintained schools supported by local authorities, will have to pay the apprenticeship levy. Overall this will amount to a cost pressure worth 0.4% of schools' annual budgets.³⁶

16. The Department told us that it viewed the apprenticeship levy as an opportunity rather than a cost, as schools would be able to use the funds from the levy to increase training, particularly in respect of school business administration.³⁷ It acknowledged that schools could not currently employ teachers on teaching apprentices and said that it would be important to introduce teaching apprenticeships schemes as soon as possible. It said that it would be able to put a teacher apprenticeship scheme in place for September 2018.³⁸ The Department agreed, however, that it needed to avoid making the routes into teaching more complicated for those people wishing to join the profession, a problem highlighted in our June 2016 report on training new teachers.³⁹

Cost of policy changes

17. While the Department must assess and fund extra costs for local authorities from introducing new powers, duties and other government-initiated changes, it does not have to do the same for schools.⁴⁰ Evidence from head teachers, the National Union of Teachers and the National Governors' Association highlighted the cost pressures arising from changes that the Department has made but has not costed.⁴¹ For example, one head teacher referred to the unfunded costs caused by huge changes to the GCSE and A-level systems, and said that his school could not afford to buy text books for new subjects.⁴² The Department said that estimating the costs of policy changes could entail making

33 [C&AG's Report](#), para 14

34 National Governors' Association ([FSS0005](#)) para 2.2

35 [Qq 67, 104, 116–119](#)

36 [C&AG's Report](#), para 1.5 and Figure 3

37 [Qq 75, 78](#)

38 [Q 101](#)

39 [Q 102](#); Committee of Public Accounts, [Training new teachers](#), Third Report of Session 2016–17, 25 May 2016

40 [Q 65](#); [C&AG's Report](#), para 1.8

41 [Qq 6, 13](#); National Union of Teachers ([FSS0001](#)), para 4; National Governors' Association ([FSS0005](#)), para 1.4; [C&AG's Report](#), para 1.8

42 [Q 6](#)

tricky judgements as the impact of a particular policy change varied from place to place. However, it agreed that it needed to be more explicit about the additional cost pressures it was placing on schools.⁴³

18. The Department is working to complete its assessment of the impact of withdrawing the Education Services Grant, which is expected to save £615 million by 2019–20.⁴⁴ The Education Services Grant has been used by local authorities to fund education services for maintained schools and by academies to fund such services for themselves. The National Association of Head Teachers told us that removing most of the Education Services Grant meant that schools would have to spend additional money on the services that local authorities had previously provided.⁴⁵

19. The Department told us that it would be returning £190 million of the money saved by withdrawing the Education Services Grant in the form of two new grants to schools and local authorities to use for school improvement and efficiency.⁴⁶ It also said that it would be allowing local authorities to keep a proportion of schools' funding to compensate for the loss of the Education Services Grant and that local authorities were negotiating with maintained schools to agree how much they would retain. We heard that, to date, local authorities intended to retain amounts ranging from £10 to £58 per pupil.⁴⁷

43 [Qq 49, 65](#)

44 [Q 51; C&AG's Report](#), para 1.7

45 [Q 5](#)

46 [Qq 52, 64](#)

47 [Qq 51, 63](#)

2 Intervention by the Education Funding Agency

20. The Education Funding Agency (the Agency) regards schools as at financial risk if, for example, they have persistent or excessive deficits. The Agency has set criteria to judge when to intervene in local authorities where it has concerns about maintained schools. However, the way in which it has applied its intervention criteria means it has not intervened as often or as early as it should have in local authorities with maintained schools at financial risk. For example, the Agency did not intervene in the Isle of Wight even though 13% of its maintained schools had deficits of 2.5% or more in 2014–15, the highest proportion of any local authority. The Agency did not intervene because only one individual school had a deficit of 2.5% or more throughout the four-year period considered under the criteria.⁴⁸

21. The Agency said that local authorities may be challenging schools at financial risk, but acknowledged that there were flaws in how it had applied its intervention criteria.⁴⁹ The Agency has decided to adjust how it applies the criteria based on 2015–16 data and said that it would discuss with local government the potential for further changes to its approach, such as more data sharing.⁵⁰

22. On academies, the Agency is piloting a preventative approach to support academy trusts at risk of getting into financial difficulty and told us that it was on course to implement the approach in full from March 2017.⁵¹ The Agency said that it planned to use the data it collects from academy trusts on their current and forecast financial positions and pupil numbers to predict which trusts may get into financial difficulty. On the basis of this analysis, it would contact trusts at risk and help them develop plans to address financial issues early. The Agency also undertook to speak to local government about the potential to use this preventative approach for the maintained school sector.⁵² It told us that it did not yet have a timetable for this work but that it had had introductory conversations with local authorities and the Local Government Association.⁵³

23. The Agency has not evaluated whether its interventions are helping schools to address financial risk. Each month the Agency compiles a national concerns report to highlight academy trusts of most concern, including due to financial issues. It intervenes in the highest risk cases. Between November 2014 and October 2016, the Agency added 70 academy trusts (22% of the 322 that had been highlighted for financial issues) back to the national concerns reports which it had previously removed following intervention.⁵⁴ This indicates that the Agency's interventions may not always result in academy trusts successfully tackling the financial issues that led it to intervene in the first place. At our evidence session, the Agency agreed to evaluate the effectiveness of its interventions on the financial sustainability of schools.⁵⁵ It also explained that, following the previous

48 [C&AG's Report](#), paras 3.4, 3.6–3.9 and Figure 14

49 [Q 79](#)

50 [Qq 82, 83, 85](#); [C&AG's Report](#), para 3.7

51 [Qq 80, 86](#); [C&AG's Report](#), para 3.13

52 [Qq 82, 87](#)

53 [Qq 88, 89](#)

54 [Q 92](#); [C&AG's Report](#), paras 3.20–3.21, 3.23

55 [Qq 92, 93](#)

Committee's recommendation in January 2015,⁵⁶ it had introduced a new central records system in October 2015 to improve its record keeping. It said that this system would enable it to evaluate the effectiveness of its interventions on schools' financial sustainability.⁵⁷

56 Committee of Public Accounts, *School oversight and intervention*, Thirty-second Report of Session 2014–15, HC 735, 14 January 2015

57 [Q 90](#)

3 Learning from other sectors

24. Relative to most other areas of public spending, the Government has protected funding for schools. However, due to growing pupil numbers and cost pressures, schools are now entering a period of reduced spending power not experienced since the mid-1990s.⁵⁸ As half of secondary schools were already spending more than their annual income before this round of cost pressures, we asked the Department for Education (the Department) whether we should be worried that schools' finances are heading in the same direction as those of the NHS. The Department said it was not in a position to comment on the NHS but we consider there are valuable lessons to be learnt.⁵⁹

25. We reported last month on the deteriorating state of NHS finances as trusts struggle to meet increasing demand for services while also attempting to achieve unrealistic targets for efficiency savings. The Department of Health, NHS England and NHS Improvement were asking local bodies to solve multiple problems and deliver a range of priorities, without a proper understanding of what they could realistically achieve. There had been limited testing by the Department of Health, NHS England and NHS Improvement of their estimates of expected savings, which raised concerns about whether the planned savings could be achieved. We also concluded that there were indications that measures taken to restore financial stability were affecting quality in terms of patients' access to services and their overall experience of care.⁶⁰

26. Hospital trusts will need to make efficiencies of around 4% in 2016–17, 2017–18 and 2018–19 despite that fact that, in our March 2016 report, we concluded that the 4% efficiency targets set by NHS England and Monitor were unrealistic and had caused long-term damage to acute hospital trusts' finances.⁶¹ NHS England and Monitor had not reflected on historic trends of savings achieved by trusts when setting efficiency targets. In our April 2016 report on the supply of NHS clinical staff, we highlighted that trusts had focused on reducing staff costs in order to meet efficiency targets. This had led to trusts consistently understating how many staff they would need and resulted in gaps in staffing, which then had to be filled with more expensive agency staff. The Department of Health had provided ineffective leadership and support, giving trusts conflicting messages about how to balance safe staffing with the need to make efficiency savings.⁶²

58 [C&AG's Report](#), para 1.5

59 [Qq 39, 127](#)

60 Committee of Public Accounts, [Financial sustainability of the NHS](#), Forty-third Report of Session 2016–17, HC 887, 27 February 2017

61 Committee of Public Accounts, [Sustainability and financial performance of acute hospital trusts](#), Thirtieth Report of Session 2015–16, HC 709, 15 March 2016

62 Committee of Public Accounts, [Managing the supply of NHS clinical staff in England](#), Fortieth Report of Session 2015–16, HC 731, 27 April 2016

Formal Minutes

Wednesday 22 March 2017

Members present:

Meg Hillier, in the Chair

Philip Boswell	Anne Marie Morris
Charlie Elphicke	Bridget Phillipson
Caroline Flint	John Pugh
Kevin Foster	Karin Smyth
Kwasi Kwarteng	Mrs Anne-Marie Trevelyan

Draft Report (*Financial sustainability of schools*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 26 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Forty-ninth of the Committee to the House.

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

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

[Adjourned till Monday 27 March 2017 at 3.30pm]

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Monday 23 January 2017

Question number

Liam Collins, Headteacher, Uplands Community College, **Kate Davies**, Headteacher, Darton College, Barnsley, **Russell Hobby**, General Secretary, National Association of Headteachers, and **Stuart McLaughlin**, Headteacher, Bower Park Academy

[Q1–28](#)

Jonathan Slater, Permanent Secretary, **Tony Foot**, Director, Education Funding Group, DfE, **Peter Lauener**, Chief Executive, Skills Funding Agency and Education Funding Agency

[Q29–135](#)

Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

FSS numbers are generated by the evidence processing system and so may not be complete.

- 1 Barnet Schools ([FSS0007](#))
- 2 Department for Education ([FSS0009](#))
- 3 Fair Funding for All Schools ([FSS0002](#))
- 4 London Councils ([FSS0008](#))
- 5 Louise Mellor ([FSS0006](#))
- 6 NAHT (National Association of Head Teachers) ([FSS0003](#))
- 7 National Governors' Association ([FSS0005](#))
- 8 National Union of Teachers ([FSS0001](#))
- 9 Royal Institute of British Architects ([FSS0004](#))

List of Reports from the Committee during the current session

All publications from the Committee are available on the publications page of the Committee's website.

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

Session 2016–17

First Report	Efficiency in the criminal justice system	HC 72 (Cm 9351)
Second Report	Personal budgets in social care	HC 74 (Cm 9351)
Third Report	Training new teachers	HC 73 (Cm 9351)
Fourth Report	Entitlement to free early education and childcare	HC 224 (Cm 9351)
Fifth Report	Capital investment in science projects	HC 126 (Cm 9351)
Sixth Report	Cities and local growth	HC 296 (Cm 9351)
Seventh Report	Confiscations orders: progress review	HC 124 (Cm 9351)
Eighth Report	BBC critical projects	HC 75 (Cm 9351)
Ninth Report	Service Family Accommodation	HC 77 (Cm 9351)
Tenth Report	NHS specialised services	HC 387 (Cm 9351)
Eleventh Report	Household energy efficiency measures	HC 125 (Cm 9351)
Twelfth Report	Discharging older people from acute hospitals	HC 76 (Cm 9351)
Thirteenth Report	Quality of service to personal taxpayers and replacing the Aspire contract	HC 78 (Cm 9351)
Fourteenth Report	Progress with preparations for High Speed 2	HC 486 (Cm 9389)
Fifteenth Report	BBC World Service	HC 298 (Cm 9389)
Sixteenth Report	Improving access to mental health services	HC 80 (Cm 9389)
Seventeenth Report	Transforming rehabilitation	HC 484 (Cm 9389)

Eighteenth Report	Better Regulation	HC 487 (Cm 9389)
Nineteenth Report	The Government Balance Sheet	HC 485 (Cm 9389)
Twentieth Report	Shared service centres	HC 297 (Cm 9389)
Twenty-first Report	Departments' oversight of arm's-length bodies	HC 488 (Cm 9389)
Twenty-second Report	Progress with the disposal of public land for new homes	HC 634 (Cm 9413)
Twenty-third Report	Universal Credit and fraud and error: progress review	HC 489 (Cm 9413)
Twenty-fourth Report	The sale of former Northern Rock assets	HC 632 (Cm 9413)
Twenty-fifth Report	UnitingCare Partnership contract	HC 633 (Cm 9413)
Twenty-sixth Report	Financial sustainability of local authorities	HC 708 (Cm 9429)
Twenty-seventh Report	Managing government spending and performance	HC 710 (Cm 9429)
Twenty-eighth Report	The apprenticeships programme	HC 709 (Cm 9413)
Twenty-ninth Report	HM Revenue & Customs performance in 2015–16	HC 712 (Cm 9429)
Thirtieth Report	St Helena Airport	HC 767 (Cm 9429)
Thirty-first Report	Child protection	HC 713 (Cm 9429)
Thirty-second Report	Devolution in England: governance, financial accountability and following the taxpayer pound	HC 866 (Cm 9429)
Thirty-third Report	Troubled families: progress review	HC 711 (Cm 9429)
Thirty-fourth Report	The Syrian Vulnerable Persons Resettlement programme	HC 768 (Cm 9429)
Thirty-fifth Report	Upgrading emergency service communications	HC 770
Thirty-sixth Report	Collecting tax from high net worth individuals	HC 774
Thirty-seventh Report	NHS treatment for overseas patients	HC 771
Thirty-eighth Report	Protecting information across government	HC 769
Thirty-ninth Report	Consumer-funded energy policies	HC 773

Fortieth Report	Progress on the Common Agricultural Policy Delivery Programme	HC 766
Forty-first Report	Excess Votes 2015–16	HC 954
Forty-second Report	Benefit sanctions	HC 775
Forty-third Report	Financial sustainability of the NHS	HC 887
Forty-fourth Report	Modernising the Great Western Railway	HC 776
Forty-fifth Report	Delivering Restoration and Renewal	HC 1005
Forty-sixth Report	National Citizen Service	HC 955
Forty-seventh	The Defence estate	HC 888
Forty-eighth	The Crown Commercial Service	HC 889
First Special Report	Protecting the Public's Money: First Annual Report from Chair of Committee of Public Accounts	HC 835

Public Accounts Committee

Oral evidence: Financial sustainability of schools, HC 890

Monday 23 January 2017

Ordered by the House of Commons to be published on 23 January 2017.

[Watch the meeting](#)

Members present: Meg Hillier (Chair); Caroline Flint; Kwasi Kwarteng; Nigel Mills; Anne Marie Morris; Bridget Phillipson; John Pugh; Karin Smyth.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Laura Brackwell, Director of Education Value for Money Work, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-134

Witnesses

I: Liam Collins, Headteacher, Uplands Community College, Kate Davies, Headteacher, Darton College, Barnsley, Russell Hobby, General Secretary, National Association of Headteachers, and Stuart McLaughlin, Headteacher, Bower Park Academy.

II: Tony Foot, Director, Education Funding Group, DfE, Peter Lauener, Chief Executive, SFA/EFA, and Jonathan Slater, Permanent Secretary, Department for Education.

Written evidence from witnesses:

[National Association of Headteachers](#)



Report by the Comptroller and Auditor General

Financial Sustainability of Schools (HC 850)

Examination of Witnesses

Liam Collins, Kate Davies, Russell Hobby and Stuart McLaughlin.

Q1 Chair: Welcome, everybody, to the Public Accounts Committee on this Monday 23 January 2017. Today we are considering the National Audit Office's Report on the financial sustainability of schools. This is quite important for us a Committee as a kind of wide, landscape review of where Government funding plans are going in terms of education in our schools. There has been much vaunted discussion about the funding being kept static, but actually, with increasing pupil numbers, the effect is, as I am sure our first panel are aware, a real-terms reduction in funding of about 8% per pupil, which is quite significant. The Government are telling you all that you can resolve this £3 billion gap by using staff more efficiently and through better procurement. We are really delighted to have a first panel of people who are at the frontline, and Russell Hobby—although I don't know quite where you fit in on the frontline—from the NAHT, representing a lot of other frontline organisations, to talk about what you are having to do on the ground. We are trying to get the flavour of what this really means for pupils and for those of you who are having to make those decisions about how you are staffing and running your schools.

I would like to introduce our panel and then ask them to give themselves a bit more of an introduction. From my left to right we have Stuart McLaughlin, the headteacher of Bower Park Academy; Kate Davies, the headteacher at Darton College in Barnsley; Russell Hobby, from the National Association of Head Teachers—it is fair to say that you represent primary heads and business managers as well, so we are hoping that you might give us a bit of a primary perspective, as our other witnesses are from secondaries—and also Liam Collins, the headteacher of Uplands Community College. A very warm welcome to you all.

I want to kick off by asking you to give a little more information about your organisations and the types of school that you are representing. Could you give us an idea of what decisions you are already thinking about in order to make sure that your books balance in your own schools? I know that you, Kate Davies, have had some particular challenges that you have inherited at Darton. Can we start with Stuart McLaughlin and go down the panel?

Stuart McLaughlin: Thank you. I have just finished my first week at Bower Park Academy. I have been moved there by the multi-academy trust. My school belongs to a trust with three schools and Bower Park has just gone into special measures; I have taken two schools out of special measures, so they have moved me there. It is a fairly small multi-



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academy trust but all three schools are facing similar pressures in terms of budgets, looking at £250,000 or £300,000 savings for next year. At my last school, Brittons, which I know better in terms of the finances, we have to make savings of about half a million to avoid a £600,000 deficit next September.

Q2 **Chair:** What are you looking to achieve?

Stuart McLaughlin: Some of it is just cutting general costs—how much we spend on maintenance and stuff like that—but £350,000 will be staff cuts. This will be my third year of restructuring to reduce staffing costs, so I have cut my teaching to the bare bones. Every teacher is teaching at full capacity. I have very little spare capacity in terms of spare lessons on the timetable, so I am now starting to hit the support staff. My worry about that is that it is going to affect the most vulnerable students. I have a part-time family counsellor, so he is going to go. I have had to cut EWO time. I have had to lose LSAs or TAs. I have had to lose a first aid officer who works in the school.

Q3 **Chair:** So you are experienced at this, but it is challenging?

Stuart McLaughlin: Yes.

Q4 **Chair:** Kate Davies, what about from your perspective?

Kate Davies: My name is Kate Davies. I am the headteacher at Darton, which is 11 to 16. Previously, I was a primary headteacher, so I can give both perspectives. I started at Darton two years ago. We had a predicted budget deficit of half a million this year; we do actually just come out in the black, unless we encounter any other unexpected costs. We are still local authority maintained. The things that we have done align very much with what we are saying: reduce the curriculum offer and cut out the whole of the community team. We have reduced staffing and reduced the leadership team. All my leadership team, including me, have a teaching commitment. We have absolutely no flexibility in our staffing structure to allow any collaborative work or research and development work. Literally, I just have enough teachers to put in front of classes, and they are all working the maximum number of hours they can. Our non-contact time is very limited both for those teachers and for middle leaders, who are critical in terms of school improvement. Again, the whole senior team, which has been reduced in number, all pick up quite a substantial teaching commitment.

We have reduced support staff. That is a particular challenge for Darton, which is highly inclusive. We have a statemented population of about 4.8%—nationally it is 1.8%—so there are real resource implications for that. Actually, it is not so much our statemented learners who are impacted; it is those children who fall below the threshold—who do not quite meet the threshold—for a statement, but do have specific special educational needs.



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We have real issues around tight learning resources. Our ICT infrastructure, despite the fact that we have a new building, is not really fit for purpose for a 21st-century building.

So absolutely, from thread to needle, we have slashed budget pots wherever we can to just take us out of deficit this year. Next year, if I have to recruit, the apprentice levy will take us back into a situation where we potentially go into a deficit. And we are a school that is not performing as well as we could be. Over the two years, we have made significant improvements on all key measures, but we will now be issued with a coasting school letter. We have sorted the budget out, but we have not yet got progress right. Can you do both? It is a challenge.

Q5 Chair: That was a very useful canter through the challenges you face day to day. Thank you for that. Russell Hobby, you have a slightly wider, national perspective. How is the situation from your point of view?

Russell Hobby: The common theme that you can hear here is that with three quarters of the budget of a school tied up in staffing costs, the scope for savings outside that in, say, better procurement or just by cutting other budgets is going to be extremely limited indeed, so it doesn't take long before the headteachers are turning to their staffing, which is obviously the thing that has the most powerful impact on standards in the school, and it is the most painful and long-term thing to change as well. That is a theme that you will hear more.

The other thing that we are finding across schools of all phases is that although the overall money coming into the education sector is protected in real terms, the costs on schools are increasing in advance of that. I am talking about different cuts in other parts of the public sector. The removal of most of the education support grant from local authorities means that schools have to spend additional money on that. The fairly dramatic cuts to capital expenditure mean that schools are now having to dig into their revenue expenditure for vital repairs, because it has been several years since—

Chair: I should just say that we are going to be looking at capital funding in the next few weeks, so we will be touching more on that then.

Russell Hobby: You can dig into that. Then you have the additional payroll costs imposed on schools through the national insurance contributions, the employer pension contributions and, now, the apprenticeship levy as well. The only businesses, if you like, that are not exempt from it under £3 million are schools themselves, and that is being passed straight on. It seems a shame to take away from primary and secondary education to fund what is a very important task elsewhere. So at the same time as we are asking schools for more savings, we are also imposing more costs on them.

Liam Collins: I think I am going to repeat a lot of the things that have been said up to this point. We are a community school, so we are still state maintained. We are in a rural community just south of Tunbridge



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Wells. There is not a lot of house building in the area, so we have suffered from demographic shifts in terms of our roll. We have been operating at a deficit from this year, and we will come out of that deficit in the next few years. One of the things that we talk about is how long it takes to actually make the changes that are necessary. When you are talking about redundancies, you have to factor in redundancy costs. You also have to talk about protected pay levels for certain staff that you are moving in order to make them more efficient. Those things take quite a long time to come through in the system, so it's not an easy, instant fix that you have to do.

Just to give you a flavour, we have reduced our staffing by nine teachers over the last four years, and by five support staff. We need to go further than that to make the savings that we need, because we think we are going to be underfunded by about £300,000 by 2019-20. To give you an idea, we go through the local authority and make sure that all our contracts are as efficient as they possibly can be. We use economies of scale to buy our insurances and pay our utility costs. We check every single contract. We now have our grass cut fewer times a year, because we just can't afford to keep those kinds of contract going at the same rate. We clean the school less, because again you can't keep those contracts going. Like my colleagues here, I teach. My senior leadership team teach much more. All my middle leaders teach at a much higher rate. All my staff teach up to their full capacity. It is very difficult to see where else I can possibly make changes now that are not going to have significant impacts on the outcomes for students.

We have already pretty much removed a whole pastoral layer, and that is at a time when the mental health of young people is such an important factor, but we just can't do it in schools any more. We used to employ a counsellor three days a week, and we now means-test that for any student who requires it. But again, that is time that is taken up by myself and my team. Obviously, we have to ask the parents for the money for the counsellor and then you get into that conversation with parents.

We have not been able to upgrade our IT system now for three years. That is the computers that the students are using. Of course, they are just starting to grind to a halt because every software update that comes out requires a much better computer.

Going back to the capital funding—I know you are looking into this—but we have not spent £100,000 a year, which is what we need to spend to keep our buildings maintained, because we just don't have that £100,000. Our building is in such a state that we won the priority school building bid, but we are 2018—

Q6 Chair: This is very important and worries you, no doubt. It is not that we are not interested, but we are doing a separate inquiry into capital funding, so we will clock your comments for that, but I don't want to go down that route. If you could finish your comments.



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Liam Collins: Yes, of course. But in terms of unfunded costs, we have also had huge changes to the GCSE and A-level systems. We cannot afford to buy text books for those subjects. We cannot afford to send staff on training. Last year—

Q7 **Chair:** Could you use online text books? Or you can't afford them at all?

Liam Collins: They still cost money. We used to be able to have staff do web and air training. The exam boards are now charging for those. So it is not even that we reduce our cover costs and travel costs. We still have to pay £300 just to get access to the web and air sessions on the new courses.

We reduced our staff training budget from £10,000 to £7,000. At the moment, you really need to make sure that your staff are at the top of their game. When they have five spare hours a week not to be teaching—we can't even afford to do that at that point.

Although we have made sure that we are going to be fine in our financial situation going forward, if there are any more shocks to the system—apprenticeship levies, increases to national insurance or pension beyond where we are—we are at the point where I can't see where I can cut any more without making students suffer.

Q8 **Chair:** Can I quickly ask about the rise in the minimum wage? Has that had an impact? I see that Kate Davies is nodding.

Kate Davies: That has had for Darton and more significantly for neighbouring schools, particularly special schools where they have a higher proportion of staff paid the minimum wage. Yes, I think it has cost us about £15,000.

Stuart McLaughlin: Cleaning staff, LSAs would be affected and that would impact on our budget.

Liam Collins: It does not just affect the bottom rung. It affects every rung above it because every rung has to move up slightly. So yes it has had a significant impact on us as well.

Chair: So all these things imposed on you by Government are now challenges, on which we will challenge the Department in a moment.

Q9 **John Pugh:** It's a tale of woe, isn't it? The Government are fairly confident that you can save in the region of £3 billion. Not only are they confident, but they specify a range of different things you can do, whether it is insurance, procurement or managing your staffing budget a bit better. You have presumably seen the Government's resources that they presented to help and assist you in this difficult task, have you?

Liam Collins: The only resource I've seen is an efficiency spreadsheet that you could put all your costs in and it would tell you where you were in a league table in terms of your efficiencies. But, no, I haven't been presented with lots of information on how to do some of these things.

Q10 **John Pugh:** Good teachers are often good learners as well. Have you



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learned anything from what the Government have told you about better management of budget? Or have you used all the tricks that they specify?

Kate Davies: I think there are two things. Statistical modelling can make numbers look reasonable to cut. The second thing is that schools have been facing budget issues because essentially our budgets have been static for a number of years. As you say, every trick in the book has been used.

Q11 **John Pugh:** Has every trick been used by everyone, though? That is what they are suggesting, that system-wide there is an appreciable saving. Maybe not for you, because you may have done everything, but maybe your colleagues haven't.

Kate Davies: Yes, system-wide there have been real-terms cuts. If schools are sitting on large deficits or large surpluses, that needs to be challenged, and I hope that it has been challenged. Certainly, my direct experience is that where that has happened it has been challenged. Barnsley in particular is a really poorly funded local authority in every part: primary, secondary and special. There have been real collaborative efforts to ensure that all schools work collaboratively to find savings to go out to get best value. High-quality headteachers, and there are a lot of them, do that.

Q12 **John Pugh:** What's your take, Russell, on this?

Russell Hobby: One of the things that school leaders need is clarity over time for planning, and they have waited a very long time to know what the funding formula will look like. That's not a criticism of the funding formula itself; it's just a criticism of the communication of this. Until a couple of weeks ago, no head would have known what the full extent of their funding would look like over the next few years. You cannot plan when there are staffing changes that need to be made.

I don't think it's about the tools and techniques. If you say to school leaders, "Take £3 billion out of your combined budgets", they all know ways that they can do that. What they're not clear on is what you don't want to happen when that money has gone, and there is this idea that we can still achieve the same results, whether it be on child or adolescent mental health, or on direct teaching standards, or all those other things, at the same time. That unwillingness to say what must be different in terms of the outcomes of the education system, while changing the inputs to it, is causing a lot of strain and stretch.

Q13 **John Pugh:** Okay. Can I just take two specific areas? On recruitment, you're looking ahead obviously—often a year or two years ahead—in terms of staffing your establishment appropriately. How is that affecting your recruitment plans, because you have staff coming up to retirement who you will need to replace?

Liam Collins: When I started at Uplands, my recruitment budget in terms of advertising used to cost me about £200 per applicant. Last year, it cost me £5,500 per applicant, because of the lack of applicants in the system.



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We've stopped. We've decided there is no point advertising for staff in the main ways you would do it, because it's just not cost-effective; it's costing us so much money to do it. So we're now looking at different ways of recruiting staff.

Of course, you do those things, but while you're doing them your time is taken away from doing something else. So it's not just a cost efficiency that we're looking at; it's how we manage and lead our schools beyond that point. But every minute I'm in my office ringing people up to get them in for interview is a minute that I can't be doing other parts of the school day, really. So it's not just the fact that we're fighting with costs; fewer staff mean that a headteacher is doing more things.

On top of that, our accountability is growing. There's not a day goes past that the safeguarding doesn't change and we need to be fully aware of those elements, as well. It's those bits, I think—the unfunded costs, or—

Q14 John Pugh: Are any of you consciously recruiting staff who are cheaper in the marketplace than you would ideally wish?

Kate Davies: Absolutely. I think schools are engaging with teacher training—so, the School Direct model. I've got a very young workforce now. That brings some cost savings, but actually it brings some costs with it. When you've got 10 newly qualified teachers, which I currently have, who don't teach a full timetable because they have additional protected free periods and they need high-quality continuing professional development, because really great teachers are the thing that makes the difference in classrooms—I mean, we don't just magic them up along the street. They need investment, they need to work alongside high-quality teachers and they need to see what high-quality teaching looks like.

So yes, there may be some financial gain by recruiting young teachers, but actually that's offset by the amount of investment that you put in them. It's not as simple as that.

Q15 John Pugh: Okay. Can I ask you about supply cover? Are you cutting down on actually getting it at all? And is it costing you more than it used to, because a very different system has evolved in the last decade for supply cover? Anyone like to say something about that? It's a big cost.

Stuart McLaughlin: Yes. My staff cover lessons, which means we don't rely on supply teachers as much as other schools I have worked in, plus we use cover supervisors, who are not teachers but they will step in and just deliver the work that's been set by another teacher. But the trouble is when you get long-term supply for long-term illness. That's really hit my supply budget—

Q16 John Pugh: And the agency staffing as a proportion of your expenses?

Stuart McLaughlin: The difficulty if someone is off ill is that you don't know if they're going to come back in a year's time. They might say that they're off for the next month and then they get another sicknote saying, "I'm going to be off for another month." So you're relying on supply



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agencies to fill those gaps, and of course they become very expensive. You're talking about £200—

Q17 **John Pugh:** "They become very expensive"?

Stuart McLaughlin: They're putting their prices up, because—

Q18 **John Pugh:** Even though there's a competitive market, allegedly?

Stuart McLaughlin: Yes. For good teachers, you're looking at £200-plus a day, certainly in London.

Liam Collins: There are other models, though. We're investigating a model now, where it's almost an open market. The teachers put their advert up on a website, and the website looks at those members of staff and checks them. That becomes a cheaper model overall. But again, you have to investigate it. You cannot just take a member of staff; you need to understand the checks that that company is putting in place to make sure that you are getting the right kind of staff and that they are capable of what they say they are capable of. You look for every possible way.

For us as a school, our biggest cover cost is trips. When we take a school trip out, that is an enormous cost on the school, because the teachers who take the trip have to be covered on the day that they are away on the school trip. You try to think of all the different ways that you can avoid employing supply staff for those types of things, but the last thing that I want to do is say to our group of year 9 historians that they cannot go—

John Pugh: To visit the Houses of Parliament.

Liam Collins: Yes, or all sorts of things, because we just cannot afford to cover the teachers while they are away.

Q19 **Karin Smyth:** I am interested in how we look at measuring the outcomes. Recommendation D of the NAO Report says that the "Department should work with the schools sector to gather evidence to assure Parliament that school spending power can reduce at the same time as educational outcomes are improved."

In Bristol, we have had fantastic improvement in outcomes over the last 10 years. The conversation that I am trying to have with my headteachers is that I understand staff cuts, SEN cuts and all that, but how can we translate that into a change of outcomes for children in our schools? I think that will help everybody get to a point that recognises the difference between the inputs, as you started to say, and the outcomes. How would you advise institutions to help the Department in that understanding?

Russell Hobby: At one level, we have some very transparent and rigorous outcome measures for the education system. There are a lot of data coming out of schools relating to the core academic standards, so we know how much progress is being made in schools, or at least we did up until last year, and then we decided to change the way we measure everything. We have constantly changing underpinning measurement



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systems, which makes in-year comparisons difficult, but once that has settled down, we should be able to say how much value a school adds through a year of education.

The danger is that we do not have good measures for the price being paid for achieving some of those results, because they are based on samples of what a school does. At a primary level, we are looking at two tests of 45 minutes each for English and maths. We expect so much more of our schools. We want arts and sports, and we want children to grow up as citizens and be healthy in that sense, but we have no measures for those, so they get cut back when we are looking to make cost savings. So although the headline measures might stay, schools themselves become much less sustainable environments, and we do not know what we are looking at in two or three years' time in terms of those falling apart.

Liam Collins: Under the new accountability measures that we moved to, the first year where you can make a comparison is 2021. The first year that you will be able to say, in terms of year-on-year comparisons, that a school is improving over time, is 2021. That is the year after we will have to cope with £3 billion less in the system. We will not know, really, how the students are doing.

This year, our schools are doing GCSEs in maths and English that are numbered, from 9 down to 1. The private schools are not—they are still sticking with the IGCSE—so you have groups of students heading out into the world at the end of this year who are not comparable. You cannot tell between one school and another. That process, going through, has been underfunded as well, and un-thought-about, in terms of the impact on schools.

Q20 **Karin Smyth:** So will the Department not be able to accept our recommendation D in the NAO Report? Will it not be possible for them to measure that outcome improvement against the funding decrease?

Chair: Mr McLaughlin, you look like you want to comment.

Stuart McLaughlin: The only way we can improve standards is by having really good teachers in front of every class. We can grow our own; you take teachers through training, and you bring them through into the main teaching staff. In my work in an outer-London school, I have had to recruit experienced teachers to rapidly improve progress. That comes at a cost. If you want to recruit good maths and science teachers, they can kind of name their price—what they are prepared to work for. I find it very difficult to believe that if you keep cutting costs, you can also improve standards at the same time. It gets to a tipping point where you can no longer maintain the progress that is being made because eventually it will have an impact on what is going on in the classroom.

Kate Davies: This is perhaps a simplistic way to look at it. Barnsley is a significantly underfunded local authority. If you look at its outcomes at key stage 4 they are significantly poorer than its neighbours'. If we look back historically at things such as the London Challenge, we saw significant



financial investment have a significant impact. It goes back to: we will get great outcomes where we have consistently great teaching and great leadership in our schools, and that comes at a cost.

- Q21 **Anne Marie Morris:** Mr Hobby, reading what I have read, it comes to me loud and clear that one of the challenges is that the Government do not seem to understand how schools are funded, by which I mean they say they do not really understand why some schools are in deficit and others are in surplus. They do not seem to really understand why primary schools seem to be in less financial difficulty than secondaries, yet there is all this measurement going on. What are they missing? Why is it that they seem to be in this fog? I would have thought that to you it must be blindingly obvious.

Russell Hobby: Yes. I don't think we see this just on the funding issue. We see it in all sorts of areas. We have a vast education system with 20-odd thousand different institutions being managed in an increasingly fragmented way. So what we have seen is a sort of removal of the middle layer that might intermediate between central Government and schools. I do not want to particularly defend local authorities as they were, but it might have been possible for a local authority to understand what was happening in 200 schools in the level of detail required to spot the underpinning trends. It may or may not have done that well, but at least it was a feasible task. To go from that to saying, "We're now going to increasingly manage larger and larger numbers of schools from the centre", all you are going to have is the raw data reporting in to that, but there is the reality underneath. There is a difference, for example, with a school that has a large number of staff who are close to retirement and is spending a lot more on their wages. In a year's time that will change dramatically and the school will shift to having a larger number of NQTs. There is no data system in the country that can tell you that level of information. It is a tacit understanding, and all these heads have described different ways in which the reality of the people involved affects the costs. We have to go back to a system where there are people who know what is happening inside schools. Whether it be in a very well-run multi-academy trust or a very well-run local authority, that middle tier is an essential part of it.

- Q22 **Anne Marie Morris:** Do you think that that role can be taken on, to some extent, by some of the regional groupings? I have a Devon association of headteachers of primary schools, and a secondary one. They clearly would know the answer to that question. Is there a role for them, if you like, to feed that knowledge up? It seems that without that, you are going to have imposed upon you changes that are completely inappropriate. It seems to me that that might be a way of plugging the gap. Let me then ask you this, Mr Hobby, because you know primary and secondary: why is there this big difference in the financial sustainability? Primaries seems to be less shell-shocked, shall we say, than secondaries, so what do you think the reason for that is?

Russell Hobby: Primaries and secondaries operate very differently as institutions. The scope for change inside them can be very different, and



they are experiencing the change in pupil numbers very differently. Primaries have gone through an increase in pupil numbers that is now being passed on to secondary schools, which are just starting to feel that, as the children get older. This is speculation on my part, but I think that if you have rising pupil numbers, that means you are getting more income that you can spread across your fixed costs. Of course, what that means in the future is that primaries might go through the bulge and then maybe have falling pupil numbers again. That means that the savings will be exaggerated by falls in pupil numbers. That is my guess about why it might be.

In many ways, it is quite surprising that it is this way round, in terms of primary and secondary, because primaries are quite constrained in what they can do because they do not have a subject-based system. They have a pastoral-based system of delivery, which means that you cannot really generate savings from cutting back the curriculum in the way that you can—I am not saying it is advisable—in a secondary school. You can decide, “We’re no longer going to teach German and Spanish; we’re just going to teach Spanish and have larger classes”. You don’t seem to have those options. One of the things I wonder is whether the primary system may be more fragile than it looks from this data alone.

Liam Collins: The basic two differences are with the timetable. In a primary school, most of the students will stay with one member of staff in a classroom for the whole day, but secondary schools are based on subjects, so there is that complexity. If you think about 1,000 students moving every hour, going to classes, you need slightly more flexibility in your curriculum and your timetable to allow that to happen. When you add part-time staff into that, it constrains part of your timetable. Students going into year 11 have to have exactly the same as the year before, as do those going from year 12 into year 13. That does mean that in effect you need to be slightly inefficient, because you need some flex in your timetable to actually make a timetable work. That might be the reason behind that stage.

Chair: Thank you. The final question is from Caroline Flint.

Q23 **Caroline Flint:** Thank you, Chair. Ms Davies, you mentioned the deficit of £500,000 that was projected for 2016-17, if you had not got hold of it in 2014. I think you only arrived at the college in 2014.

Kate Davies: I did.

Q24 **Caroline Flint:** Could you tell me how that projected budget deficit was exposed? Was that internally in the school, or from the local authority or another agency?

Kate Davies: Both. One of the first things I did as head of the school was discuss with the local authority what had been the recovery plan that had been set, because internally we had found some flaws with that recovery plan. There was a joint conversation, and then the joint development of a recovery plan that was appropriate and fit for purpose.



Q25 Caroline Flint: Do you think there was enough oversight, before you arrived at the school, to have picked up the projected deficit earlier?

Kate Davies: From my experience, having worked in my previous role—I was a primary headteacher in the local authority—I would have said yes. I do not know, because I was not in the school, but my experience of the local authority financial support has always been very positive. It was always clear. Whether it was a deficit situation or a surplus situation, we were held to account for that.

Q26 Caroline Flint: You summarised clearly some of the actions you have taken since you arrived to bring that projected deficit down. Do you think you will eliminate that deficit by 2016-17?

Kate Davies: Yes, as long as I don't have to recruit this year.

Q27 Caroline Flint: You identified a number of different ways to bring that down. They were very practical, although not necessarily without pain. Having done all that work, and given that we are looking, according to the NAO Report, at a real-terms cut of 8% to per-pupil funding, do you think that everything you have already done has been taken into account, either by the local authority or DFE?

Kate Davies: We have done everything we can to ensure that our spend is appropriate. I absolutely come back to that notion of the pain of that. We are an evidence-based profession these days, and the evidence tells me that high-quality teachers are developed by having sufficient CPD, and sufficient collaborative work with experienced and high-quality teachers. Evidence tells me that learner outcomes are at their best when learners are given high-quality feedback, yet my teaching staff are working on the bare minimum of non-contact time, which equates to about three hours. I spent three hours on Saturday marking my year 9 English class. That is one class; many of those teachers have six or seven classes.

The pain is very real. I fear that the pain of actually working on such a tight staffing structure will mean that we do not develop our teachers well enough or allow them sufficient high-quality time to spend on such things as feedback—things that we know have the most significant outcome for our learners. The pain is very real and very tangible. I think that we will see an unravelling of the whole thing if schools are not funded appropriately.

It is very easy to just put a teacher in front of a class and think, "I have ticked that box, because I have got that science class covered." If we are really serious about creating a high-quality education for all learners, from whatever walk of life, we must finance our education system so that we allow our teachers to be the best they can be and give them real time to spend on such things as feedback.

Q28 Chair: Thank you. I don't know whether you are aware of this—it might have passed you by as busy headteachers, especially you, Ms Davies, if you were marking on Saturday—but on Friday the Department published its school workforce planning guidance and the schools buying strategy



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for you all. We have not actually managed to consider that, because we were all busy over the weekend, too, doing constituency work. A quick-fire last question from me: as Anne Marie Morris highlighted, it seems there is a bit of a gulf between what the Department expects and what you are doing on the ground. Do you feel that the Department for Education understands the pressures you are under?

Stuart McLaughlin: No.

Kate Davies: No, not at all. I do not think they understand the realities of school. I do not think they understand the reality of the high pressure that such high accountability stakes lay at a school's door. I love my job—it is an absolute privilege to be a headteacher—but my job is made significantly harder, as are those of many people in the profession, by the fact that there is a total lack of understanding. To allude to the fact that we can make even more efficiency savings because we are not very efficient is, frankly, at times quite insulting.

Russell Hobby: That lack of dialogue is a message that I get from all my school-leader members, so I echo that, but I would also add—the point was made earlier—that schools are very diverse. Too often, we look at the education system through the lens of a large urban school and do not consider what it might mean to implement this in a smaller rural school without those opportunities for savings. Not only is the Department not listening en masse to the schools, but it is assuming that the schools that are closest to it geographically are representative of what is going on across the system.

Chair: So a lack of dialogue—that's your summary.

Liam Collins: I absolutely echo what has been said. It does not feel like anyone is listening, and at times, that includes local authorities. I do not think anyone really understands the pressure that we are under. On top of that, we are expected to do more. We are now meant to be looking after the mental health of young people, with no funding and no time to do those things. Going back to my original answer, no, I don't think the DFE do know.

Chair: Can I thank you all very much for giving up your time? I hope that this is not costing your supply budget too much—we will plead guilty on that one—but it really is very helpful to us, because you are the connection with the pupils on the frontline. We all have an interest in making sure that our pupils achieve well and do well.

The transcript of this hearing will be available on the website in the next couple of days, but you will be sent a copy. It goes up uncorrected, so if you have any little factual changes where you have been misquoted, please let us know. Our report will be published in due course—realistically probably not before the February half term, but we cannot be sure of that; it depends on all sorts of things—and we will make sure you get a copy of that. Thank you very much for your time. You are very welcome to stay for the next part of the session if you would like to hear that, but if not,

thank you very much, and we will be in touch.

Examination of Witnesses

Jonathan Slater, Peter Lauener and Tony Foot.

Q29 **Chair:** Welcome to our second panel, whom I will introduce from my left to right. We have Tony Foot, Director of the Education Funding Group at the Department for Education. Welcome, Mr Foot. Is it your first time before this Committee?

Tony Foot: It is, yes.

Chair: We are a friendly bunch, as I am sure Mr Slater will testify. We have Jonathan Slater, the Permanent Secretary at the Department for Education—welcome back, Mr Slater—and Peter Lauener, the Chief Executive of the Education Funding Agency, who is a frequent flyer here. I think we will be talking to you quite a bit about capital funding in our next session on schools. Our hashtag for today, if anyone is following on Twitter, is #schoolsfinance.

Before we get into the main session, Mr Slater, I just want to check where things are at, in terms of the new funding formula. That is not the subject of the NAO Report, but I know that our sister Committee, the Education Committee, has had cause to be concerned and raised an urgent question last summer about where things were at. There has of course been a delay, and as I understand it, you have just announced the next phase of consultation on the schools funding formula. When do you expect to have a final answer?

Jonathan Slater: We started the second phase of consultation before Christmas. It is a very extensive 14-week consultation phase, and it finishes—

Tony Foot: On 22 March.

Q30 **Chair:** Okay, so how long after that will it be before schools are aware of what their funding formulas are going to be?

Tony Foot: As with usual years, we would expect to confirm that by early summer.

Q31 **Chair:** And that would be for the September start.

Tony Foot: No, that will be for '18-19, the following financial year.

Q32 **Chair:** So you are expecting it in early summer. In civil service terms, that could stretch from May to October, I suspect, but we won't pin you down at this point, Mr Foot. You appreciate that Neil Carmichael, the Chair of the Committee, has written to you—to the Minister, in fact—to raise concerns about the delay. I do think that there is a concern. While it is not part of the NAO's Report, it is of concern more widely. Certainly



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many colleagues around the House are concerned about the double impact of what this Report has touched on, and the funding formula, so we will no doubt, between our Committees, come back to that.

Mr Slater, if I can turn to you first on the main issue, you were recently interviewed by *Civil Service World*, an august publication that we on this Committee read regularly. They were asking you questions about the outgoing US ambassador Matthew Barzun, and what he had learned from his visits to schools. He famously—or quite famously, to those who read *Civil Service World* and other such publications, so I should perhaps highlight it to people who are not aware of it—had conversations, he reckons, “with 20,000 sixth formers right across the UK”. I am quoting from *Civil Service World*, which says “he resisted the temptation to lecture at them, and instead took his president’s advice”—that is the last President: “Listen to what they have to say.” You said in response to that, “When someone asked him what he’d learned that would be of use to us in DfE, the answer was rather profound: ‘Policy is listening.’ How right he is—our policymaking is so much better when we listen first to our customers and to the evidence, before deciding what to do.” You heard what that panel said just now. They don’t feel that you are listening to what they have got to say. What have you got to say about that?

Jonathan Slater: The reason I quoted Matthew was because I think that it is advisable that we should take due note of what people at the frontline are telling us about the challenges they face in schools and elsewhere. I make it a habit of mine to talk to headteachers, teachers, and pupils all over the country, on a regular basis, as you would expect of a Permanent Secretary. I listened with tremendous interest to the three headteachers. In fact, I was talking to them before the session, as well. I thought they described well the particular sorts of challenge that particular sorts of headteachers face. It is a very complicated challenge, this, isn’t it?

Q33 **Chair:** And yet, as Anne Marie Morris has highlighted, this Report shows that you have got very ambitious savings targets because of the increase in pupil numbers, meaning that there is a decrease in per-pupil funding. You are expecting £1.7 billion savings through more efficient use of staff, and £1.3 billion on procurement. As Mr Collins, I think it was, highlighted, you won’t actually know the outcomes for pupils until 2021, when they will have to make these savings by then. So there is a disconnect between what you are asking schools to do and your knowledge and understanding of what the impact will be on pupil attainment.

Jonathan Slater: I hope not. You started by asking where we are in respect of the consultation phase on the national funding formula and you could see that we are in the middle of that at the moment. The headteacher from Barnsley knows—she and I were discussing it before the session began—that on the basis of consultation her school will see an increase per pupil in funding of about 12%, because, as she pointed out to me before the session began, Barnsley has been less well funded historically than Rotherham. The point of introducing a national funding formula is to put that sort of wrong right.



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Q34 Chair: So actually you are saying that if we were to have this meeting in a year and a half, or a couple of years' time, it would all be fine, because the national funding formula will smooth out the problems—this £3 billion savings that schools have got.

Jonathan Slater: It is a complicated challenge with many dimensions. I just gave that as one example of one school that will benefit from the introduction of a national funding formula. You could see from the way that she described the challenges that she has had to manage at her school why it is just about time for that formula to come in.

The other two headteachers talked well about the challenges that headteachers face where their rolls are falling. Both are headteachers of schools where pupil numbers are falling. As a result, they cannot afford to retain the number of staff they have had in the past. That is a really significant challenge and we need to make sure we, and their local authority, are supporting them as well as possible. Those were just three headteachers facing different challenges, and there are many challenges right across the system, so I completely agree that it is crucial that we engage really well, so that we can understand their issues and support them as well as possible. Given the cost pressures they face in the three years ahead, the challenge will clearly be greater than the one they have had in the last three, so we need to do that better.

Q35 Chair: But you are putting all sorts of pressures on schools. There are pressures outside the Department's direct control but in the Government's control—national insurance, the apprenticeship levy—that have been placed on schools, and yet you are asking for £3 billion extra savings from schools on top of them. How will schools square the circle?

Jonathan Slater: As the NAO rightly points out, the Government have protected the funding of schools overall in real terms, but not per pupil. The base case, starting with the system as a whole—as discussed, the situation is very different for individual schools—would be that schools carried on employing exactly the number of staff, teachers, IT and energy as at the moment. If they carried on with exactly the same number of staff they started with in this Parliament, then by the end of the Parliament they would have used all the £3 billion cash increase, which the NAO Report rightly identifies, on pay and price rises, the levy, and the rest of it.

Q36 Chair: Not more teachers.

Jonathan Slater: Across the system as a whole—it varies school by school—if they carried on with the same number of staff and non-payroll arrangements, their costs would go up, and that would swallow up the £3 billion cash increase from £39.5 billion to £42.5 billion, as the NAO Report identifies. That is the base case. The downside of such a strategy, which we do not recommend, is that in aggregate they would be teaching more kids. That is why it is a real-terms protection at system level, but not per pupil. You can carry on employing the same number of staff, and the rest of it, but with more pupils to teach.



Q37 **Chair:** Bigger classes—is that what you’re saying?

Jonathan Slater: That would be a missed opportunity because, as we say, there are opportunities, across the system, to save, we think, in excess of £1 billion on non-staffing costs. To the extent that those savings are achieved—it is a hard task that will require support from us; it is not self-evident, but we think it is perfectly doable—and £1 billion is saved on non-staffing costs, that is £1 billion that can be invested in additional teachers to teach those additional kids.

Q38 **Chair:** We will get into the detail of this—I don’t want to steal colleagues’ thunder—but when you talk about the increase for Barnsley that is possibly in the pipeline, it is a zero-sum game, because it will come out of the cost of schools in London—for example in my constituency of Hackney—or Bristol, or Devon. The same amount of money is going into the system—steady-state funding—but there is an increase in numbers, which you must acknowledge, as the NAO Report highlights, is a reduction per pupil.

Jonathan Slater: I completely accept everything in the report, which says two things—

Chair: We know what the report says—we don’t need to go into that. You accept everything in the report—fine—so I will pass the questioning to Bridget Phillipson.

Q39 **Bridget Phillipson:** You rightly identify the hard task that schools have. Should we be worried that schools’ finances are going to be headed the same way as those of the NHS?

Jonathan Slater: I am not in a position to comment on the NHS. I am in a position to comment on schools. Across the system as a whole, if schools carry on employing the same number of staff and the non-staffing contracts as they are at the moment, that will absorb the £3 billion cash increase we are providing. As the Chair says, there will be more children to be taught by those teachers. We see opportunities to reduce non-staffing costs by in the order of £1 billion and increase the number of teachers by, we think, 8,000 to 9,000—as the last published data showed—to teach those additional pupils. We take into account, of course, that schools together across the system are sitting on between £4 billion and £4.5 billion of surpluses. Again, it varies school by school. Some schools will face a huge challenge but others will not. The average school has a surplus of £124,000 at the moment.

Q40 **Bridget Phillipson:** It all seems reminiscent of some of the debates we have been having over a number of years about the way NHS finances are heading. I wonder whether by 2020 we will end up looking back and thinking, “Could this not have been predicted? Could more not have been done to stop the massive savings that are needed?” Ultimately, they may have to be filled in the same way we are facing a very similar problem in the NHS.

Jonathan Slater: It is really, really important that we focus resolutely on delivering efficiency savings of the sort that I have described, and that we



work very hard across the school system, with local authorities and central Government providing an important role of the sort that we have not had to do in recent years.

It is not self-evident—it will not happen just because I say it will. It will require a really big effort by us all. It is important that we deliver those savings so that schools can recruit the additional teachers that pupils need. That is the challenge that we are working on.

- Q41 **Bridget Phillipson:** One part of the NAO Report that I found particularly stark was the reference on page 14 to a report from the Institute for Fiscal Studies, which said, “Schools have not experienced this level of reduction in spending power since the mid-1990s.” That does not conjure up positive images of where we want our schools to be by 2020. How would you respond to that suggestion in the Report?

Jonathan Slater: The Report is right to identify that the efficiency challenge we are setting schools is of a sort that they have not faced in recent years but it comes from a very high base. Budgets have been increasing very significantly over this period, haven't they?

The Government have identified the potential for improving efficiency from that higher base by the numbers set out here. It seems to me from all the work that I have seen that that is a doable objective, that that efficiency improvement can be achieved, but it will require plenty of work to do it.

- Q42 **Bridget Phillipson:** Sadly, in the mid-1990s we know how that had to be achieved. It was at the cost of quality of teaching, standards in schools, facilities—many of the things that are regarded now as part of schools' core offer but were not in the same way a part of what schools offered at that point.

The question is, what will have to give? I am interested to know how you would define what desirable efficiency savings would be, as opposed to those that would not be desirable and would have adverse impacts, particularly on the outcomes for young people.

Jonathan Slater: The sort of efficiency savings that we think are achievable and desirable, operating off a much higher base of school funding than pertained in the mid-1990s—to take non-staffing costs as an example, although we can come on to staffing ones as well—are about the £10 billion annual spend by schools on non-staffing costs. We have looked at what efficient schools have been doing. One of the head teachers referred to a spreadsheet that compared his school with others. If you were to take four schools of a like sort—three schools like his and his school—and compare them with each other, and leave the non-pay funding of the most efficient three the same but bring the least efficient, or most expensive, up to the third, you would, if you could do that across the country as a whole, achieve £1 billion.

To put it another way, if you were to achieve the efficiency savings that had been done by those schools that have taken advantage of national contracts for energy and IT, you would achieve that £1 billion. What we



need to do in that case is to get schools to learn from those who have achieved the best and to get schools to buy in to national and regional contracts. Neither is straightforward but both, in my view, are doable.

- Q43 **Bridget Phillipson:** Yet the majority of school costs are around staffing. How would you suggest that schools respond to the challenge needed to make efficiency savings without impacting on staffing and teaching time in particular?

Jonathan Slater: Again it is important to recognise that the nature of the challenge we are describing—the nature of the efficiency challenge we are describing in respect of staffing costs—is how to absorb an increasing number of pupils and an increasing but less increasing number of staff. That is the actual challenge that we are describing. That is the challenge that primary schools addressed very successfully in the last five years and that we will require secondary schools to do as well. It will require the sorts of practice that we have been publicising in the tools that we have been sharing with schools, and we need to do more of it—it is the curriculum planning, the review of supply arrangements, the management of senior leadership teams. Those schools that have been managing reducing rolls have had to do it already—they definitely have a greater challenge than schools in increasing areas. Those are the sorts of changes that they need to make.

- Q44 **Bridget Phillipson:** We heard from Ms Davies from Barnsley about the impact on the curriculum offer in her schools. Is that something you would regard as undesirable, the need to reduce or curtail the curriculum offered to young people because of the gap you described? Is that an undesirable outcome, or an inevitable outcome?

Jonathan Slater: No, we would not be wanting schools to reduce the curriculum offer as a means of improving their efficiency—

Chair: But they are.

- Q45 **Bridget Phillipson:** There is an inevitability about that, surely.

Jonathan Slater: There is a particular challenge faced by schools with falling rolls, which requires a sophisticated engagement with their local authority if they are a community school, or with their trust if they are an academy, about managing over a period of time. I would not want to downplay the significance of that, but overall, again, if you were to take the most expensive quarter of schools for staffing costs and reduce their costs to those of the 75th centile—leave three out of four the same, but take the most expensive and make them the same as the second most expensive—you would save £1.5 billion. So we are talking about asking schools to do what other schools have done, not to do something that has never been done before.

- Q46 **Bridget Phillipson:** The Department is carrying out sophisticated analysis to examine the impact of real-terms reductions on pupil attainment. That was due to be completed this month. Are you at the point of having finished that work? Could you shed some light on the



Department's view of that analysis of the impact on pupil outcomes?

Tony Foot: That is looking backwards at changes in spend over the preceding Parliament, looking at some schools that were facing particular challenges like falling rolls. We are very close to completing that analysis—I was talking to a member of staff about it today, and it is not fully finished but we are very close to completing it. It basically shows that we cannot see a significant relationship between resources and outcomes for those schools—these are provisional points at the moment—at all at secondary, and at primary a very small correlation.

Q47 **Bridget Phillipson:** Obviously it would be helpful to have that in advance of being able to ask you questions on it. If we are to understand the impact of a real-terms cut of per-pupil funding, it would be helpful to have better understanding of what went before.

Tony Foot: We will also, through our monitoring and evaluation plan, be engaging with a significant number of schools to understand that and how it plays out in the broad.

Q48 **Bridget Phillipson:** Do you feel that schools understand the scale of what they are facing and are well prepared to respond to it?

Jonathan Slater: I think that there is more work we need to do with schools and local government to raise the profile of the work required to meet these efficiency challenges. The publication, on Friday, of the two documents that the Chair was referring to provide a platform for a conversation that needs to get serious and real. It is just the beginning of a serious piece of work that will be required to deliver these efficiency savings.

Q49 **Bridget Phillipson:** Why does the Department analysis exclude the impact of policy change around the savings? Policy changes coming through should be factored into this. Why have you chosen to exclude policy change?

Jonathan Slater: What we have tried to do here is to draw out things that are very clear and explicit. It is a much more tricky judgment call. The extent to which a particular policy change has a particular impact in a particular place depends on what is going on in different circumstances. However, I do see a potential for us to be engaged in a more active conversation with schools over time about the pressures that they face; that is a conversation I see developing.

Q50 **Bridget Phillipson:** Because you do not currently assess and fund extra costs for policy changes for schools as you do for local authorities, it is hard for us to understand the full impact of the savings that schools will be required to make if policy change is not factored into that. I appreciate that it is not a precise measurement or precise science, but surely, given that we have seen a lot of change in education policy in recent years and more is coming, that has to inform decisions around savings and reductions.



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Jonathan Slater: It is a piece of work we are looking at now, to see to what extent it will be possible to add genuine value in this space. I am very happy to update the Committee as that work progresses.

- Q51 **Bridget Phillipson:** On a similar note, regarding the impact of withdrawing the education services grant, has the assessment been completed as to what the impact of that will be?

Jonathan Slater: That is a piece of work that we are doing at the moment. It would not have been possible to have completed it yet, because local authorities are rightly going through the process with maintained schools at the moment, as set out in our last communication with them, about the powers they have in a sort of post-education services grant world to agree with the schools in their areas the funding that they should retain for the provision of their duties.

What we are finding so far is that those local authorities that have reached agreement are incurring a charge of between £10 and £25 per pupil on the schools that they maintain, in light of those duties, alongside the funding that we have announced centrally. When we implement the recommendation of the NAO about publishing on a regular basis the total level of pressures, I would expect us to be able to complete that work, including the impact of ESG.

- Q52 **Bridget Phillipson:** Following policy change back in May last year, we can now expect that many schools will stay with the local authorities for longer than had been anticipated, and yet you're still withdrawing that support. What likely impact will that have?

Jonathan Slater: What we announced before Christmas was that just shy of £200 million of what had been the £600 million ESG budget would be allocated, both to local authorities in support of their school improvement duties and available to all schools, whether local authority-maintained or not. That is a total of about £190 million in respect of supporting school improvement and efficiency.

The balance, in respect of local authority-maintained schools, would be subject to a discussion between the local authority and their schools in their forum about future costs to be incurred. That's the £10 to £25 that I referred to.

Then, in respect of academies, those trusts are having their ESG tapered out to 2019-20. There is definitely a financial cost pressure as a consequence of that—absolutely—and we need to describe the outcome of that, once local authorities have finished their deliberations for 2017-18.

Bridget Phillipson: I have just one final question, Chair. We have talked a bit about the funding formula for schools. Given the disquiet that the headteachers we heard from earlier have around prospects for the future and how they plan, whether the funding formula is the right model or how necessary it is, do you think there's the risk that that whole process and the ongoing discussion around it will have a further destabilising effect on a sector that is already struggling to meet some of the challenges it faces

and is uncertain about what the funding formula may hold for their individual authority or individual school?

Jonathan Slater: One thing the national funding formula definitely achieves, as you heard from the headteachers earlier, is a lot more clarity and certainty, for three years, than they have had before. As they all said very well, it is difficult managing on a year-by-year basis when you don't know what it is going to be like in three years' time. That is definitely an advantage to all schools.

Q53 **Chair:** And the answer to Ms Phillipson's question?

Jonathan Slater: It is important that we introduce those changes at a manageable pace for the schools that are being funded above the average. So in Barnsley, they will want us to crack on and implement those benefits as quickly as possible, but we have to contain them to a certain degree—5.5% extra funding for such schools in two years—so that we can introduce the reductions in those that have been historically overfunded at a manageable rate: no more than 1.5% per pupil per year.

Q54 **Chair:** Mr Slater, you talk about schools being historically overfunded. That is according to the new formula. Schools in London would say that through the London Challenge, they got a proper funding level, which has achieved enormously good and very tangible outcomes.

Jonathan Slater: Within a fixed envelope, I think there is a general consensus that without any changes to the funding formula over 20 years, local authorities that have seen significantly higher rates of growth than others have done very well out of the change. I am just arguing that, within a fixed sum, I think there is general consensus that the system has gone out of kilter, and that is what we are trying to put right.

Q55 **Bridget Phillipson:** But the process needs to be managed. Given that headteachers earlier were telling us that they do not feel listened to by the Department, that they do not feel involved and that they are uncertain about the future, there really is a role for the Department in making sure that headteachers and staff are listened to and communicated with.

Jonathan Slater: Absolutely, it is vital. That is why the consultation period that is going on at the moment for the national funding formula is 14 weeks long and extremely intensive. That is why each of the regional schools commissioners that you were talking about earlier with the previous headteachers have a headteacher board that provides them with advice and support. It is absolutely vital that we get their perspectives and that when we announce the final funding formula, it takes into account the very different and real challenges that headteachers face.

Chair: You have made some hard promises there.

Q56 **John Pugh:** There is a clash of cultures here. One panel has told us that they are heading towards a nightmare scenario—they are involved in the day-to-day management of schools and should know a bit about what they are talking about—whereas you are sitting in the Department,



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looking at your benchmarking and guidance, and the figures and stats that are crunching through there, and you are basically saying to the previous panel that they are wrong, aren't you?

Jonathan Slater: Not at all, no.

Q57 **John Pugh:** Aren't you?

Jonathan Slater: No. I think that if you are the headteacher of a schools whose rolls are falling, you are faced with a particular challenge that requires a particular set of activities. That requires the appropriate support, and if you are the headteacher in an area that has historically lost out on a funding formula, it is really important—

Q58 **John Pugh:** We are not talking about that. We are talking about the NAO Report, which was done prior to the funding formula. It says that if things carry on—even if we do nothing about the funding formula—there is a fairly dour prospect. You are saying, for the Department, "No, there isn't. We have looked at the facts. There are a lot of easy savings out there, in terms of staffing, and electricity, so just get on with it."

Jonathan Slater: I would not say it is easy. I am saying it is doable, because I see evidence of schools doing it. The advice that we shared with schools back in January 2016 compared them with the 15 most like schools, bearing in mind their levels of attainment and free school meals, and showed how their costs and performance compared with other schools.

Q59 **John Pugh:** Let us just concentrate on that. The point made in the NAO Report was that a lot of this benchmarking is a fairly theoretical desk exercise. We are expected to take this on faith, and you have not been that good in your Department at getting these desk exercises right, have you?

Jonathan Slater: It is the opposite of a desk exercise. A suggestion was made that we might want to come to a view about what it should cost to run a school. That is what I would call a desk exercise, and we have decided not to do that. What we have done is look at what schools are actually doing. We have compared the costs of like schools on catering, IT, estates and support. We have identified those schools—

Q60 **John Pugh:** Can I stop you there? In the previous session, Russell Hobby made it explicit that certain schools would have more difficulty with a staffing budget because they would have more experienced staff. You said in response to a previous question, "They can all get the same average staffing, and they haven't got the problem. Why can't we get everybody the average staffing?" Any teacher can tell you there is a very good reason why you cannot. High cost staff reflect an experienced staff. You cannot just get rid of them overnight in two to three years. Equally, I suspect, on electricity: obviously, every headteacher would welcome a letter from you saying, "Here's a good way to save electricity." I'm sure they do not want to waste money on electricity, but probably quite a few schools are tied in to quite long-term contracts, and therefore viewing it as something you can just average out overnight is not really real-world



stuff.

Jonathan Slater: It would not be if that is all you were proposing to do—absolutely. What we are suggesting is that there is still learning that schools can do from each other. Some schools have taken particular benefits in respect of their energy cost, to take that as one example, but not many. It is our task to encourage all schools to learn from the best and to pursue that. It will not happen automatically. It is not easy, but it is doable.

Q61 **John Pugh:** You say it is doable, but you recently said you expected schools to save £1 billion in back-office costs, and they actually increased back-office costs. Why was that?

Jonathan Slater: The evidence we have seen from schools that have borne down on their non-staffing costs is that when they take advantage of these national energy deals, for example, they bring their costs down by, in the case of energy, 15%. If they achieve that across the piece, you get the sort of savings described. As you say, that is not what happened in the last Parliament, so it is not self-evident that it will happen unless we do a lot of work to make it so. In the last Parliament there was not the same financial incentive for schools to achieve the savings. This time, if they achieve those savings, they will have the opportunity to reinvest them in additional teachers. They did not have the same incentive last time round.

Q62 **John Pugh:** What I am worried about is an optimism bias in the Department to make it seem that it is so much easier to do than it actually is. For example, in answer to a question from Bridget Phillipson, you said that the education support grant studies that you have done show that schools need to stump up about £25 extra per pupil if they have to provide for that deficiency. I asked my local authority what was going on and it gave me a list of 23 different functions that will be transferred to schools, which they deliver at the moment at a cost of £77 per pupil. That is three times the amount of money you just said.

Jonathan Slater: I am sorry if I am giving this impression, but at no point am I trying to suggest that any of this stuff is easy. The language I am using is “doable” because I can see schools that are doing this. I definitely do not think that it would be realistic for me to sit in front of you and say we should be able to get everybody up to the average in four years. I don’t think that. The point I was making, to give you a sense of the scale, is that you deliver the £1 billion efficiency saving if schools use contracts that other schools are using today. You get the next £1 billion if the most expensive quartile gets to the third quartile. That seems to me a reasonable challenge to set, but it will require us to work in a very different way with schools—in a proactive and supportive way—to make that happen.

Chair: I’m glad to hear the word “supportive”.

Q63 **Karin Smyth:** The ESG clawback in Bristol is £58, so it is a matter of fact as well as being difficult, just for the record.



Jonathan Slater: To be clear, the point I was making on ESG was that two things are happening.

Q64 **Chair:** You should explain what ESG is.

Jonathan Slater: The education services grant. Of the £600 million, £190 million is being made available on the basis of two new grants that were announced before Christmas. The balance—a very significant sum of money—is being tapered out for academies in trusts, and for local authority schools it is subject to a discussion between the local authority and the schools about what costs need to be incurred in light of those arrangements. So far, the sums of money we are seeing being agreed between councils and schools are those I have described. That is all I am saying.

Q65 **John Pugh:** Can I pick you up on the supportive bit? In local authority terms, DCLG has a sort of additional burdens rule, or whatever it is called, which it is alert to when it comes round settling local government finances. It doesn't seem to make much difference, but at least it is an acknowledgement. Do you think, as education policy develops, that you ought to have almost like a future-proofing rule, whereby you look not simply at the policy itself, but you assess it in terms of the additional cost it may have for individual schools?

Jonathan Slater: In answer to a previous question, I think it is a reasonable challenge that the Department needs to be more explicit about the cost pressures it is incurring on schools. A step forward was taken in announcing those pressures in the national funding formula document and, indeed, in the two that came out on Friday. There is more that we can do on an annual basis that we will be doing and reporting back to the Committee on.

Q66 **John Pugh:** In terms of being supportive in a further way, the invest to save scheme has been parked for the moment, has it not? That would help schools, wouldn't it?

Jonathan Slater: The judgment we made for the second phase of the consultation on the national funding formula—as I say, we are consulting on it at the moment—is that, rather than holding it back for a bidding round on an invest to save regime, which is one possibility, it would be more helpful to schools to allocate it out to reduce the reduction for those schools that would be losing out as a result of the introduction of the formula. It is important to phase it in in a manageable way, as I said in answer to a previous question, and it is better to use the money we have to scale back that reduction than to hold it back for a bidding round. We are currently consulting and we will see what people say.

Q67 **John Pugh:** It is parked. Lastly, on procurement. Procurement can obviously be improved enormously if you get economies of scale, but the education system is probably more fragmented than ever. Gone are the days when every child in Lancashire has a Lancashire Education school book or whatever. There is a dilemma, isn't there, between actually using procurement frameworks and allowing the degree of local flexibility that



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is almost the premise of the academy movement? Headteachers there welcome the opportunity to use their own skills in procurement, rather than buying into major schemes run by local authorities and the like. What is your take on that at the moment? What is the most successful way?

Jonathan Slater: I think there are opportunities that need to be grasped by schools to work out what makes sense at a local level, and others—dependent on the nature of the deal—at a national level. I think we need both. We set out, in that procurement document released on Friday, the importance of school buying managers working with each other and learning from each other, particularly on those areas in which local decisions make the most sense. We have about 50 of those networks; we need about 300 over the course of the next 12 months to achieve the savings there.

We also need regional contracts. We are currently working on plans to introduce the first two regional procurement hubs, where schools can buy at a regional level, from September 2017. We will need to go across the whole of the country as quickly as possible, which will take us another year. That is why I am saying this stuff isn't simple, but it is doable. There are also national deals that we want schools to take advantage of, so it is at all three levels.

Tony Foot: If I can just amplify that, across the £10 billion of non-staff spending in total, we think probably around £3 billion to £4 billion of that is addressable through national deals—things like energy, utilities, gas and so on. There is then a category that we think needs regional deals or regional advice and support, which includes complex contracts like cleaning and catering and so on, which is where the school buying hubs will be used.

Q68 **Chair:** To be clear, Mr Slater talked about bringing the bottom performing quartile of schools, in terms of non-staffing budgets, up to the level of the third quartile. Are you assuming those savings are there, or do you actually know that there is effectively, to paraphrase your example, a quarter of schools that are not purchasing these big ticket non-staffing contracts?

Jonathan Slater: We can see the savings that are there to be achieved at a system-wide level through the data that we have on the contracts that have been let.

Chair: To be clear, you have information. Somewhere in the big machine that is the DFE, for every individual school, the budget line for what they spend on energy goes up to some box, which gets—

Jonathan Slater: Not only does it go up to some box in the centre, but we share that information, and we have been doing so since January 2016, with every school. We give them the data on their energy costs in comparison with the 50 schools that are most like them, and then we give them the details of five that we invite them to contact, but as Mr Pugh said—



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Chair: Dr Pugh.

Jonathan Slater: Apologies. As Dr Pugh said, whether a particular school can take particular advantage of a particular contract at a particular time will depend of course on when its current contract comes to an end, and they will require support—

Q69 **Chair:** But in theory, if I were to name a school in Hackney, in my constituency and ask—before everyone here gets ideas, you would not be doing it to this level for every MP—you would be able to find the figure for—

Jonathan Slater: You could do it yourself, Chair. This is gov.uk; this is not closed information.

Q70 **Chair:** So all of us can go and find out, if we are a governor, a parent of a pupil at a school or an MP, what each school is spending on its energy.

Tony Foot: Yes. We break spend down by 32 categories. You can see that benchmarked against 50 similar schools.

Q71 **Chair:** And that is energy. Can you do that across the ancillary—

Jonathan Slater: We have done it for catering and we have done it for estates, because it is really important that schools see what others have done. We are not saying it is definitely doable for them; it depends on the circumstances. We are saying, "These are people whose costs are lower, who are similar to you and whose results are as good as yours. Go and have a look."

Q72 **Chair:** If you are a school governor or an anxious parent, concerned that teaching staff are being reduced, you should be looking to see whether your school is also doing everything it can to reduce its other costs.

Jonathan Slater: Of course.

Q73 **Chair:** Well, we heard from some of the witnesses earlier that a lot of them feel they already are, and then the question arises in individual schools, as we have just—

Jonathan Slater: Absolutely, yes.

Q74 **Caroline Flint:** I want to go on to oversight and scrutiny, but before I do, I just want to ask one question regarding the apprenticeship levy. Did you lobby for schools to be exempt from the apprenticeship levy, Mr Slater?

Jonathan Slater: No. I am—

Q75 **Caroline Flint:** Given that schools obviously do a lot of training and skilling up of young teachers, you would think that maybe losing 0.5% of their budget—it might have been wise to ensure that schools were not hit by that.

Jonathan Slater: This is a great example of the difference, I guess, between a cost pressure and a cut, because, as we discussed at a previous



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hearing, the levy is a means of increasing spend on apprenticeships. If I am the headteacher of a school, I am not treating the 0.4% levy as lost, as a cut; I am seeing this as an opportunity to get my staff trained.

Q76 **Caroline Flint:** I have to say I find that answer incredibly thin, given that we are hearing about how headteachers are now having to maybe get rid of experienced staff to employ newly qualified teachers, and maybe at a proportion that is disproportionate to the sort of skill base you would want in the school.

Jonathan Slater: I recognise that, as for many areas of the economy, this is a new challenge that they are—

Q77 **Caroline Flint:** Okay, you didn't lobby—

Jonathan Slater: Just to be clear—

Q78 **Caroline Flint:** It is just that schools have been incorporated into that, particularly the ones that come under local authorities—

Jonathan Slater: To be clear, I see the apprenticeship levy as an opportunity for schools to increase their training, not to reduce it.

Chair: We are going to come back to this a little later.

Q79 **Caroline Flint:** One aspect of the NAO Report is a concern about oversight and scrutiny of the financial risks that might be presenting in schools, both those that are maintained and academies. I want to go to page 38 of the Report and maybe start with schools in the maintained sector. If you look at, I think, paragraphs 3.6, 3.7 and 3.8 and, on the next page, figure 14, looking at the Isle of Wight as an example, it would appear, Mr Lauener, that there is a concern—I certainly am concerned about this—that the way in which the Education Funding Agency intervenes actually can risk missing out schools that are finding themselves in financial problems. Are you satisfied with the criteria and your approach to intervention for schools that may be at risk and the local authorities that are overseeing them?

Peter Lauener: The part of the Report that you refer to covers the Education Funding Agency's oversight of local authorities' responsibilities for maintained schools. I thought that actually the National Audit Office Report was very interesting on this. The approach that we have been operating, which followed a consultation in 2012 following a previous Public Accounts Committee report, developed a set of criteria that we would apply to local authorities' management of the dedicated schools grant and their management of schools with deficits or surpluses. The National Audit Office has very helpfully come along, in this Report, and said that there are one or two flaws in that, about the way the proportion of schools is calculated. The bit I really liked was figure 14 on page 39. It identifies that, if we look at the schools in the Isle of Wight, we have not raised that as a challenge point for local authorities—that does not mean the local authorities aren't challenging the schools—despite the fact that the number of schools in deficit has been increasing, because of the criteria that you are referring to.



Caroline Flint: But it is still the case, in terms of the NAO's conclusions, that the oversight and scrutiny is still weak. The fact is that the PAC looked into this in 2012 and the Report outlines that there are still weaknesses in the oversight and scrutiny function of the EFA. Could I come to the Isle of Wight? Your criteria actually resulted in the situation on the Isle of Wight where, as paragraph 3.9 states, "The Isle of Wight can be used to illustrate the implications of the Agency's approach. It had the highest proportion (13.0%) of schools with deficits of 2.5% or more in 2014-15. The proportion of schools with excessive deficits has been more than 2.5% each year from 2011-12 to 2014-15, but only one individual school had an excessive deficit throughout the four-year period." In that case, the agency did not intervene in the Isle of Wight because it did not meet the criteria—this issue of having to have schools consistently, over four years, being in deficit—rather than looking at this 13% of schools on the Isle of Wight that were in deficit during this period, as you see in figure 14, of 2011 to 2014-15. There is a failing, in your criteria, to pick that up.

Peter Lauener: We are applying the criteria. The question and challenge from the National Audit Office is whether the criteria are the best criteria to be looking at. Again, this is about the EFA's oversight of what the local authorities are doing and not about local authorities' oversight of their maintained schools. Again, I think that it is a fair challenge from the National Audit Office. We are going to look again at the criteria, but we also want to develop a new approach with local authorities, which will be much more about sharing data and approaches going forward. For example, all the material—

Q80 **Caroline Flint:** Do you think you have a role as an agency? I understand that local authorities should also be on the case when it comes to schools that are under their influence, but it seems clear to me from the Report that you are acknowledging that you have not gone far enough in terms of a sufficient scrutiny exercise. Actually the sharing of that analysis and data is not only missing from what you provide back to local authorities, but seems to be missing from what you provide back to academies too.

Peter Lauener: Maybe we can come to the academies point, but on local authorities—it is right that we have a lighter touch approach on local authorities because they have the prime responsibility and the prime assurance that we get that the money is being properly spent is what local authorities tell us. This is about where we look to spot where everything might not be as good as it should be at local authority level. In light of this, we should look again at the criteria, which followed the consultation in 2012.

At least as important as that, we are very keen to develop a new approach going forward using the benchmarking data that is available for all maintained schools and academies alike, which we have referred to several times and is on gov.uk. Again, as the NAO Report refers to in paragraph 3.13, we are developing a forecasting approach for academies so that we can identify problems in advance—



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Caroline Flint: I will come to that.

Peter Lauener: And we would like to share that data with local authorities.

Q81 **Caroline Flint:** I will come to the predictive tool. It is welcome, but it is only applying to academies at the present time—the plans for its pilot—not to providing that with local authority maintained schools. Is that correct?

Peter Lauener: What we would like to do is share it with local authorities to say, “This is what we’ve got on the basis of a data set of 6,400 academies and 3,000 academy trusts. It might be helpful to you in the approaches that you are taking locally.” I have had one or two discussions already with local authority colleagues.

Q82 **Caroline Flint:** There is a lot of discussion, but in terms of actions—given everything that has been heard before in this session on what schools are going to have to face in terms of reducing their costs—do you really believe that your oversight and scrutiny procedures that you have now are fit for purpose in being able to identify the schools that are most at risk of going into deficit over the next few years?

Peter Lauener: Are you referring to academies now?

Caroline Flint: Both.

Peter Lauener: I have referred to our work with local authorities—the work I think we now need to do to look again at the criteria that followed on from 2012 and also to develop a more participative approach with local authorities. I think those two things will be helpful. Would you like me to go on and talk about academies?

Q83 **Caroline Flint:** No. On the local authorities, you have accepted the NAO’s suggestion in paragraph 3.7, in terms of looking at the numbers: “We recalculated the proportion of schools with excessive deficits or surpluses using as the population the number of maintained schools open in 2014-15”. But you did not take into account those schools that then transferred to become academies, or those that closed. Is that correct?

Peter Lauener: Yes. We accept the NAO’s recommendation on that and we will apply that point when we look at the 2015-16 data from local authorities—

Q84 **Caroline Flint:** When you look at paragraphs 3.6, 3.7 and 3.8, you can see how tweaking the criteria increases the number of local authorities you need to have a look at, and the schools within them. Is that correct?

Jonathan Slater: Absolutely. It is a good challenge from the NAO. It points out in 3.7 that it would have increased the number of councils they would have intervened in by two.

Q85 **Caroline Flint:** You have made the pool larger by not excluding schools that have become academies during the period you are looking at or schools that have closed. Rather than just looking, as your benchmark, at



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schools that are in deficit for four years, are you going to look more at the number of schools in deficit for between one and four years during that period, as indicated in paragraph 3.8? When you look at that and you add that into the equation, you would have contacted 21 local authorities in 2014-15, instead of the one you actually did.

Peter Lauener: In relation to paragraph 3.7, we think we are going to go ahead and use that particular way of estimating the number of schools that the National Audit Office recommends. We are going to do that now. That was not specifically covered in the original 2012 consultation. In relation to paragraph 3.8, which really relates, I think, to figure 14—you made the point a moment ago about figure 14 and the Isle of Wight example—I think that that illustrates that we need to look again at the criteria. I think we ought to discuss them with local authorities in the context of what I have described about working jointly with local authorities on the efficiency challenge over the period to 2020, because that is not something that we can meet in the Department and it is not something that local authorities can do on their own. We need to do it, and we need to do it working together with schools.

Q86 **Caroline Flint:** Okay. Let's go on to academies because they are slightly different. You have a much closer relationship with them, with the monthly national concerns reports. That should lead to action, and there is oversight via the non-executive director from the DfE who works with the agency on that. You have identified, and it has been identified by the NAO, that as far as academies are concerned—I think it is in paragraph 3.13 on page 40—you have been looking to develop a more preventive approach to support trusts at risk of getting into difficulty, which is a good idea. That includes a tool. You are planning to pilot this in early 2017 with a view to implementing it in full from March 2017. Is that still on course?

Peter Lauener: Yes it is. We are piloting it now and the results are encouraging. We think it will be helpful. You are quite right. As far as the whole agenda we have been talking about this afternoon is concerned, we need to move more to a preventive approach and we think that this will help us do it with academies.

Q87 **Caroline Flint:** What, so far, have you learned that was missing from your previous approach, to enable you to have a better understanding of financial risk?

Peter Lauener: It's about getting ahead of the curve. It's about taking the data that we have on academy trusts. We have very sound data, now over an increasing number of academy trusts, on their financial position both from their annual accounts return and, critically, from their budget forecast return. It is very simple, really. We look at the pupil numbers. We can apply the expected trends in budget share. We can build in all the things that are in this Report that are highlighted in terms of the cost pressures and then we can look at individual academy trusts that will be particularly affected by those changes over the next year. So, it gets away from the national average and on to the individual academy trust. We



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might then find, when we go to an academy trust and say, "Are you aware of this? What's your view of it?", that they say, "That's all fine. We've got this plan. It's already started. It will roll out". We might get others that say, "Right, that's very helpful. We've not got there yet".

- Q88 **Caroline Flint:** It has been suggested that such a preventive tool would be useful in the maintained sector that comes under local authorities. Where are you in terms of discussions with the LGA or others who might have an interest in this, so that all children—whether they are in an academy school or a local authority-run school—and their families know that measures are being taken to head off any problems?

Peter Lauener: That is at a very early stage. I had one discussion with Alan Wood, who chaired a recent panel on the local authority role, and Alan was very interested and thought that it was a good thing to develop together, and I am very keen to do that. I will have further discussions with the LGA as you say.

- Q89 **Caroline Flint:** Have you got a timetable for progressing that piece of work with local authority-run schools?

Peter Lauener: Not in detail yet. I need to get further into the detail of that with local authorities and local authority associations. It is one of these situations where I like to have proof of concept, but the piloting is now going well, so I think we have a product that we have a lot of confidence in. It is not ready to share yet, but as soon as it is—well, we will start the discussions with local authorities in advance of completing the pilots.

- Q90 **Caroline Flint:** Reading through page 41, paragraph 3.15, all the way down to 3.21, the NAO has raised concerns about how the monthly national concern reports are put together, the judgments that are made on them. If you look at paragraph 3.16, you will see that, of the 322 reports highlighted due to financial issues, "the Agency identified over one-third" and "one-quarter were added...after trusts themselves identified issues", and there were a further 6% from whistleblowers. That leaves 30% of cases where "the Agency did not record or could not match the means of referral". That is quite worrying, if your own records are not complete about why certain trusts have a national concern report and you cannot work back where the trail came from.

Peter Lauener: What this relates to is actually, again, a previous National Audit Office Report that was published in October 2014, which recommended that we should introduce stronger central recordkeeping of this. That was a good recommendation and we always like to implement National Audit Office recommendations. We implemented that. The new system, which was called the data and reporting tool, went in in October 2015. It took a few months to bed it in, but we think that it is now well in. The last sentence of paragraph 3.16 says that the "more recent records were more complete". When the NAO looked at the sample of this, they were looking both pre-October 2015 and post-October 2015, and again—hands up—they did not find it perfect post-October 2015, but they found it



better. I am pretty confident that now the recording system is properly in place.

There is another interesting point that the National Audit Office makes—which again I think we need to do more on—which is evaluating the effectiveness of the intervention, to have the proper recording system. Again, a lot of these records were kept locally and this is about having it available centrally. One of the things we can then do when it is available better centrally, as it is now, is better evaluate the effectiveness of the interventions we are making. I am very keen that we do that and I think we might—

Q91 **Caroline Flint:** Why hasn't that been happening?

Peter Lauener: Well, the timeline I quoted was the system went in in October 2015 and we have been embedding it in. I think it is now a strong system. It is just over a year after that—

Q92 **Caroline Flint:** Why weren't these things thought about in the first place? Paragraph 3.21 says that the NAO found that "the Agency had added 70 academy trusts (22% of the 322 highlighted for financial issues) back to the national concerns reports which it had previously removed." So actually we have a bit of a revolving door going on here, with some of the same trusts becoming almost repeat offenders, according to your own criteria. So that suggests you are not actually doing something about the reports.

Peter Lauener: There are two points. When the National Audit Office commented about the recordkeeping, that two-year period that they looked at was not as readily available as they would have liked. In the end, there were only three cases where we did not have the records, but they were not all on the central system because of the time it was introduced. The point about on-and-off comes back again to the evaluations that I have just talked about. That is the kind of thing that we need to evaluate. It may well have been perfectly proper that an academy trust's issue was dealt with and it came off the register, then a new issue comes along and it goes back on the register. But I think we ought to do some proper evaluation of that and we will.

Q93 **Caroline Flint:** Okay. I think you have accepted all the recommendations in the Report from the NAO. Is that correct?

Witnesses: Yes.

Q94 **Caroline Flint:** Okay. Final question—back to Mr Slater. Given that it's a work in progress, in terms of the criteria to determine which schools—whether academy-run or local authority-run—are at risk financially, going back to my colleague's first question, what if, over the next couple of years, more schools find themselves in deficit and they've done everything that could be expected of them to pare back to the bone? Will you have to bail them out?

Jonathan Slater: We do work school by school, where they are in deficit, and agree plans with them. With academies, Peter's managed to take the



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agency from a position where a few years ago the funding they were getting to get them over the line was written off, whereas now most of the funding is repaid on a loan basis, in the same way as for local government. We have those powers to help schools facing challenges in the short term—

- Q95 **Caroline Flint:** Just to be clear, if during this process, and in good faith, schools have actually done everything they could to meet what is expected of them but they are still in deficit, will the Department provide loans to those schools to cover their immediate costs, so they don't close, while they pay you back down the road?

Jonathan Slater: Peter, you might just want to explain the way that we actually do this.

Peter Lauener: That is precisely the approach we take at the moment. As Jonathan said, if I can give some figures on this, they're quite interesting. In 2011-12, when we provided deficit funding, 100% of it was non-repayable. In 2015-16, close to 85% of the deficit funding was repayable.

There are two good reasons for that being a very good thing. One, it gets the incentives in the right place, because if the deficit funding is non-repayable, everyone thinks—I'm sorry, but I exaggerate to make a point—"The nice Education Funding Agency will give me some extra money." We are trying to switch that and it's obviously better value for the taxpayer.

- Q96 **Caroline Flint:** Are you doing some work now on being better able to predict the number of schools that might have to avail themselves of a loan if the plan of £1 billion through better procurement doesn't work out, for example?

Peter Lauener: That comes back to looking ahead and to more preventive territory. When we look at the number of academy trusts, we see that the number in deficit has edged up in terms of their academies' accounts return. It was 4% in the last year, up from 3% two years previously. So, the number is going up and I think it's really important that we've now got evidence case studies, a lot of which are on the website, about the savings that can be produced, plus the evidence of the different approach that we are now taking to deficit finance, which essentially is about working with the academy trust, listening to them about the local issues and coming back with a plan—sometimes it's a three-year plan, or even a four-year plan—that gets the money back.

- Q97 **Caroline Flint:** Could you supply the Committee with some data on current loans? What amount is currently being provided in loan form, and what is the number of schools that that's covering?

Peter Lauener: Yes, we can.

Chair: If you could write to us with that, that would be helpful.

Peter Lauener: I will.

- Q98 **Anne Marie Morris:** Mr Slater, would I be right in assuming that the



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Department's objective is still to ensure that children—more children—can enjoy a good or outstanding education up to 18 years old?

Jonathan Slater: Yes.

Q99 **Anne Marie Morris:** So, if we are going to make these efficiencies, how will you ensure that there is no diminution in the quality of the education that these children receive as a result of the changes you're about to make?

Jonathan Slater: That is why when we started sharing data with schools a year ago on how their spend for different categories compared with others, we shared with them not just the cost but the performance, and not just a sort of general notion of performance but a value-added performance. We were looking to share with headteachers examples of schools whose costs in particular categories were lower but whose value-added performance was higher, because that's obviously the sweet spot that we're all aiming for. It's hard to achieve, but that's why it's absolutely vital that we look at both things together, isn't it?

Q100 **Anne Marie Morris:** You are talking about process rather than the end result—the outcome. I would certainly like—and I suspect most schools and parents would like—some assurance that what you are doing now is not going to detrimentally affect the quality of the education that these children are getting. Nothing you have said to me so far has given me any comfort; comparable statistics do not give me that comfort. What are you actually going to do, going forward, to measure and ally the comparability of outcomes in terms of performance—"Are we an outstanding school or a good school?"—against what has happened financially?

Jonathan Slater: In answer to a previous question, Tony referred to analysis that is coming to an end at the moment and is shortly to be published. It looks at that question historically and finds—this is a teaser before the report comes out, which we hope will be as soon as possible—that efficiency improvements are not correlated with performance. We will look back and report on that, and we will measure it in future and report publicly on it.

What we are looking for and sharing with headteachers are examples of similar schools with excellent performance and lower costs. The buying in to a national energy contract has no adverse impact whatever on standards, and the extent to which schools do it enables them to employ more teachers. That is what we would like schools, where possible—it is not always possible—to do.

Q101 **Anne Marie Morris:** I am glad that you say you are going to be looking at measuring the relativity of what is happening in finances with the outcomes going forward. What I would certainly like to hear next time you appear before the Committee is exactly how you are going to do that. With the greatest of respect, when we look at the issues at stake here, we see that you are talking about electricity bills, but there are many other cost factors that schools have to take into account for which



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there is no history that you could bring into your calculation.

I was interested in your point about the apprenticeship levy, because there are actually no apprentice teachers. While I know that the Minister is looking at creating apprentice teachers in the future, they are not going to be on the rails by the time the new funding formula comes in. Effectively, what you are doing is saying, "Pay up; here is a tax credit that you can't actually spend." You might well come back to me and say that they could spend it on administrative apprenticeships, but do we really think that that is what we should be doing? You just said we should be spending more money on teachers, so to spend money on apprentice administrators doesn't make any sense.

Jonathan Slater: It is important that we put schemes in place that enable schools to employ teachers on teaching apprenticeships as soon as that can be put in place. You are absolutely right to say that it isn't in place, and that it is work in progress at the moment. I am determined that schools have access to a teaching apprenticeship scheme within the two-year period where, as you will recall from previous meetings, they get to spend the money. They have two years to spend the money. It is very important that we get it as soon as possible. I would obviously prefer it if it is was already here, but it isn't. I can get it in for September 2018.

I also think it is a good thing for schools to consider the potential use of apprenticeships in respect of school business administration as well. I think that is a good thing, not a bad thing. I think that both are good, and we need to give schools the maximum number of opportunities to get the full levy back. We are absolutely not there yet; we need to get there as soon as we can.

Peter Lauener: There are groups working on these standards now. Employer-led groups have been set up to work on the standards for teaching apprenticeships and school business manager apprenticeships. That work is under way.

Q102 **Chair:** In passing, I think it is worth noting that we uncovered, I think, three or four different routes into teaching in our last hearing on teacher training. There is now going to be apprenticeships as well. This is mind-bogglingly complicated. Any benefits they get from the apprenticeship levy may well be spent on trying to get people to navigate the system.

Jonathan Slater: One of the things we are doing is considering, as part of that work with employers, the extent to which we can use existing routes and tweak them to take account of the apprenticeship levy, rather than making it more complicated.

Chair: I hope so, otherwise we will be creating so many complicated routes that the danger is that people will perceive teachers—

Jonathan Slater: Our aim is to avoid that if we possibly can, for exactly the same reason as you say.

Chair: There is a danger that there will be a sort of pecking order of types



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of teacher, depending on how they train.

Q103 Anne Marie Morris: Indeed. Certainly, in the light of that, given that you didn't lobby about the apprenticeship levy initially, I would like to see you lobbying now. Given that we don't have apprentice teachers, it seems to me that there ought to be some, if you like, quid pro quo. It seems to me that schools should be allowed to not pay the apprenticeship levy until such time as they can have apprenticeship teachers.

Let us move on. You keep saying "doable". You say, "It's going to be hard, but it's doable". What is your definition of "doable"?

Jonathan Slater: That which I see individual schools doing at the moment.

Q104 Anne Marie Morris: At the moment?

Jonathan Slater: I can see individual schools taking advantage of particular contracts. I can see individual schools reorganising their back-office services. I do not say that everyone should be able to do what some do, but it seems to me a reasonable objective—a doable objective—to move upwards in the way that I have described to date. I have talked about a situation in which schools collectively have £4.5 billion worth of surpluses, so we are certainly not going to be lending them any money, and circumstances in which there is time to bring in these changes. So it is doable with the right support of the sort that we need to bring in. That is what I mean by "doable".

Q105 Anne Marie Morris: All right, but I think you are also assuming that "doable" means everyone can do it, and I think by your own admission, not everyone can do it. The figures seem to assume that everyone can, and that is how the numbers are going to be crunched. I do not think you gave very satisfactory answers, actually, to my colleague Ms Flint when she asked, "What do you do when it all goes wrong in terms of bailing a school out?" I think you are making some assumptions in this picture you are painting that one size fits all and that every school can make the sorts of savings that you describe.

Jonathan Slater: I definitely do not think that one size fits all. I definitely do not think that all schools can do what some can. It absolutely does depend upon the circumstances they are in. There is nothing that the NAO have identified in their Report that suggests that this task is not doable. The question is: how well organised are we? Can we put in place the sorts of arrangements that we are describing here to make sure that it happens? That is the task. The circumstances facing different schools couldn't be more different. I am very sympathetic to the challenges faced by headteachers where rolls are falling, and it will be crucial that such schools are supported by their local authorities or by the Department over the medium term where those arrangements pertain and where the national funding formula does not help.

Q106 Anne Marie Morris: My local schools say very much the same as the headteachers we heard from in our previous session. They have now got



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to the point where the pips are squeaking. They have already made as many redundancies as they feel they can among administrative staff and they are cutting counsellors—any support on mental health—so the only place to go now is to cut teaching staff. It was you who said—it must have been all of about three minutes ago—that the point of these changes was to enable schools to employ more teachers. Certainly, the evidence from schools is that what you want to achieve is not going to happen. One of the reasons that may be is that, while you can look at the cost of energy, there are some other fundamental changes that I suspect, because they are not measured, you have not taken into account.

Let me give you an example: mental health. There has been a real challenge with regard to the burden on teachers of increasingly having to deal with the social welfare as well as the finances and educational needs of children. Indeed, they have to do that whether or not they are paid to, because of the safeguarding rules and regulations. I have seen too many schools that are really concerned about this, because they do not get the support that they need from social services. We know that that support is not going to increase. We also know that the troubled families programme, which provided some sort of support, has been cut back so it only applies to children over 11.

The bottom line is that we are finding schools being pushed to take on an increasing burden of dealing with the many mental health challenges that are coming through from the way the modern world works, and I cannot see any evidence in anything that the Department has done or said that shows how those real issues are being taken into account. Perhaps you can tell me, Mr Slater: have they or haven't they? How have you measured them? Will you measure them in the future?

Jonathan Slater: Just to be completely clear, we completely recognise that individual schools face individual challenges. If I had been Russell Hobby, the excellent General Secretary of the National Association of Head Teachers, I would have been careful about who I brought along to the session on this.

Chair: Sorry, we invite witnesses, Mr Slater, not Russell Hobby.

Jonathan Slater: Okay. There was a 15,000 increase in the number of teachers during the last Parliament. Clearly, they were not allocated to those particular schools, but the total number of teachers went up by 15,000 in the last five years. The challenge faced will absolutely vary school by school depending upon the circumstances of a school. We are expecting an increase in the number of—

Q107 **Chair:** Mr Slater, is that a net figure?

Jonathan Slater: Yes.

Q108 **Chair:** So that is taking into account that, if a new school opens, clearly they will get new teachers. You are netting that off against teachers lost in other schools.



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Jonathan Slater: The total number of teachers has gone up by about 15,000 in the last Parliament. We are expecting an increase of about 8,000 to 9,000 over this Parliament.

Q109 **Bridget Phillipson:** How does that work as a comparative measure? Giving us a big figure does not necessarily mean anything.

Jonathan Slater: It was about 3% last time, out of 450,000.

Q110 **Bridget Phillipson:** And how does that relate to increasing—

Jonathan Slater: What happened in the last Parliament to class sizes was that, while primary places went up by 11%, the average primary class size went up by about half a child, from 26.5 to 27, whereas in secondary, class sizes fell slightly because pupil numbers fell slightly. What is happening in this Parliament, as the NAO points out, is that secondary numbers will increase by 10%, in just the same way that they did in primary, because those kids are getting older, as your previous questions answered. So secondary schools will get the financial benefit of that, in the way that primary schools did last time. Primary schools will still go up by 3%. They will not drop off yet. The reason why primary deficits went down and secondaries went up was a consequence of that: secondaries catch up this time around. So it is doable. I am not saying it is done; I am saying it is doable.

On mental health in particular, the Government just announced some proposals to support schools in what, as you say, is an important challenge, and they identify the need for further review of the relationship between schools and CAMHS, so there is some training that we—

Q111 **Chair:** Sorry—CAMHS is child and adolescent mental health services?

Jonathan Slater: Yes. There is training that we need to support, and there is more that we need to do, absolutely, because as you say, schools are under pressure.

Q112 **Caroline Flint:** But some schools, including some primary schools in my constituency, are funding counselling support out of their school budget for a range of children, such as those whose parents have split up. Those schools will find huge pressure, won't they, on whether they can keep funding that? The Prime Minister's ambition to tackle the problem of support for children, particularly with their families, is going to be at risk. If it is at risk, what are you going to do about it?

Jonathan Slater: The review that was announced is a very important piece of work, and we need to make sure that schools are properly supported through the outcome of that work.

Q113 **Caroline Flint:** But if schools start cutting that sort of support, will you know about it? Will you have oversight of what is happening within schools?

Jonathan Slater: The very fact that Ministers have made a recent announcement on the importance of schools being properly supported



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demonstrates the seriousness of the work. I will be working closely with the Department of Health on that issue.

Q114 **Caroline Flint:** So will you include in your oversight looking at that type of support within schools?

Jonathan Slater: Absolutely.

Q115 **Caroline Flint:** So you are on it if they are under threat?

Jonathan Slater: I will be a very active party in the review to make sure that schools are getting the support they need, in light of the challenges that their children are facing, absolutely.

Chair: Right. You have made that pledge, and we shall hold you to it.

Q116 **Nigel Mills:** Last week we had a session with the Crown Commercial Service on their progress, which is perhaps somewhat slower than we might have hoped, on improving procurement. It seems you are heroically hoping you can get 20,000-something schools to start improving their procurement, presumably using some kind of web-based system. Does that system exist? Are you confident it is scalable to the level of getting that many schools to use it?

Jonathan Slater: The right solution will depend on the type of thing that one is buying, but it is striking that only 30% of schools are buying online, and 70% are not. Those 70% of schools that are not buying online are using paper-based catalogues, which is an expensive and time-consuming activity for hard-pressed staff. It means they are buying on the basis of paper catalogues in front of them in which the price of the same good varies by 45% either way. The fact that 30% of schools are buying online demonstrates that it can be done; the question is how we support all schools to do it. That will require regional hubs, networks and active support from the Department, of a sort that has not been there in the past and needs to be there now.

Q117 **Nigel Mills:** But you are confident that there are the online resources, national contracts and so on to cope with 20,000 schools trying to renew their energy contracts in a year, or something? That infrastructure will be there?

Jonathan Slater: I will ask Tony to speak in more detail about this. It is not all there in all areas, no. I mentioned energy because it is one that is there. The next one that will come out is water, with further ones coming out over time. This is an ongoing process.

Tony Foot: We are building that in waves, addressing the easier categories first and then becoming more complex. We are also working very closely with the Crown Commercial Service on scaling up, because as you say, it is a huge increase in volume for those schools coming through.

Q118 **Nigel Mills:** Is your Department a keen user of the Crown Commercial Service? Are you looking forward to transition?

Jonathan Slater: They are a key partner for us in making this happen, absolutely. We were listening to their evidence to you as well. We will be a demanding customer on behalf of schools, you can be sure.

Q119 **Nigel Mills:** May I ask about very small schools? I can see that if I am a large school with 1,200 or something pupils, I have got enough budget to manage some of this, but if I am a small school with a few dozen pupils and one administrator, isn't this just another step? They cannot really take one down to less than one in that situation. How do you cope if you are a very small primary school?

Jonathan Slater: Again, I will ask Tony to join in if that is helpful. It is really, really important that schools are able to collaborate with each other on this task and to work together on it, which is why I made a big play of the importance of those networks that we are putting in place that do not exist anything like as much as they need to.

Q120 **Chair:** They used to be responsible to local authorities—it is the policy to fragment them.

Jonathan Slater: I used to be a director of education for a local authority. Absolutely. I am talking about managing the system as I see it, in which there are opportunities for local authorities to support their maintained schools to improve efficiencies and there are opportunities for multi-academy trusts to support academies. These days, people can go online and take part in national and regional deals as well, and we need to help them to do so.

Tony Foot: That is one of the factors that we have taken account of in designing the funding formula, in particular for the schools that do not have the opportunities. Small, sparse schools are seeing an average 3.3% gain through the NFF, and for small primary sparse schools it is 5.3%. Finding where the opportunities for collaboration are is harder. The national funding formula takes that into account.

Q121 **Chair:** I want to ask a couple of quick questions. In all of this, you have told us quite a convincing story about how you have got this information about money being spent on different contracts at the centre, but of course the key thing that we are all interested in is the impact this savings regime will have on pupil attainment, class sizes, the curriculum range—which we heard earlier from the heads is a concern—and the number of teachers not teaching their specialism, which is something we have heard in evidence here before. Do you have that information, or do you have a mechanism for collecting information about those measures that will directly impact on pupils and their learning?

Jonathan Slater: To be clear, none of the best practice that we are sharing with schools and encouraging them to make use of is best practice that has any adverse impact on any of the things that you describe. Obviously it is crucial that we collect information about the quality of provision. That is a key responsibility that Ofsted has, to take that as one example—



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Q122 **Chair:** To cut to the chase, take class sizes as an example. Whether the size is good or bad can vary depending on the age of pupils and so on, but to take class size as a proxy, would you know in three or four years' time how many classes were above a certain level and how many were stable, as an average?

Jonathan Slater: Yes, of course. We publish the teacher supply model on an annual basis. It sets out how many teachers we expect the system to be employing, at primary and secondary, and from that you can see—

Chair: That is not the same as class sizes.

Jonathan Slater: You can see from that—it is published data; I am very happy to share them with the Committee, even though they are already in the public domain—that we would expect by 2020 to be employing 8,000 and 9,000 more teachers.

Chair: You have said that several times.

Jonathan Slater: What that means for the pupil-teacher ratio is that we would expect the number of pupils in a primary school class to go up by a quarter, from 20.1 to 20.4, and in the case of a secondary school to go up by a half, from 14.4 to 14.9.

Q123 **Chair:** System-wide. Even though you say it is doable, you have acknowledged that there will be challenges for a number of schools. Would you be able to tell when there are some schools where class sizes are going up, or when you have a stretch where teachers are regularly and routinely teaching outside their subject area?

Jonathan Slater: The crucial thing about the forecasting arrangements that Peter is putting in place and that Caroline Flint was asking him about is that they will enable us to see those schools that are at risk of moving into deficit by 2019 if they do not take advantage of the efficiency opportunities that we see. We will also be able to see whether they cannot do that, because all schools are different. That will mean that those are the schools that Peter's people will be going in to and having the discussion about whether they are doing all they can to avoid that from happening. We will be measuring that really carefully.

Q124 **John Pugh:** You are misunderstanding the Chair. The Chair is really asking about the academic risks. We accept that you can do good stuff on dinners or electricity, but the big things that schools will have to look at is how they manage their workforce. In paragraph 2.6, it says that: "Recognising the small sample size"—it agreed it was a small sample size—"it found that head teachers commonly: increase teachers' contact time, class sizes and the amount of teaching undertaken by senior staff; and reduce supply teacher costs". The same paragraph also says that there was evidence of schools employing "younger, less expensive recruits; recruiting staff on temporary contracts; encouraging staff to teach outside of their specialism; and relying more on unqualified staff." Those are all devices they are currently using in order to manage their budget. If that small sample becomes a big sample or the norm, will you



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be able to identify it and are you looking out for it? If we are going to be like Finland, none of those things are the sort of things that they do in Finland.

Sir Amyas Morse: If you think that what gets measured is what gets done, then what you are describing is that the strong force in the system is what you know about the costs. I would have expected an equally strong force that you know just as early and are just as much on is if there is a failure of education performance in a particular school. You can pick out a school that is not spending money on heating, but can you pick out the same information on what matters more in terms of the delivery of education? That is what I think all these questions are all about.

Q125 **Chair:** There are three of us asking the same question, so perhaps you can have a good stab at answering it in short order.

Jonathan Slater: Apologies if I misunderstood the question. Yes, we will be just as focused on the importance of the educational outcome as we have always been. None of the headteachers in front of you earlier were saying anything about there being less of a focus from the Department on improving exam results, attainment or Ofsted results. We will be keeping a very strong focus on those things in parallel. We will also have an unparalleled level of detail on the performance of academies in respect of these things because of the more proactive work we will be doing with schools in the next three years because of this challenge.

Q126 **Chair:** If there is a drop in attainment or any of these other measures and it signals an alarm to you in the Department, will you be going in and sweeping out the headteacher, taking over the governing body and making it change its type of school or whatever? Or will you say, "We recognise that maybe the funding is not working very well here. There is a big problem. They've had to recruit lots of inexperienced teachers and that is one of the issues"?

Jonathan Slater: As Peter identifies schools facing financial challenge, his people will be engaging with those schools and exploring the extent to which the action they are taking is good practice that maintains standards in accordance with what we have seen elsewhere or not, and if not, why not. It may be that in some particular cases there is no opportunity open to that school for the sorts of reasons that you heard earlier, in which case we need to be flexible in the way that I said we would be earlier. It may be that there is no good excuse, and we will be being more demanding in those circumstances. That is a school-by-school conversation.

Q127 **Chair:** You have talked about system-wide, so let's just talk about system-wide for a minute. Well over half of all secondaries are now spending more than their income. This is where we were seeing the NHS going a couple of years ago and we in this Committee were a bit like the canary in the mine saying, "It is not quite working", and few people in the system were brave enough to speak out. That is a concerning figure, isn't it, Mr Foot? Let's have Mr Slater first.

Jonathan Slater: It is a complicated subject, as you know, Chair, with 5.5% of schools overall in deficit at the end of 2015-16, in comparison



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with 7% of schools in deficit at the end of 2009-10. Every school that is in deficit faces serious challenges of the sort you were hearing from these three headteachers, but the total number in deficit has gone down over that period. The system will be under pressure in the way you described, but those are the facts.

Q128 **Chair:** You could get out of deficit by sacking staff. That is the brutal reality, but it is not really good for pupils, is it?

Jonathan Slater: We are envisaging that if schools take advantage of the non-staffing savings that we have identified—

Chair: £1.3 billion of the £3 billion.

Jonathan Slater: They will be able to reinvest that money in increasing staffing levels. They will increase the number of teachers, we currently predict, by about 2% over the next five years. That will require a significant effort and we need to help schools to make sure that that is what happens.

Q129 **Bridget Phillipson:** I wish you well in the Department. It just seems like a pretty tall order and quite an optimistic set of assumptions that underpin the challenge that schools will face. We have heard a lot about where they can make savings around procurement to then reinvest, but what I am less confident about is how that will be achieved without having an impact on pupils' attainment, on learning, on many of the facilities and services that are provided to young people now in our schools that have made a big difference: all the extra support around counsellors, as you have said; the review that is ongoing around the Prime Minister's drive to see greater support for families and young people. It doesn't seem to fit together.

Jonathan Slater: The work programme is important; it is significant. There is a £3 billion increase in cash. There is £4.5 billion in surpluses. The average school has surpluses of £120,000; but there are many schools that are facing a more challenging situation, and we need a forensic way of engaging with them, in just the way you have described. It is doable. I did not take the job because I thought it was going to be easy.

Q130 **Bridget Phillipson:** I guess what you will need to see is a means by which we can measure how that is being achieved and whether those impacts are desirable or whether they have adverse effects; whether that is just in pure exam results terms alone, or whether it has a wider impact across the school system. If schools are having to cut back the curriculum offer, their exam results may be largely unaffected but is that really where we want Britain to be in the 21st century, competing to—

Jonathan Slater: No, not at all, and that is why we will be measuring the whole thing in the way that I sought to answer a little while ago.

Tony Foot: May I just come in on that one point? One thing the NAO Report does say, on page 35, is that we have got a clear monitoring and evaluation plan—that is basically a balanced plan between looking at outcomes and efficiency alongside financial health.



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Q131 **Chair:** And that's great, but in the health service we have found that it is very difficult for a lot of people in that system to talk truth to power. Are you prepared, Mr Slater, to go to No. 10 or your Secretary of State and say, "We now have got to the point where there is a problem," if it arises in the future? Or are you so confident it is doable—a word we are going to add to the PAC bingo card, I have to say—that you are not worried that you are going to have to have that conversation?

Jonathan Slater: I will be sharing with my Secretary of State on a regular basis how the programme is going. You can be confident she is going to be asking lots of detailed questions on a very regular basis about how the work is going and that will be a completely straightforward conversation.

Q132 **Chair:** Before we finish, I forgot to ask something of Mr Lauener earlier about free school funding. I think you may be aware that Diana Johnson, the MP for Kingston upon Hull North, has been asking a number of parliamentary questions, which raise some very interesting issues about the amount of money that free schools have been given. They have had fewer pupils admitted than they planned in some academic years since 2009-10 and she was asking how much money that they had been given has been clawed back, when they have had overfunding in some of those years. As I understand it, £800,000 of the £11.5 million that free schools owe the Government has already been written off by the Department and will not be paid back. Is that a trend or is that a one-off? Of that £11.5 million how much are you expecting to get back into the Exchequer's coffers?

Peter Lauener: I referred earlier to the 4% of academies that were in deficit at the end of '14-15. That would certainly have included some academies, or free schools—they are all within the same picture—where there is what we call a pupil number adjustment: they have not recruited all the pupils that they had expected to and they have had more money for that. We would always look to recover that, and that takes us into the kind of deficit recovery plan I have talked about. There will be some cases where we are not able to recover that, and one or two cases where free schools have closed and we have had to write off—

Q133 **Chair:** So that figure mostly relates to closures?

Peter Lauener: I probably ought to check certain figures and write to you.

Q134 **Chair:** I will pick this up in correspondence with you in that case, or perhaps Diana Johnson will.

Thank you very much for your time. You gather from us that, while you may have a doable financial model, we have a big concern about its impact—I am sure it is sharply in your mind as it is in the permanent secretary's, and I would be shocked if it wasn't—and the potential mismatch between what happens to pupils in the classroom and the financial side. Nobody on the Public Accounts Committee would disagree with trying to buy electricity, water, paper, and so on, cheaper. It is great



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that you want to encourage schools to pursue those efficiencies. However, there must also be a dose of realism in the mix. As Bridget Phillipson put it, do we want to live in a Britain where we are reducing the curriculum and having non-specialist teachers teaching? Post-Brexit, that is not going to deliver. You get a flavour of our concerns. Our report will probably be out after half-term with our current timescale, and the transcript will be available in the next couple of days. We will see you again soon, on capital funding.

Jonathan Slater: Actually I am back next Wednesday.

Chair: You are in the dock! The only Department to come back—we look forward to seeing you then. You'd better come wearing your flak jacket!