Meg Hillier  
Chair of the Public Accounts Committee  
House of Commons  
London  
SW1A 0AA

30 October 2017

Dear Meg,

Forty Ninth Report of Session 2016-17: Financial Sustainability of Schools

As you will be aware, the formal Treasury Minute response to the Committee’s report was published on 12 October. I thought it would also be helpful to write to you setting out more detailed information on how the department is taking forward the Committee’s recommendations.

It is important to recognise firstly that the context under which these recommendations were made has changed in light of the Department’s announcement in July increasing core funding for schools. As we implement the national funding formula, there will now be an additional £1.3 billion for schools and high needs across 2018-19 and 2019-20, on top of existing spending plans. This means that core funding for schools will rise from almost £41 billion in 2017-18 to £42.4 billion in 2018-19. In 2019-20, this will rise again to £43.5 billion. This represents an increase of £2.6 billion, and means funding per pupil will now be maintained in real terms for the remaining two years of this Spending Review.

Recommendation 1. During the hearing the Committee requested that we provide our latest evidence on the link between funding and outcomes. We have now published this research, which is available at https://www.gov.uk/government/publications/school-funding-and-pupil-outcomes-review. We found that at key stage 2, lower per-pupil funding was associated with very slightly lower attainment. The best estimate suggests a 1% change in funding is associated with a 0.062 – 0.071 percentage point change in the proportion of pupils achieving at least level 4 in 2015. At key stage 4, changes in per-pupil funding were not found to have a statistically significant impact on attainment. These findings were broadly in line with other published studies that have explored the
relationship between funding and outcomes in English schools. The research underlines that how schools use resources matters more than the overall amount.

**Recommendations 3 and 4.** I said in our hearing on the DfE Accounts on 12 October that I would give you more detail on the process for publishing updated estimates of cost pressures. The formal Treasury Minute sets a target date of publishing by January 2018, and it reconfirms the inclusion of the financial impact of the apprenticeship levy and the impact of the Education Services Grant as part of the publication. The rationale for the timing is that teachers’ pay is a key driver of cost pressures, and we want to publish updated estimates at a sensible point alongside the STRB process. As the Chief Secretary to the Treasury set out on 12 September: “The detail of 2018/19 pay remits for specific Pay Review Bodies will be discussed and agreed as part of the Budget process and set out in due course.”

At the hearing we also discussed the wider pressures on schools resulting from policy changes such as GCSE reform and primary assessment. Whilst these are clearly challenging to quantify, my department has committed in the formal Treasury Minute to making better assessments of the cost implications of new policies and initiatives on schools, with a target implementation date of September 2018.

**Recommendation 5.** The Committee asked us to set out the ESFA’s refined approach to intervening in academy trusts and engaging with Local Authorities, as well as work to evaluate the effectiveness of its interventions.

The ESFA aims to support all schools across the sector to get the best value from their resources and achieve a sustainable financial position. Its role is to identify potential financial health issues as early as possible and to support schools to make improvements where things are at risk of going wrong.

The ESFA has updated existing financial guidance documents and introduced new toolkits to assist trusts and schools to build capability in financial health and efficiency. It has developed an additional suite of internal key performance indicators (KPIs) to provide a better understanding of the impact of its financial interventions. These KPIs will sit alongside existing ones to measure the quality of the service offered to schools and trusts. The approach was tested in August with the Government Internal Audit Agency to ensure it was robust, and will feed into ESFA’s governance structures. The KPIs include measures such as improvements over time in the outcome of those cases which are of national concern, and improved records of case actions.

**Academy trusts**

The ESFA has refined its approach to intervening with trusts and has begun, from September 2017, phased work to ensure those trusts most in need of
support are contacted by the end of the calendar year and offered direct support by an expert in school efficiency. We have identified an initial group of advisers to be commissioned during this academic year, drawing on accredited Fellows of the National Association of School Business Managers.

The first phase of commissioning is targeting those trusts with significant current financial issues where the school would benefit from the support of a School Efficiency Adviser to help them build their internal capacity to improve the situation. The ESFA is commissioning the first School Efficiency Advisers to these trusts this term.

The ESFA has also taken the latest trust Accounts Return and Budget Forecast Return information to identify academy trusts across the sector that are at risk of cumulative deficit over the next three financial years. Using this data, the ESFA will, in phase two, contact those academy trusts which are forecasting a cumulative deficit in 2017/18.

Using the same data, the ESFA will then contact those trusts which are forecasting low surpluses and declining balances.

We intend to offer the support of a School Efficiency Adviser to some of those trusts we contact in phase two and three, where the trust has difficulty in producing a robust recovery plan that satisfies ESFA concerns. In the future we plan to make School Efficiency Advisers available to other trusts where they request support from us.

**Local Authority Maintained Schools**

The ESFA is working with Local Authorities to strengthen its financial monitoring relating to maintained schools and to provide new tools that will be of benefit to Local Authorities, as well as to the ESFA, in preventing future financial problems in maintained schools and helping Local Authorities to support their schools.

Together with the Office for National Statistics, the ESFA is developing a method to identify those maintained schools at risk of financial difficulty. This is enabling the ESFA to engage and work more closely with Local Authorities, from September, and for them to work with their schools to develop strategies and plans during the autumn term. Where there is a capacity or capability issue for Local Authorities the ESFA will consider the use of School Efficiency Advisers to support the development of the appropriate plans.

**Recommendation 6.** The Committee asked that we write to them setting out how our approach has been informed by the work of other Government Departments, and in particular the Department of Health and NHS.

The NHS faces a significantly different challenge to schools, both in terms of the financial landscape, and the type and number of institutions it
manages. However, we have been working closely with colleagues in DH and NHS Improvement and there are a number of areas of commonality that we can learn from:

- **Data** – both we and NHS Improvement (NHSI) colleagues are looking for hospitals and schools to have access to more granular and real-time data on financial decisions than is currently available. We are working to improve the way we collect data to provide more real-time information for schools to benchmark themselves against.

- **Estates management** – DH has invested time and resource in supporting hospitals to manage their estates effectively and efficiently. We will work to improve our support to schools on this important issue, ensuring capital investment can help to drive revenue savings.

- **Deployment of staff** – the NHS has moved quickly in addressing high costs associated with agency staff spend. While the specific solutions implemented in the NHS may not be suitable for schools, we will incorporate lessons learnt from DH colleagues as we implement our own solutions to support schools in this area. To this effect, we are developing a new supply teachers framework, which we expect to be available for schools to use from April 2018. More widely, the Department will carry out research to understand what lessons we can learn from workforce deployment practices in other sectors, including the NHS. This will include examination of HR strategies, efficient and effective deployment practices, and flexible working arrangements.

The Department has also had constructive conversations with colleagues at Her Majesty’s Inspectorate of Constabulary (HMIC), for example, discussing the use of Police Effectiveness Efficiency and Legitimacy (PEEL) reports, which include an assessment of efficiency. We will continue to work with HMIC, particularly in relation to our own work to develop more consistent metrics for schools to assess their levels of efficiency.

I hope this is useful as an update for The Committee. I am copying this letter to Sir Amyas Morse, Comptroller and Auditor General and Richard Brown, Treasury Officer of Accounts.


JONATHAN SLATER
PERMANENT SECRETARY