



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Education

Establishing Free Schools

Key facts

174

Free Schools opened
by September 2013

£743m

estimated capital
spending on Free
Schools to March 2014

24,000

estimated number of
pupils being educated
in a Free School by
September 2013

- 4** annual waves of Schools approved to open so far.
In September 2013, 93 Schools opened
- 82,000 places** eventual capacity of Free Schools opened so far, expected to
increase by 62,000 once Schools already approved are open
- 38 per cent** of Free School places are in London
- 87 per cent** of primary places provided in Free Schools opened by
September 2013 are in districts where forecast need for school
places is high or severe
- £103 million** estimated pre- and post-opening financial support to
Free Schools from 2010 to March 2014

In this report

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

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

Summary

Introduction

1 The Department for Education (the Department) launched the Free Schools Programme in June 2010. Free Schools are new Academies, set up as all-ability state schools, and funded directly by the Department. By September 2013, it had opened 174 Schools, approving them in three annual 'waves'. It has a further 116 Schools in the pipeline, 105 of which are working towards opening in September 2014. The estimated cost of the Programme to March 2014 is £1.1 billion, including £0.7 billion capital expenditure.

2 Free Schools are set up following applications from a range of different groups including parents, teachers and Academy chains. According to the Department, applications for Schools respond to local demand to improve education. The Department's primary aim is to open high quality Schools and it expects the Programme to raise standards across the school system through:

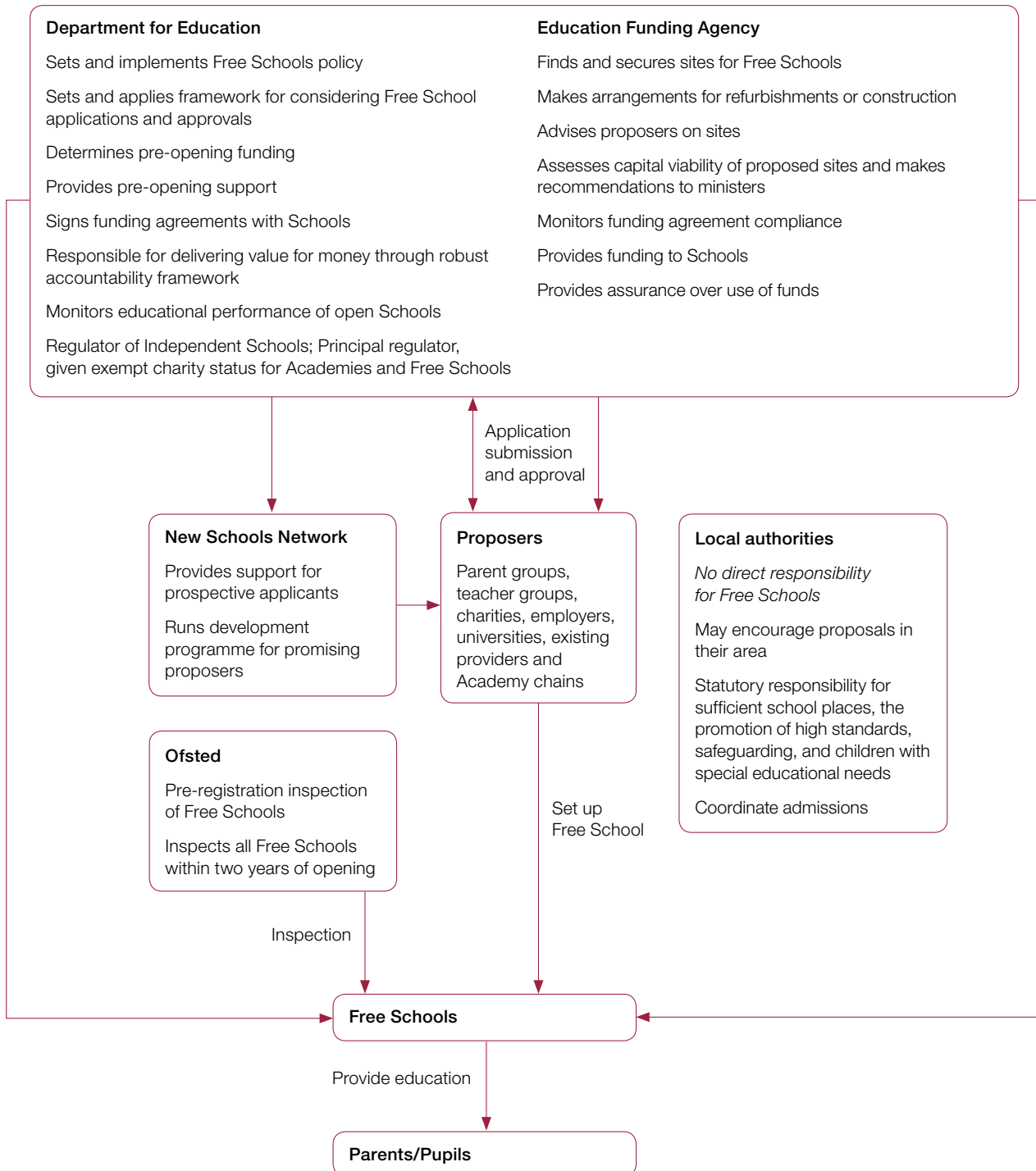
- increasing local choice for parents;
- injecting competition between local schools;
- tackling educational inequality; and
- encouraging innovation.

3 As Academies, Free Schools are independent of local authorities, and are directly accountable to the Secretary of State for Education through a funding agreement. Schools have freedoms over their curriculum, the organisation of the school day and year, staffing and budgets. Mainstream Free Schools set their own admissions arrangements, but, like mainstream maintained schools, are bound to follow the Admissions Code.

4 **Figure 1** overleaf shows the main roles and responsibilities relating to Free Schools:

- a** **The Department** invites and evaluates applications for new Schools and decides which Free Schools should open. It provides support to proposer groups working to open new Schools, and monitors Free Schools' educational performance.
- b** **The Education Funding Agency (EFA)**, an Executive Agency of the Department, is responsible for acquiring premises for approved Schools, and for the funding and oversight of financial management and governance in open Free Schools.

Figure 1
Responsibilities for Free Schools



5 This report assesses whether the Department has, to date, achieved value for money in establishing Free Schools. We have not re-evaluated individual projects. Academic performance data is currently limited because the Programme remains relatively new. This report therefore addresses:

- the Department's approach to selecting Free Schools (Part One);
- the Programme's costs (Part Two); and
- early indications of the performance and oversight of open Schools (Part Three).

Key findings

Selecting Free Schools

6 **By implementing the Free Schools Programme at pace the Department has achieved clear progress on a policy priority.** The Department opened its first 24 Free Schools in September 2011, and by September 2013 it had opened 174 Schools. In total, the projected capacity of these Schools is nearly 82,000 places. The Department anticipates an additional 62,000 places when a further 116 approved Schools are open and full. Over a third of Schools opened so far are in London (paragraphs 1.2 and 1.5).

7 **Most primary Free Schools are in areas that need extra school places, but application levels from areas of high or severe need have been mixed.** Addressing forecast local need is not a formal objective of the demand-led Programme, but is one of the Department's wider priorities for capital spending. Around 70 per cent of estimated primary and secondary places from open or approved Free Schools are in districts forecasting some need for places. Free Schools already open are expected to provide an estimated 27,000 primary places in districts forecasting high or severe need (87 per cent of all primary places in Free Schools) but only 19 per cent of secondary places in Free Schools are in such areas. The estimated total capital costs for Schools opened in districts with no forecast need for extra school places are at least £241 million out of a projected total of £950 million for mainstream Schools. The Department has received no applications to open primary Free Schools in half of all districts with high or severe forecast need (paragraphs 1.6, 1.7).

8 **The Department is assessing and monitoring applications more robustly, although some key information is limited.** Assessment processes for Wave 1 were developmental, providing support for proposers but with significant limitations. The Department has incrementally improved its selection and pre-opening processes, for example, scoring against published criteria, and has plans to further strengthen challenge. However, important information relating to sites, parental demand and key staff remains limited during the selection process. Fifteen approved projects have been cancelled or withdrawn, mainly because of problems with sites or concerns over proposers' capacity. The Department monitors the risks to individual projects, making judgements about the level of risk to accept as schools proceed to opening (paragraphs 1.10 to 1.12, 1.19 and 1.21).

9 The Department's selection decisions have focused on individual Schools more than on maximising the wider benefits of the Programme compared with costs. The Department has primarily sought to open good quality, sustainable Schools. Overall, 23 per cent of higher-scoring applications have been rejected, mostly on practical grounds, such as overlaps with other applications in the same area. The Department's consideration of factors linked to its wider objectives has not affected the proportion of Schools opening in the most deprived areas, or areas of high or severe need for school places. In considering the latest wave of applications, the Department is scoring applications' impact on such need and against the quality of other local schools. Cost has not been fully integrated into decisions about which applications to approve, primarily because cost information is constrained by uncertainty over sites (paragraphs 1.7, 1.8, 1.13 to 1.17).

Programme costs

10 The Department initially underestimated the total capital funding needed to establish Free Schools. It bid for £900 million in the 2010 Spending Review for Free Schools' premises, but could only earmark £450 million following a tough capital settlement. It subsequently increased this to £1.5 billion, just over 8 per cent of its total capital budget, through additional funds from HM Treasury and savings in other capital budgets. At £6.6 million per School, the average unit cost of premises is more than double its original aggressive planning assumption. In May 2011, it revised its assumptions, which now reflect actual costs (paragraphs 2.3 and 2.4).

11 New approaches have led to much lower average construction costs than in previous programmes, but the Department faces a rising capital cost trend. The Department used existing properties, reduced building specifications and smaller space standards to help reduce construction costs by, on average, 45 per cent. Total capital costs per school place rose on average by 35 per cent by Wave 3, mainly due to the location of more secondary schools in regions where property costs are high, and the inclusion of Special and Alternative Provision Schools with higher costs per place. Eighteen per cent of Schools (27) had capital costs of over £25,000 per place; 14 of these were mainstream schools. The Department also paid almost £27 million above its valuations for half of the cases where it acquired a freehold. These valuations provide an indication of a property's market value, based on past sales of similar properties and on the property's existing use (paragraphs 2.5 to 2.10).

12 Forecast capital costs highlight the level of uncertainty in earlier indicative estimates, and there have been some increases in budgets approved later in the process. The latest capital costs for 60 per cent of Wave 2 and 3 Schools are forecast to be higher than the indicative estimates prepared when these applications were approved. The Department has taken steps to improve the robustness of these estimates from Wave 4 onwards. The Department sets firm budgets during the pre-opening phase, once sites have been identified. It has increased these budgets for 24 Wave 2 and 3 Schools (20 per cent), at a total cost of £13.6 million (paragraphs 1.17, 2.11 and 2.12).

13 The Department has been willing to incur additional costs to avoid delays in opening Schools, making judgements about acceptable levels of cost on a case-by-case basis. Approximately 60 per cent of Schools (107) opened in temporary premises so they could open in September, at a cost of at least £27 million. In contrast, it has delayed opening seven planned Schools because it judged that permanent premises could not be found at an acceptable cost (paragraphs 2.7 and 2.11).

14 Free Schools' core day-to-day funding is provided on a broadly equivalent basis to other types of school. The Department incurs additional costs, including funding to local authorities for some pupils moving to Free Schools. Its temporary method for Free Schools' main revenue funding, before wider changes were introduced in 2013-14, did not give Free Schools a systemic advantage. Due to time-lagged funding, over three years the Department has provided local authorities with an estimated £80 million of school funding for pupils who subsequently moved to Free Schools, which it has not recovered (paragraphs 2.14 to 2.16).

Early indications of performance and oversight

15 By the end of October 2013, 25 Free Schools had been inspected by Ofsted, with 18 assessed as 'good' or 'outstanding', and two rated as 'inadequate'. The Department is responsible for monitoring Free Schools' educational performance. New Free Schools do not yet have a track record of exam results. Ofsted inspects all Free Schools within two years of opening, and judged four Wave 1 schools to be 'outstanding', 14 'good', five 'requires improvement', and one 'inadequate': the Discovery New School. In October 2013, Ofsted inspected Al-Madinah, a Wave 2 School, after concerns raised with it and the Department. It was judged 'inadequate' (paragraphs 3.1 to 3.3 and 3.9).

16 The Department and Education Funding Agency assess risk and monitor financial management and governance in Free Schools. Their approach has evolved and will need to develop further to manage emerging risks as the Programme grows. There is inevitable uncertainty about how some new Free Schools will perform in practice. In common with all Academies, the Department's approach to oversight emphasises Schools' autonomy and responsibility for financial management and governance. The Department recognises that some Schools will not meet its expectations, and investigations have highlighted financial management concerns at two Free Schools: Al-Madinah and Kings Science Academy. The Department has developed a more structured approach to intervention over time, introducing a new framework in September 2013 to support the professional judgement of Agency staff. Monitoring is informed by other parties including whistleblowers and relies on timely compliance by Schools. As the Programme grows, more systematic data analysis will be needed to identify and manage emerging risks (paragraphs 3.6 to 3.9).

17 Some Free Schools have not attracted as many pupils as they planned in their first year. New Schools may naturally take time to reach capacity, depending on their planned expansion rate and recruitment performance. Overall, Free Schools have opened with three-quarters of planned admissions in their first year, but there have been significant variations between years and between Schools in each year. Pupil recruitment against planned admissions has improved after the first year. Schools opening in temporary accommodation or signing their funding agreement closer to their opening date were more likely to have unfilled places (paragraphs 3.10, 3.11).

18 The Department has not made full use of a growing evidence base to enhance its programme management. The Programme's increasing scale provides more information on how Free Schools are operating in practice. We found that Schools are using some freedoms available to them and are developing different pupil characteristics from neighbouring schools. The Department does not routinely capture data on Schools' use of freedoms or the pattern of local demand. It has yet to fully consider which factors have most impact on School performance, for example, occupancy trends or the departure of head teachers. It has also yet to determine a full set of indicators to assess the impact of open Free Schools on other education provision in an area, or value for money (paragraphs 3.11 to 3.17).

Conclusion on value for money

19 By opening 174 Free Schools since 2010, with more Schools in the pipeline, the Department has made clear progress in delivering a policy priority. Many new Schools have been established quickly and at relatively low cost, and the Department's assessment of applications has improved. The Department aims to open high quality, sustainable Schools. The Programme's success and value for money depend on how Free Schools perform in the future. To date, the primary factor in decision-making has been opening Schools at pace, rather than maximising value for money. The Department will need to exert more control to contain a rising cost trend. Its ability to fully integrate cost when selecting Schools has been limited by uncertainty over sites, and its wider objectives have not yet had a clear and consistent impact on decisions. It is seeking to address these points in the latest waves of the Programme.

20 To safeguard its £1.5 billion planned investment, oversight of open Schools will need to systematically respond to emerging risks, and the overall governance framework may require review in the light of experience, including the problems identified in a few of these early Schools.

21 The Department has asked us to record that it believes it has struck an appropriate balance between pace and value for money.

Recommendations

- 22 The Department needs to:
- a **Strengthen its analysis of how different portfolios of Schools might contribute to its wider objectives, to support choices between applications.** Factors linked to the Department's wider objectives have had no clear or consistent impact on overall approvals.
 - b **Increase the transparency of its use of contextual and practical factors when assessing applications, demonstrating the impact on selection decisions.** Some higher-scoring applications were rejected by the Department, mostly on practical grounds.
 - c **Review barriers which may be constraining applications from some areas, particularly those with high or severe need for additional places.** There has been no demand to open Free Schools in some areas with significant forecast need for school places.
 - d **Assess the lessons from projects with high and low capital costs, setting out how it determines that using temporary accommodation and paying over its valuations for properties offers value for money.** The Department faces rising capital costs and some approaches lead to higher costs.
 - e **Embed and continuously develop its framework for intervening in open Schools.** The Department continues to develop its approach to structured intervention.
 - f **Develop a more structured approach to applying the lessons from open Free Schools to approved Schools when in pre-opening.** The Department has not fully reflected factors affecting open Schools' success, for example, securing planned occupancy levels, during pre-opening.
 - g **Assess the effects in practice of open Free Schools on the quality and sustainability of other local education provision.** The Department has yet to determine a full set of indicators to assess the wider impact of open Free Schools.