Permanent Secretary

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Dame Meg Hillier MP
Chair, Public Accounts Committee
House of Commons
London SW1A 0AA

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Dear Meg,

42nd report of the 2021-22 Session – Financial sustainability of schools in England

I am writing to update you on the Department's response to the Committee recommendation 3 that the ESFA should collect sufficient reliable evidence on the impact of financial pressures on schools at a local level, including on whether pressures are leading to schools narrowing their curriculum and reducing staffing.

The Committee's report, published on 4 March 2022, requested the Department set out in its Treasury Minute response when it plans to publish the results of the research.

In response, the Treasury Minute of 28 April 2022 agreed with the recommendation and set a Target Implementation Date of March 2023. Paragraph 3.2 said that:

> *The department (rather than the ESFA) will commission research on how a sample of schools has experienced and responded to previous financial pressures and on the anticipated impact of the additional funding announced for schools. The sample will be broadly representative of school types (local authority-maintained; Single Academy Trusts; schools in Multi-Academy Trusts); phase (primary/secondary); proportions of disadvantaged pupils and those with Special Education Needs and Disabilities (SEND); and area deprivation. The research is likely to be based on semi-structured interviews with school leaders and school business professionals, which will involve asking objective questions about the anticipated impact of the additional funding announced for schools and whether financial pressures have been experienced, when and in what circumstances, what the effects have been (including whether their curriculum breadth and staffing levels were affected) and how the school sought to manage the pressures.*
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> *The research will take place in schools early in the 2022-23 academic year (i.e., October-November 2022) with analysis and reporting completed by end-January 2023 and publication expected by end-March 2023. Starting the research earlier would carry a risk that financial pressures associated with current increases in the costs of living would be missed.*

Since that time, the context of schools' finances has changed:

a) The published data on schools' financial reserves in financial year 2020-21 and 2021-22 (for maintained schools) and academic year 2020/21 (for academies) shows that schools and trusts, on average, added to their financial reserves in these years.1
b) Throughout 2022-23, schools have faced cost pressures as a result of rising inflation, especially around increases to energy costs, teachers' pay, and support staff pay which were all higher than originally predicted in April 2022. Schools may still be adjusting to these evolving cost pressures, and will be considering how best to manage these pressures into the current financial year.

The Covid-19 pandemic was an atypical event that had an unusual impact on schools' finances and as such, may be unlikely to provide useful insights into schools' behaviour outside of this period. In addition, an analysis on the impact of financial pressures over the 2020-21 and 2021-22 financial years, when schools and academies were, in fact, adding to their reserves, on average, may be of little value going forwards as a guide to likely responses to current or future inflationary cost pressures.

We therefore believe that this research should focus on responses to financial pressures experienced by schools from the 2022-23 financial year onward, maximising the chances that it will provide us with useful outputs for the Department, schools and trusts.

As of April 2023, schools will be benefitting from additional funding, allocated through the Mainstream Schools Additional Grant (MSAG), following the additional investment announced at the Autumn Statement in November 2022. Funding for both mainstream schools and high needs will increase by £2.0 billion in each of 2023-24 and 2024-25, over and above totals announced at the 2021 Spending Review. Total funding will reach £58.8 billion in 2024-25 – the highest ever level in real terms per pupil.

We think that it would also be useful to be able to take account of the impact of this additional Autumn Statement funding to understand how schools' responses evolve as real terms funding levels increase again.

We want to ensure that the research conducted is informative for both now and in the future, and consider from the 2022/23 academic year to be the best possible time period. This will enable us to more comprehensively research the impact of financial pressures affecting schools, how schools respond to these, and how these responses evolve in response to additional investment, as well as the impact of the Covid-19 pandemic on schools' finances.

That means the research will come a bit later than initially suggested, but that it should be more useful and informative.

Unfortunately, an initial tendering process for researchers to undertake this research did not lead to any suitable proposals. We have since retendered, and a successful contractor has been notified. We are also aware that the National Foundation for Education Research has been funded by The Nuffield Foundation to do some similar work, although that has an increased focus on the impact of the increasing cost of living on families and children and how schools respond to that, as well as the impact on educational opportunities at school. We will want to ensure good co-ordination on this.

The Department continues to assess a range of data sources as part of its wider activity to monitor, support and strengthen the financial health of the sector.

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[1] We have committed to the NAO to analyse the impact of the Covid-19 pandemic on schools' finances, which we are hoping to publish in Spring 2023.

Initial findings from the research that the Department is commissioning are due to be available in late August 2023 with publication to follow later in early autumn.

I hope this delay will be acceptable to the Committee, as it allows the Department to better respond in the spirit of the Public Accounts Committee’s recommendation.

Yours sincerely,

Susan Acland-Hood