

Trading Places

The Supply and Allocation
of School Places

The Audit Commission

*. . . promotes proper stewardship
of public finances and helps those
responsible for public services
to achieve economy, efficiency
and effectiveness.*

Trading Places

1 How Well is the Current Approach Working?

2 The Impact of Varying LEA Performance

3 The Impact of National Policy

4 What Needs to be Done

5 Conclusions

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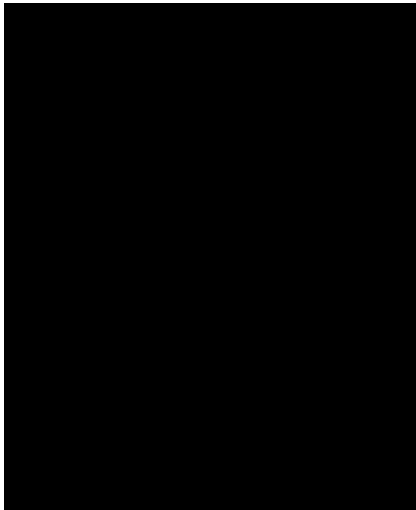
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‘...demographic and legislative changes have made the challenges of supplying and allocating school places more complex.’

Preface

Since its inception, the Audit Commission has taken a keen interest in the supply of school places. In the 1980s, the Commission published a series of reports (Refs. 1, 2, 3, 4) arguing for action to remove school places that had become surplus as a result of falling secondary school rolls; and in 1990, the Commission reported on the scope for local education authorities (LEAs) to rationalise primary school provision. Since these reports were produced, demographic and legislative changes have made the challenges of supplying and allocating school places more complex. Given these changes, the Commission decided to undertake a new study to take a fresh look at these issues, reviewing not merely the performance of LEAs in securing value for money but also the impact on authorities of the national policy framework within which they must operate. This report is the result of that study.

The study started in September 1995 and involved in-depth fieldwork in ten LEAs (listed in Appendix 3), looking at all aspects of the supply and allocation of school places. In addition, shorter visits were made to four authorities to look at specific issues such as admissions arrangements and the LEA response to schools in difficulty; and information was gathered on the approach to the supply and allocation of school places in Scotland and New Zealand. The Commission is pleased to have undertaken aspects of the fieldwork jointly with staff from the National Audit Office, who were carrying out research into the value for money offered by the Funding Agency for Schools.

The fieldwork was supplemented by analysis of national data, a survey of parents conducted on the Commission’s behalf by MORI, a questionnaire completed by 96 LEAs (82 per cent of the total) and a series of smaller research projects looking at admissions appeals, school sixth forms, planning issues in Wales, primary school capacity and other nations’ approaches to school capacity. In addition, the Office for Standards in Education (Ofsted) undertook an analysis of inspection data to explore relationships between school size and effectiveness. The Commission would like to thank all the LEAs that participated in the study team’s research programme, and the Department for Education and Employment (DfEE) for allowing extensive access to the data held by the Department on pupil numbers, school places, admissions appeals and education expenditure.

The study team benefited considerably from the guidance offered by an advisory group (the membership of which is detailed at Appendix 4), together with advice from many education officers. In addition, many helpful discussions were held with representatives from interested bodies such as the local authority associations, the DfEE, the Welsh Office, Ofsted and the Funding Agency for Schools. The Commission is grateful to these organisations, and all the other groups and individuals who commented on drafts of this report. As always, responsibility for the conclusions and recommendations remains with the Commission.

The study team comprised Greg Wilkinson and Helen Oxtoby from the Audit Commission's Local Government Studies Directorate, and Ian Mackinder on secondment from District Audit, under the direction of Steve Evans. Consultancy assistance was provided, at different stages, by Robert Barr, John Evans, Donald Hirsch, Lindsay Martin, Janet Paske, Annabel Waddingham and Tim Williams. Paula Woolford and Sarah Wallace undertook valuable work on data analysis and exhibit preparation.

This report concentrates on the findings of the study from a national perspective. It is complemented by:

- ◆ an *Audit Guide*, which helps LEAs' auditors to work with individual authorities to review their performance and identify opportunities for improvement. Auditors will be undertaking this work in most English and Welsh LEAs during 1997 and preparing reports for their members.

Further guidance for LEAs on good practice will be provided through the study's *Management Handbook*, which is due for publication in mid-1997.

“Which school should my child attend?” is one of the most important questions facing any parent.”

Introduction

1. ‘Which school should my child attend?’ is one of the most important questions facing any parent. For the vast majority of parents, the answer involves state education: 93 per cent of pupils attend state-funded schools. This situation generates a need for high-quality public provision that meets parents’ desires and expectations to get the best education for their child. One of the key functions of LEAs is to respond to these needs, desires and expectations, by ensuring a supply of places at schools to meet the ‘demand’ for education created by pupils in their area. This report looks at how LEAs, through the provision of school places and the operation of admissions policies, attempt to match supply with demand.^I The report assesses both LEA performance and the extent to which authorities are helped or hindered by the framework of national policies and procedures laid down by central government.

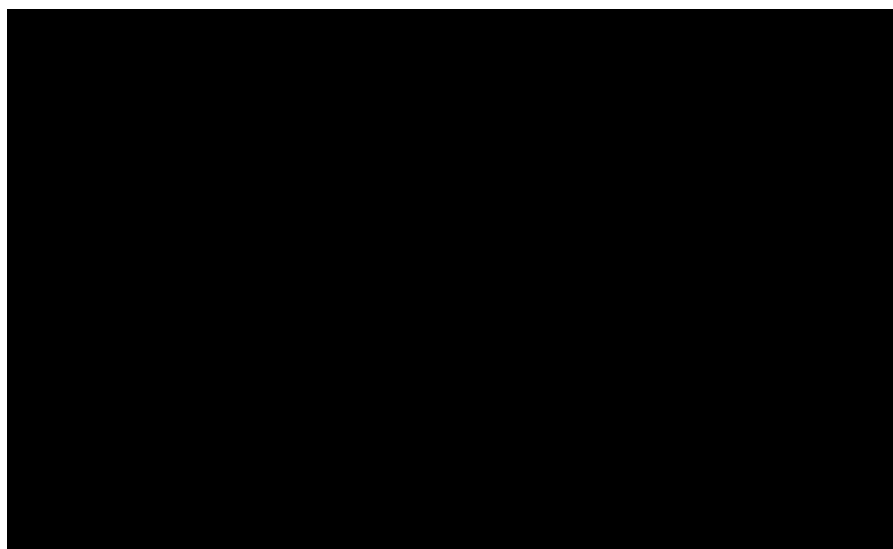
2. In the overwhelming majority of English authorities and in all Welsh authorities, the LEA retains the legal duty^{II} to secure the provision of sufficient school places for the 4.4 million primary pupils and 3.2 million secondary pupils^{III} in the state sector. LEAs have full responsibility for nearly 19,000 county and voluntary-controlled schools; and more limited responsibilities for over 4,000 voluntary-aided schools. Discharging this duty involves opening new schools or adding places to existing schools where extra capacity is required, and reducing or closing schools with problems of surplus provision – with a requirement to publish proposals and to seek the approval of the Secretary of State for many major changes. It also involves the development and operation of policies for the admission of pupils to the majority of schools, working within the statutory framework laid down by central government.

3. In their attempts to secure value for money, the principal challenge for LEAs is to provide the right number of school places in the right locations.

I
Special schools and nursery education are not covered by this report, but have been the subject of previous Commission reports.

II
Under section 14 of the 1996 Education Act this duty lies with LEAs, except in areas where 75 per cent or more of pupils in the primary or secondary sector attend grant-maintained schools, in which case the duty for that sector transfers to the Funding Agency for Schools (FAS). To date, this has happened only for the supply of secondary places in three LEAs.

III
These figures are for school rolls in January 1995.



This involves the pursuit of both **economy** and **effectiveness** (Box A). The aim should be to achieve a good match between pupils and places within an infrastructure of high-quality school buildings and facilities, where all schools are of a sufficient size and calibre to deliver the curriculum cost-effectively. But there is a third consideration – **parents’ right to express a preference** for their child’s school. The scope for parents in any area to secure a place for their child at the preferred school will depend crucially on how an LEA has organised school places and admissions policies, and on whether it has been able to achieve a consistently high quality of education across all local schools.

4. LEAs’ performance has a significant impact on the value for money obtained from the £17 billion spent each year on primary and secondary education in England and Wales. If performance is poor, then problems will occur in three areas:
 - ◆ money will be wasted – for example, in surplus places or expensive forms of provision;
 - ◆ parents will be dissatisfied – because they cannot secure what they perceive to be suitable provision within the state sector for their child; and
 - ◆ educational quality may suffer – for example, through over-crowded schools and small or under-occupied schools that may have difficulties in providing a good education within their budget.
5. LEAs’ activities require the maintenance of a complex set of relationships (Exhibit 1):
 - ◆ they work closely not just with the **governing bodies of county schools** but also with the governing and foundation bodies of **voluntary schools**;
 - ◆ LEAs must also take into account the **grant-maintained (GM) schools** (numbering over 1,150 nationally) within their area, although they have no control over the supply of places or the admissions policies in the grant-maintained sector;

*Box A***Value for money in the supply and allocation of school places**

The Commission judges LEAs’ performance in terms of economy, efficiency and effectiveness. It is important to be clear about what these criteria mean when applied to the education service:

- ◆ **economy** in the supply and allocation of school places is about avoiding expenditure on unnecessary places and about adding capacity in the most cost-effective way;
- ◆ **efficiency** is about ensuring that processes (such as those related to school admissions) deliver the maximum output for any given level of resources, and that the resulting schools and sixth forms are at or above the size where limited scale causes unit costs to rise substantially; and
- ◆ the pursuit of **effectiveness** requires that school organisation and occupancy rates support the delivery of high standards of education, taking action where schools fall short of these standards.

So, while improved performance by LEAs may bring about financial savings, good practice in education planning is about far more than saving money.

- ◆ LEAs share powers and undertake joint planning with the **Funding Agency for Schools (FAS)**¹ – the body that funds GM schools – once GM schools account for more than 10 per cent but less than 75 per cent of the primary or secondary sector’s pupils in the LEA area. As at November 1996, this is the position for primary education in seven LEAs and for secondary education in 49 LEAs;
- ◆ they often need to liaise with the **Further Education Funding Councils (FEFCs)**, which have been given the duty (formerly held by LEAs) to ensure a sufficient supply of places for 16 to 19 year olds in full-time education, although LEAs have retained the responsibility for planning and funding sixth forms in county and voluntary schools; and
- ◆ they are dependent upon **central government** – in England, the DfEE and in Wales, the Welsh Office – for a wide range of decisions about school organisation and the allocation of capital resources.

¹ FAS is responsible only for English GM schools. To date, no separate Welsh funding agency has been established to provide services to GM schools in the Principality – the Secretary of State discharges these functions directly.

Exhibit 1
Planning relationships between LEAs and other bodies

LEAs’ activities require the maintenance of a complex set of relationships.



Source: Audit Commission

‘The current system can be characterised as a “quasi-market”...’

6. Authorities work within a framework of legislation and national policy. The Government has put in place over recent years a number of reforms, at the heart of which has been the objective of raising standards of achievement by pupils. That remains the Government’s central aim for schools. There is evidence of success in the recently published performance tables which show steady increases in the proportions of pupils achieving five or more grades A to C at GCSE (up by 16 per cent since 1992) and in the performance of school students at GCE A and AS level (the average point score of candidates entered for two or more A or AS levels has improved by 14 per cent since 1993).

It is the Government’s view that higher standards of achievement will be promoted by extending choice and diversity. Measures to extend choice and diversity to date have included the option of GM status (which by November 1996 had been taken up by over 1,150 schools) and the specialist schools programme (which now covers 181 technology colleges and language colleges).

The Government’s reforms include:

- ◆ securing sound curriculum and assessment arrangements;
- ◆ enhancing the information available to parents;
- ◆ working on school improvement;
- ◆ devolving financial and managerial responsibilities to schools, to increase effectiveness, accountability and value for money; and
- ◆ addressing the quantity and quality of teachers required to raise standards.

These changes are supplemented by the arrangements for regular inspection of schools (by Ofsted in England and the Office of Her Majesty’s Chief Inspector of Schools in Wales (OHMCI) including specific action for schools requiring special measures.

The Government’s view is that, taken together, these reforms create a climate for raising expectations and increasing accountability. Each school should take responsibility for achieving high standards and should be accountable to parents and the local community. It is the Government’s view that within the national framework, schools should have as much freedom as possible to make their own decisions and plan their own futures. The Government believes that, building on their distinctive strengths and responding to the wishes of parents and the local community, schools will provide more choice and diversity.

This report does not consider the entire framework of education policy, merely those aspects that relate to the supply and allocation of places. From this perspective, the initiatives designed to introduce market forces into education are of particular relevance. Three key reforms have made the system more market-driven:

- ◆ while parents have no right to choose (in that they have no guarantee of a place in the school of their choice), they have the right to express a preference for a state school, and the school must admit the child if pupil

numbers are below a prescribed admissions threshold (known as the Standard Number in LEA-maintained schools and the Approved Admissions Number in GM schools – see Appendix 1);

- ◆ government has prescribed the method by which admission authorities must establish each school's admissions threshold and has ensured that this method produces the highest of a range of potential figures, while allowing authorities to set a higher threshold if they wish, and for any threshold to be exceeded through the process of admissions appeals;
- ◆ Local Management of Schools (LMS) has created some incentives for schools to compete for pupils: under LMS, at least 80 per cent of the authority-wide delegated revenue budget is allocated on the basis of pupil numbers, so money will follow pupils to the popular schools (and unpopular schools will lose income).

7. The current system can be characterised as a 'quasi-market'.¹ The Government has developed a range of policies and mechanisms that, together, aim to blend aspects of a planned approach and a market-based approach. These arrangements create a complex challenge for LEAs, within which three issues need to be highlighted:

(i) the multiplicity of objectives – in virtually all parts of the country LEAs retain the responsibility for ensuring that there are sufficient places for their area. The Government expects them to achieve this in a way that maximises economy. It exercises control over LEAs capital borrowing and (in England) monitors their level of surplus places to help ensure economy. Yet LEAs must also respond to national policies that attempt to secure diversity, choice and competition;

(ii) the pursuit of quality – LEAs cannot be concerned just with objectives of economy and choice (and with the resolution of conflicts between these objectives). They must also try to ensure a high quality of education in LEA-maintained schools – and where poor quality exists, they are expected to tackle it;

(iii) the dispersal of responsibilities – LEAs must pursue these objectives within a framework where powers and responsibilities have been dispersed between local authorities and other bodies. In particular, the recent reforms have established schools as more or less independent players in the quasi-market. Schools will thus, quite properly respond to market pressures and pursue the interests of their own community while LEAs retain the responsibility for pursuing the interests of the whole authority. This creates increased scope for friction between schools and LEAs, and reduces the opportunity for the easy resolution of such difficulties.

Chapter 1 of this report looks at whether current attempts to meet this challenge are successful.

II

Namely, a system that is designed to incorporate some (for example, elements of consumer choice and provider competition) – but not all (for example, purchase of the service by the individual consumer, the existence of a price mechanism, and product differentiation by competing suppliers) – features of a market.

The current approach is resulting in a mismatch between pupils and places, with schools being either overcrowded or undersubscribed. Nationally, up to 40 per cent of unfilled places might be removable, ultimately offering about £100 million of savings opportunities.

Some schools are inefficient and ineffective. The percentage of primary pupils in classes of more than 30 is increasing. There are large numbers of small schools and small sixth forms and a minority of secondary schools are experiencing difficulties in remaining viable.

In some areas, parents have access to limited diversity and choice. The number of admissions appeals is increasing in both the primary and secondary sectors. While most parents secure a place for their children at their preferred schools, a sizeable minority do not.

1 How Well is the Current Approach Working?

8. This chapter looks at whether the current approach is delivering value for money. It addresses three key questions:

- ◆ is the current approach achieving a match between pupils and places?
- ◆ is it generating efficient and educationally effective outcomes? and
- ◆ is it offering diversity and choice to parents around the country and resulting in parental satisfaction?

A match between pupils and places?

9. Value for money in the supply of school places is served by avoiding the twin dangers of too many and too few places. LEAs need to secure a close fit between pupils and places, not just at authority-wide level but also in individual schools. It is unrealistic and probably undesirable to aim for a perfect match at each school; a sensible approach would be to plan for a 95 per cent occupancy rate at schools and accept some variation, say plus or minus 10 per cent, around this target.^I But at present, using the Government's More Open Enrolment (MOE) measure of physical capacity (explained in Appendix 1), only about half the schools in England^{II} fall within this desired range (Exhibit 2). One school in six has more than 25 per cent of its places unfilled, tying up scarce resources in under-utilised classrooms and school premises; and one school in five has a pupil roll which is more than 5 per cent in excess of its MOE capacity, which may lead to overcrowding and large class sizes.

10. The first aspect of this mismatch – unfilled places – is to be found throughout English and Welsh LEAs. In England, over 477,000 primary places (11 per cent of the total) and over 400,000 secondary places (12.4 per cent of the total) were unfilled in 1995.^{III} The most recent figures in Wales are for 1993, when 64,000 primary places (18.6 per cent of the total) and 37,000 secondary places (16.4 per cent of the total) were unfilled. This is not a

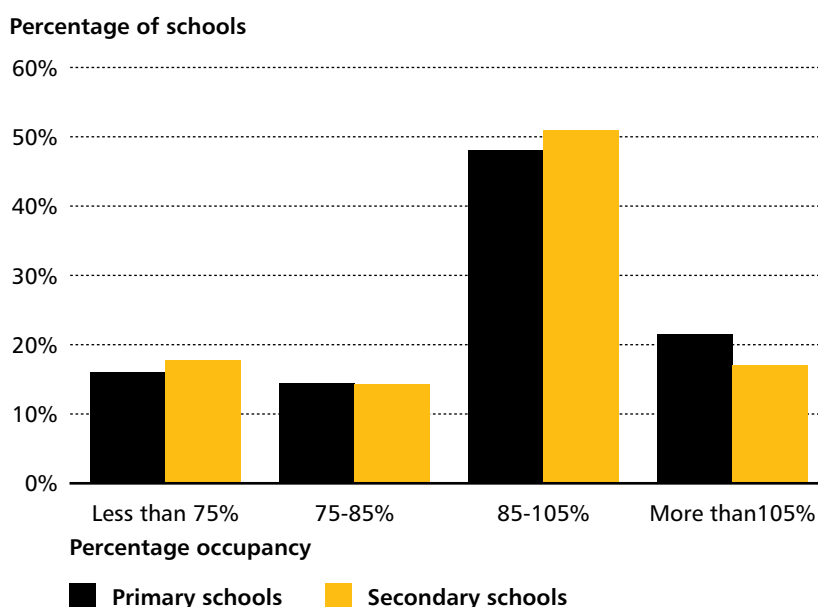
I
In practice, the effect in many LEAs of working to this *school-based* target will be similar to that achieved by working to the DfEE's *authority-based* target of no more than 10 per cent of the level of places in an authority being unfilled.

II
Due to the limited information held by the Welsh Office, it is not possible to undertake this analysis for all Welsh schools.

III
Source: LEA section 21 returns to DfEE, June 1995.

Exhibit 2 Occupancy rates in English primary and secondary schools, 1995

Only about half the schools in England have an occupancy rate of between 85 per cent and 105 per cent.



Source: DfEE

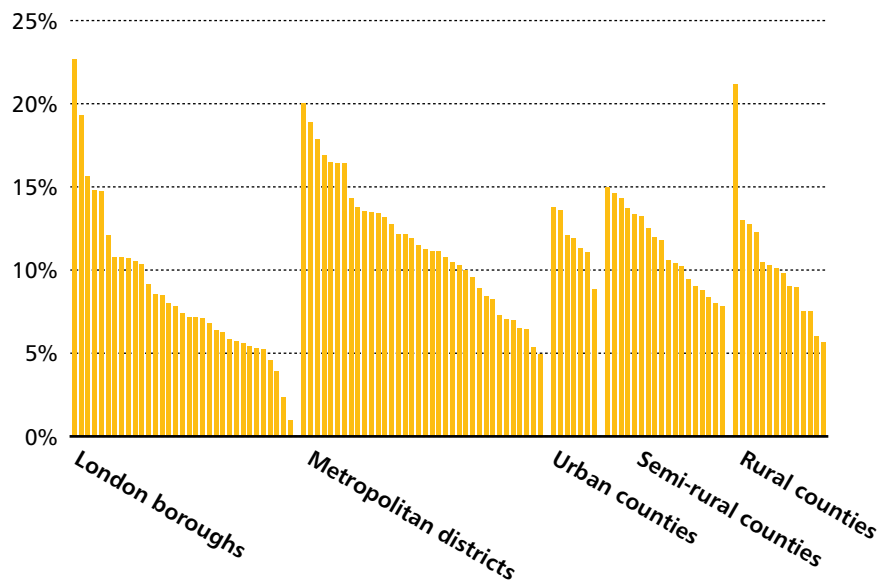
uniquely urban or rural problem: unfilled places are to be found in all types of authority (Exhibit 3). The levels of unfilled places are lower than in the 1980s and early 1990s, when the Audit Commission explored the problem in a series of reports (Ref. 1, Ref. 2, Ref. 3, Ref. 4). The problem in the secondary sector has halved, while the level of primary unfilled places has reduced by 40 per cent. In part, these reductions reflect rising pupil numbers, but they also represent significant efforts by LEAs to remove surplus places. Despite this progress, the levels of unfilled places remain significant, and will not be substantially reduced in many areas solely as a result of projected increases in the school-age population.

11. High levels of unfilled places represent a substantial waste in the system, tying up resources that could be used to improve the quality of education. But not all unfilled places are surplus, and not all surplus places can be removed (Exhibit 4). In areas where the school-age population is due to rise, it may be more cost-effective to retain some unfilled places until the additional pupils enter the system. In addition, some margin of capacity is necessary to allow parents choice, given that there will be some volatility in preferences from one year to the next. This margin will vary between different parts of the country. In rural areas there is often effectively little choice, and therefore the margin of capacity can be low, whereas in urban areas it will need to be higher. Even where unfilled places are genuinely surplus to requirements, their removal may not be cost-effective or practical. The nature of school buildings may make it impossible to take out surplus classrooms; or the lack of alternative schools within a reasonable travelling distance may make school closure unrealistic, because of the consequences for home-to-school transport.

Exhibit 3
Unfilled primary places by LEA in England, 1995

Unfilled places are to be found in all types of authority.

Percentage unfilled places

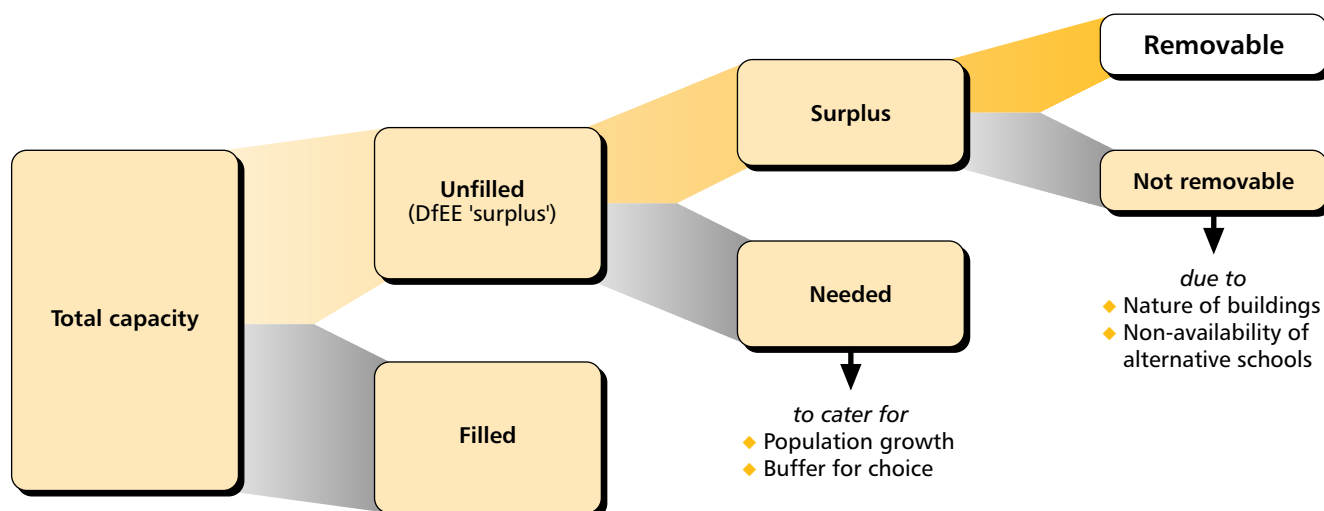


Note:
 Figures exclude unfilled places in GM schools in those LEAs where GM schools account for less than 10% of the area's pupils.

Source: DfEE

*Exhibit 4***Unfilled places – a classification**

Not all unfilled places are surplus, and not all surplus places can be removed.



Source: Audit Commission

12. Even allowing for these factors, there is scope for removing places and saving money. LEAs could focus on those schools with significant and persistent levels of unfilled places, where the places are neither needed – because there are insufficient pupils – nor wanted – because the school is persistently unpopular compared with other local schools. The Commission’s fieldwork and analysis have shown that by adopting this focus and pursuing the closure of whole schools or blocks of accommodation, as much as 40 per cent of *all* unfilled places might be removable over a period of time. Ultimately, this could offer about £100 million of savings opportunities per year for reinvestment within the education service. It could also offer significant capital receipts from the disposal of surplus premises and school sites (see Appendix 2). At first sight, this figure looks small in comparison with the £2.5 billion expenditure which is not tied up in pupil-driven funding allocations (pupil-driven funding follows pupils to their new school). However, the removal of surplus places remains an important goal, for two reasons. Firstly, the supply of places is one of the key areas of ‘added value’ that the LEA can contribute to the delivery of education; and secondly, the dividend from effective planning goes beyond financial savings – it allows the LEA to address problems of education quality by establishing an improved education infrastructure, ensuring that its area has the right number of schools of the right size.

13. Yet in spite of the potential to add value and secure value for money by removing surplus places, the rate of removal is slow. It is not possible to establish the full extent of removal over recent years, because of the lack of data and differences in definitions between years. The best available indicator is the number of places removed each year via surplus place removal schemes.¹ According to DfEE records, the annual number of places taken out of English primary and secondary schools via this route has fallen from 36,500 (3.6 per cent of the total unfilled places at that time) in 1994/95 to 18,800 in 1996/97.

1

While this measure does not capture *all* initiatives to remove places (it misses minor changes in capacity which will not attract capital funding from the DfEE), evidence from fieldwork LEAs suggests that it is a useful indicator of authorities’ efforts to remove surplus places.

Efficient and effective outcomes?

14. The other aspect of the mismatch between supply and demand – **insufficient places** – is becoming more widespread. The percentage of secondary schools where the number on roll exceeds MOE physical capacity increased from 25 per cent in 1994 to 30 per cent in 1995. It appears that, beyond the take-up of unfilled places, the growth in the school-age population is being met more by an increase in the number of overcrowded schools than by the addition of new capacity – and while this approach may be economic, its effectiveness is questionable. The secondary school population is projected to increase by 12 per cent between 1996 and 2004, suggesting that, in parts of the country, problems around insufficient places may get worse, not better, over the next few years. Some authorities may face both insufficient and unfilled places in different parts of their area.

15. The failure to achieve value for money goes beyond the waste of resources created by surplus places and the problems arising from the increase in overcrowded schools. There are further problems concerning inefficiency and educational ineffectiveness; in particular:

- ◆ large classes and overcrowding in primary schools;
- ◆ the existence of significant numbers of small primary and secondary schools;
- ◆ the existence of large numbers of small sixth forms; and
- ◆ the existence of ‘schools in difficulty’, particularly in the secondary sector.

Sometimes these problems are further consequences of a mismatch between pupils and places. Under other circumstances, however, the problems are to be found where pupil numbers and physical capacity are broadly in alignment.

Large classes and overcrowding

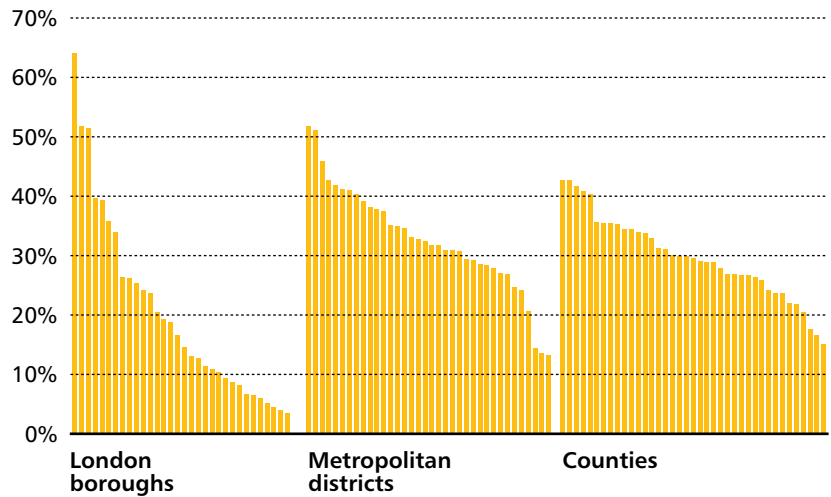
16. Opinions differ over the extent to which class size affects the quality of education. Many educationalists, teachers and parents believe that increases in primary class size beyond 30 result in progressively less effective education, particularly for pupils in Key Stage 1 (that is, those aged between five and seven), though the Government’s view is that the research evidence is inconclusive. Some 31.8 per cent of English primary pupils are currently in classes of more than 30 children. This percentage has increased in each of the past four years, and the problems around large primary classes are experienced by all types of authority (Exhibit 5). In some schools, these problems have been alleviated by the employment of education support staff.

17. Even if its classes are below a size of 30, a primary school may still experience shortages of space per pupil because it has been required under government regulations to set an admissions threshold at odds with the size of the teaching spaces available (see Appendix 1). Research undertaken by the Commission in a sample of 19 primary schools revealed that, when schools admit to their admissions threshold each year, over 50 per cent of classrooms offer less space per pupil than the 1.8 square metres that is used in the calculation of the More Open Enrolment physical capacity of classrooms.

Exhibit 5
Primary class sizes in 1995, England

Large primary classes are experienced in all types of authority.

Percentage of primary pupils in classes of more than 30

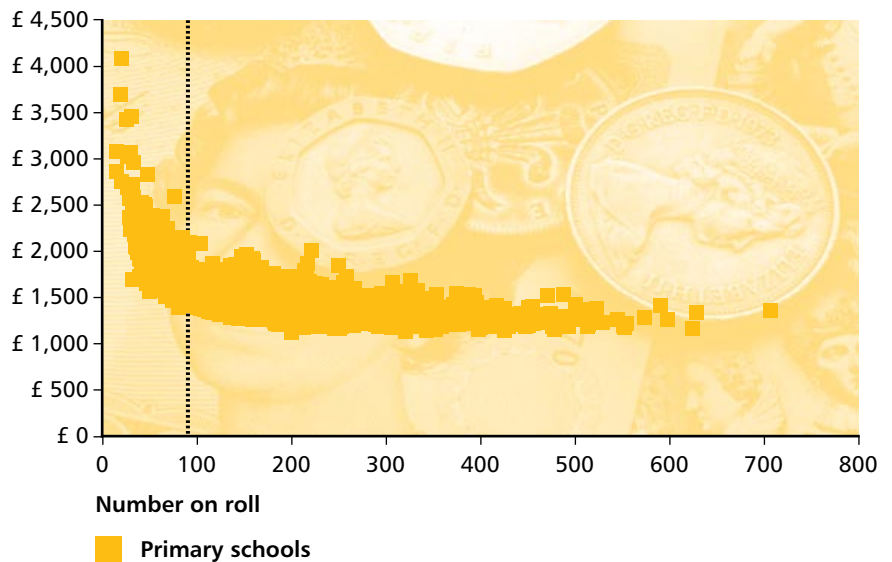


Source: DfEE

Exhibit 6
The financial implications of small primary schools

Cost per pupil starts to rise dramatically once the number on roll drops below the threshold of 90.

Budget per pupil (£)



Source: s42 returns to DfEE for schools in seven English county LEAs, 1995/96

Small schools

18. Some 15 per cent of primary schools have less than 90 pupils on roll – the size below which the cost per pupil starts to rise dramatically (Exhibit 6); and 22 per cent of secondary schools have a roll that equates to less than four forms of entry per year (where costs per pupil are 15 per cent higher than schools twice this size). In many rural areas, small primary schools need to be retained because the journey to the next nearest school would be unacceptably lengthy and/or expensive. But longer journeys become more feasible in the secondary sector, and many small schools are in more urban areas (though

some of these schools are small because of size constraints. In both the primary and secondary sectors, small schools represent poor value for money because of their higher unit costs. There is no identified relationship between school size and performance in the primary sector; but in the secondary sector, small schools are also more likely to experience educational problems. Not all small secondary schools face such difficulties: there are many examples of schools – some selective and some comprehensive – that perform well with a roll of less than four forms of entry. But an analysis of Ofsted inspection data suggests that, whether they are in rural or urban areas, small secondary schools are less likely to be designated by inspectors as ‘meeting with success’ (Exhibit 7).

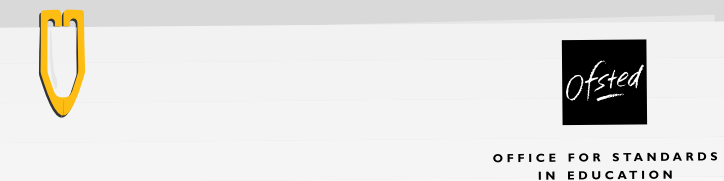
Exhibit 7 Size and effectiveness

Small secondary schools are less likely to be designated by inspectors as ‘meeting with success’.

All Ofsted inspections yield a series of Inspection Grades – quantitative assessments of school performance. These grades are combined in four key composite indicators covering educational issues: *standards of achievement, quality of education, school ethos, and efficiency*. An average of these four scores is also calculated, to give a measure of overall performance (shown below as ‘*overall education*’) for the school; in addition, there is a composite indicator for *school management*. For each of these six composite indicators, Ofsted reaches a judgement about whether a school is deemed to be ‘meeting with success’.

Ofsted analysed the percentages of schools ‘meeting with success’, using these indicators, to explore the hypothesis that there is a relationship between size and performance. For primary schools, no relationship was identified; but in the secondary sector, small schools in both rural and non-rural areas were less likely to ‘meet with success’ than larger schools. For all aspects of performance apart from school ethos in rural schools, the percentage of successful small schools (the first column) is lower than the percentage of successful larger schools. This relationship holds true whether the comparison is with larger schools educating pupils with a similar socio-economic make-up to the small schools (column 2) or with all large schools (column 3).

Note:
 For the purpose of this analysis, a small secondary school is defined as one with less than 600 pupils (or less than 700 pupils if it has a sixth form); such schools may have been designed to be small or may have become small because of declining popularity. A ‘rural’ secondary school is defined as one without another secondary school within three miles. Interestingly, the data suggests that rural secondary schools perform consistently better than urban secondary schools, whatever the school size.



Percentages of rural secondary schools (excluding middle schools) inspected 1993-1996 meeting with success in aspects of performance:

Rural	Small rural secondary schools	Matched sample of larger rural secondary schools	All larger rural schools
Standards of achievement	74%	85%	83%
Efficiency	66%	78%	76%
School ethos	87%	83%	88%
Education quality	70%	83%	81%
Overall education	74%	88%	87%
Management	57%	70%	69%
Sample size	61	83	196

Percentages of non-rural secondary schools (excluding middle schools) inspected 1993-1996 meeting with success in aspects of performance:

Non-rural	Small non-rural secondary schools	Matched sample of larger non-rural secondary schools	All larger non-rural schools
Standards of achievement	42%	54%	62%
Efficiency	51%	66%	66%
School ethos	60%	65%	72%
Education quality	53%	68%	70%
Overall education	47%	65%	69%
Management	52%	63%	62%
Sample size	325	585	1,580

Source: Ofsted analysis of inspection data 1993-1996

Small sixth forms

19. As with small schools, small sixth forms are more likely to experience financial or educational difficulties once they drop below a certain threshold. A 1985 DES report (Ref. 5) suggested that 150 was the minimum size for a sixth form to be able to offer a cost-effective and full range of course options (although the report recognised that smaller sixth forms might be viable where there were co-operative arrangements). And the diversification of post-16 course options (for example, the introduction of GNVQs) has led some educationalists^I to argue that 250 is a more realistic minimum size for adequate provision of a full range of options, given current teaching methods. On the other hand, a 1996 Ofsted report (Ref. 6) indicates that a school sixth form may be educationally and financially viable with fewer than 150 pupils if it focuses on a narrow range of provision.^{II} Such sixth forms must ensure that they recruit only those pupils who are genuinely interested in the courses on offer, directing others to more suitable institutions. An appropriate size of sixth form will therefore vary, depending on the range of courses offered. But Audit Commission research indicates that, in practice, it is around the *Better Schools* threshold that sixth forms become more likely to require subsidy from the rest of the school budget (Exhibit 8). Currently, 58 per cent of the 1,960 sixth forms in English and Welsh schools have fewer than 150 pupils on roll.

^I For example, Sir Christopher Ball, 'How Many Pupils Make a Sixth Form?', *Times Educational Supplement*, 4 November 1994.

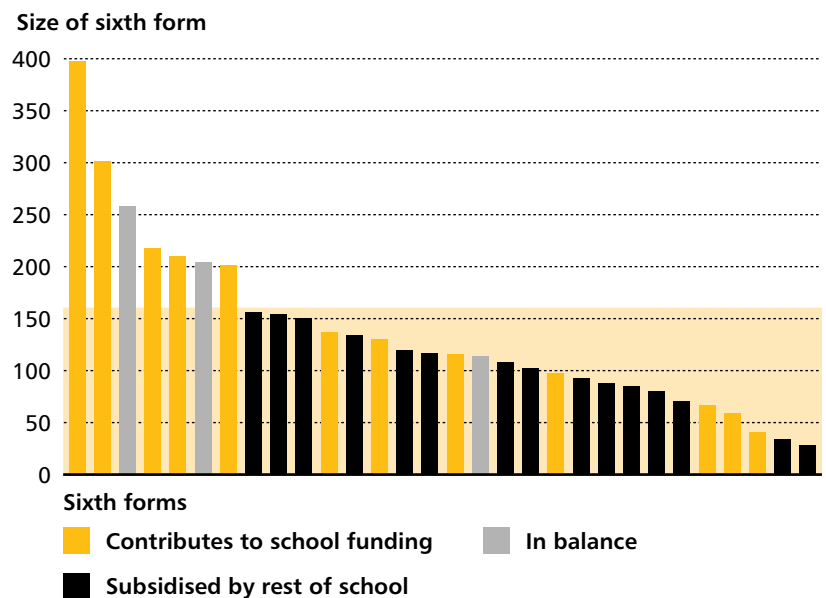
^{II} In its research, Ofsted found no sixth forms with fewer than 100 pupils that were cost effective. However, its report included a calculation indicating that it would be possible to run a sixth form with as few as 22 pupils, if that sixth form offered only two GNVQ courses.

Schools in difficulty

20. In addition to the 129 primary and secondary schools that have been designated as 'failing schools' following Ofsted/OHMCI inspections, a larger number of schools are experiencing difficulties in remaining viable and providing a reasonable quality of education. Such schools can be grouped under the heading 'schools in difficulty' and can be identified with reference to a basket of measures, such as the near-failure of an Ofsted/OHMCI inspection, declining admissions, high levels of unfilled places, poor and unimproving performance in GCSE exams and high levels of absence by both pupils and

Exhibit 8
School subsidisation of small sixth forms

Below a number on roll of 160, sixth forms become more likely to require subsidy from the rest of the school budget.



Source: Audit Commission analysis of a sample of school sixth forms from five LEAs

staff. Not all schools that come out badly against any one of these measures could necessarily be identified as a cause for concern. But an analysis based on a limited number of measures¹ identified 8 per cent of metropolitan and 13 per cent of inner-London secondary schools as being schools in difficulty.

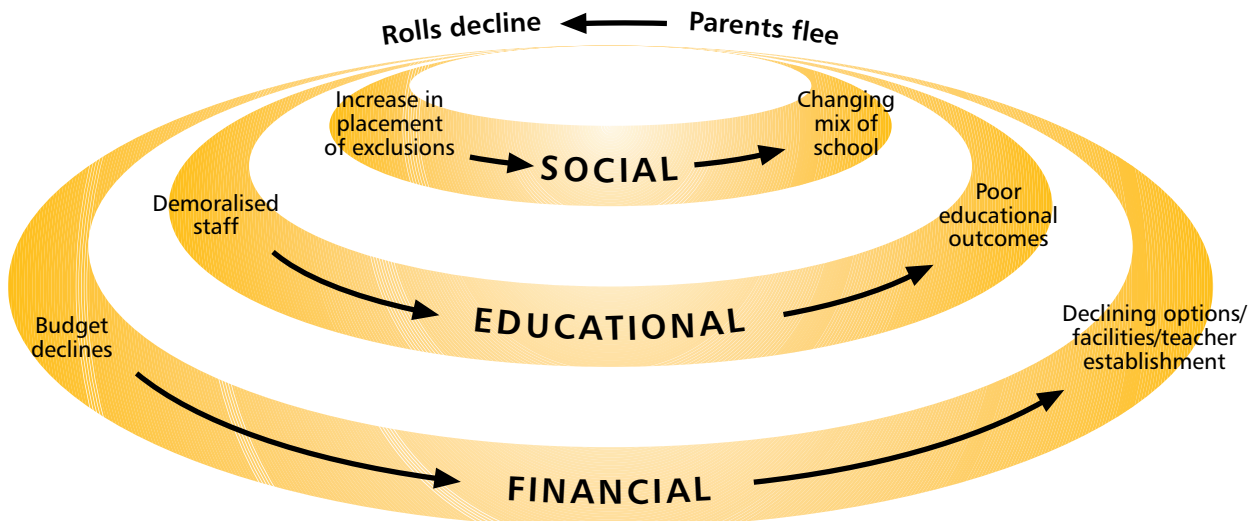
21. Many such schools enter financial, social or educational spirals of decline – or a combination of all three (Exhibit 9). But, under LMS, the effect of formula funding can leave such schools in a position where they neither close nor recover but wither on the vine. The reduced funding that accompanies the loss of pupils makes it harder for a school to address its failings – but protection factors built into the formula provide sufficient funding to slow the spiral of decline, if not end it. In effect, the formula blunts the effect of market forces, protects schools from their own failure, and thereby may condemn them to a slow death unless effective intervention occurs. This fate compounds the problems of poor intake, poor staff morale and performance, and poor educational quality. Until such schools close or recover, their pupils suffer an unacceptably low quality of education.

22. Such schools are of concern not merely because of the poor education they offer. They have an adverse impact on an LEA’s ability to manage the supply of places and school admissions effectively, since the majority of parents become desperate to avoid sending their children to such schools. This lack of popularity leads to high levels of unfilled places in the schools in difficulty, with a few such schools often accounting for a significant proportion of the LEA-wide problem of unfilled places. It also creates problems of oversubscription and possible overcrowding at other more highly regarded schools, where parents seek sanctuary.

¹
The analysis identified schools which are (i) ‘failing’ or (ii) have fewer than 600 pre-16 pupils and unfilled places greater than 25 per cent and 20 per cent or fewer pupils gaining five GCSEs at grades A-C.

Exhibit 9
Schools in difficulty and spirals of decline

Many schools in difficulty enter financial, social and educational spirals of decline – or a combination of all three.



Source: Audit Commission

Diversity, choice and parental satisfaction?

I
The Commission appointed MORI to interview in their homes a sample of 1029 parents whose children transferred to secondary/high school for the start of the academic year 1995/96. Further details are given in Exhibit 12.

II
Schools where much or all of the teaching is conducted in Welsh.

III
The Secretary of State may ignore unfilled places in the local area and grant capital money if it is believed that the proposed new places 'would significantly enhance the quality, choice and diversity of education available in the area' (source: DfEE circular 23/94, para 13); but to date this power has been used for only 12 schools (four of which were new), with just over 3,300 places being added in total.

IV
Audit Commission questionnaire to LEAs (n=96).

V
The 1989 ruling of the Court of Appeal that, under the provisions of the Education Act 1980, an LEA could not lawfully pursue an admissions policy which preferred children living in its area to those living outside its area (R v Shadow Education Committee, Greenwich London Borough Council, ex parte Governors of the John Ball Primary School).

23. A survey conducted for the Audit Commission^I of parents whose children had recently transferred to secondary school revealed widespread support for the principles of choice and diversity. Some 92 per cent felt that it was important to be able to express a preference about their child's school. Some parents also strongly valued access to certain types of school: these included 24 per cent wanting their child to attend a denominational school, 14 per cent wanting a selective school, and 4 per cent wanting a GM school. Yet the range of available types of school varies considerably, even between LEAs of a similar nature, largely as a result of historical accident. A further aspect of diversity is to be found in Wales, where there is an increasing demand for children to be educated in Welsh Medium schools.^{II} In the former county of Mid Glamorgan, for example, the total number of secondary pupils fell by 18 per cent from 1980 to 1995 while the proportion in Welsh Medium schools doubled (from 5 per cent to 10 per cent). Preference for single-sex schools is another issue that can cause problems for LEAs, because the demand is usually greater for girls' schools than for boys', yet LEAs are obliged to ensure equality of access to both.

24. In most circumstances, the DfEE's capital allocation procedures do not provide funds for adding capacity to popular schools in England when there are unfilled places in neighbouring schools – even if these are schools of a different type.^{III} LEA questionnaire returns indicate that, for the 125 significant expansions of schools over the period from 1993 to 1996, the popularity of the individual school (rather than, say, an area-wide shortage of places was a factor in only ten of these cases, representing just 5 per cent of the total capacity added to existing schools over the period.^{IV} In short, the schools that are in demand do not tend to expand – and in these cases 'choice' is primarily exercised by the schools deciding which pupils they will accept (through the rationing device of the school's admissions policy), rather than by parents deciding which school their children will attend. In addition, geographical considerations mean that parents in many areas can realistically choose only their local school. Taken together, these factors suggest that genuine choice does not exist for a proportion of parents.

25. In areas where wide diversity and choice do exist, the opportunities for parents are often accessible only through a plethora of admissions arrangements. As a result of recent education legislation and changes to the organisation of local government (notably in inner London and in counties where Local Government Review has created new unitary authorities), admissions policies that were once under a single LEA have now been dispersed. And, with the impact of the Greenwich Judgement,^V the number of parents seeking places across LEA borders has increased. In many areas, there is some co-ordination between admissions authorities. But parents in some parts of the country can express a so-called 'first preference' for up to seven types of secondary school – and more than one preference within some of these types – and be offered places at all of the schools to which they have applied (Case Study 1, overleaf). Without co-ordinated efforts by admissions authorities, parents can hold on to their sheaf of offers, not discarding unwanted preferences until the start of term. This situation causes problems for schools, for parents further down the priority list, and for LEAs and other admissions authorities.

*Case Study 1***Admissions in the Sutton Coldfield area**

As a large metropolitan area, Birmingham offers significant choice and diversity at secondary level. This is particularly the case in Sutton Coldfield, an affluent area to the north of the city. Sutton parents are able to choose from several different types of school, but the lack of a unified admissions system means that they must apply separately to many of their choices. Each separate application is recognised by the admissions authority concerned as a 'first preference'.

A parent living in Sutton Coldfield could make up to seven separate first preference applications, each of which could result in the offer of a place, as follows:

1. one of four LEA-maintained comprehensive schools (one of which is Catholic)
2. one of two LEA-maintained single-sex grammar schools in Sutton
3. one of the five King Edward foundation grammar schools in the city
4. any number of GM schools in Birmingham
5. any number of GM schools in neighbouring LEAs
6. a county or voluntary school in each of the neighbouring LEAs
7. The City Technology College in Solihull, an authority adjacent to Birmingham

Birmingham LEA administers the admissions process for all LEA-maintained schools (that is, 1 and 2 above) so, although a parent may apply for both a selective and a non-selective place, the LEA will know if they have received two offers. For preferences 3 to 7 listed above, however, admissions are administered by five (or more) separate admissions authorities, each working to a different timetable. There is an incentive, therefore, for parents to hold on to offers until they have learnt the result of all their applications. And even then, they are under no obligation to inform the admissions authorities whose offers they intend to reject.

The combination of a wide choice of schools and a fragmented admissions process presents problems for three groups:

schools must over-allocate places to take account of parents who will eventually accept offers elsewhere. All three of Sutton's county schools are popular and oversubscribed – for the September 1996 entry they received 1,429 first preferences and made 866 offers for their 630 places;

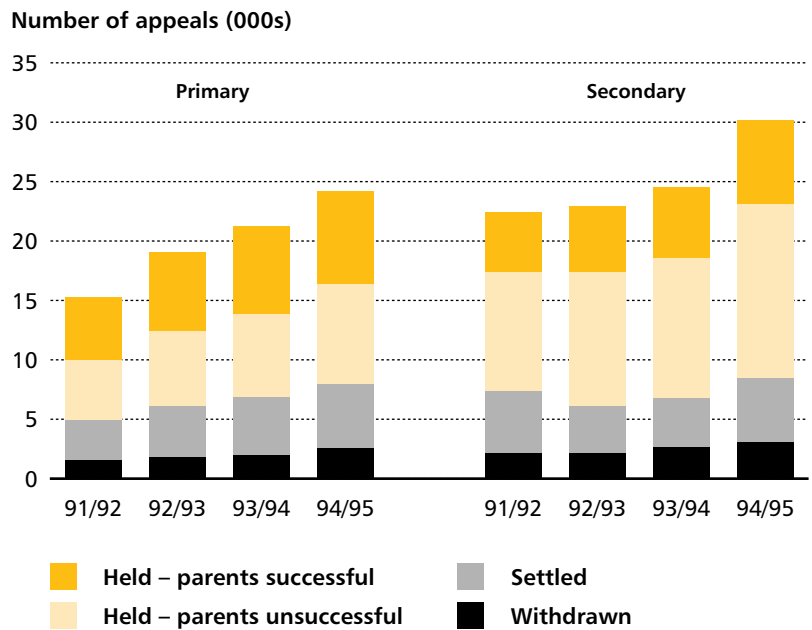
parents who do not receive an offer from their preferred LEA school in the first instance face an anxious wait to see if places subsequently become available; and

the LEA invests considerable time in pursuing parents who have neither accepted nor rejected their LEA offer, reallocating places to parents further down the waiting list when offers are rejected, and managing the appeals process. Sutton's four LEA schools were the subject of 276 admission appeals in 1995/96, equivalent to 25 per cent of the Year 7 intake.

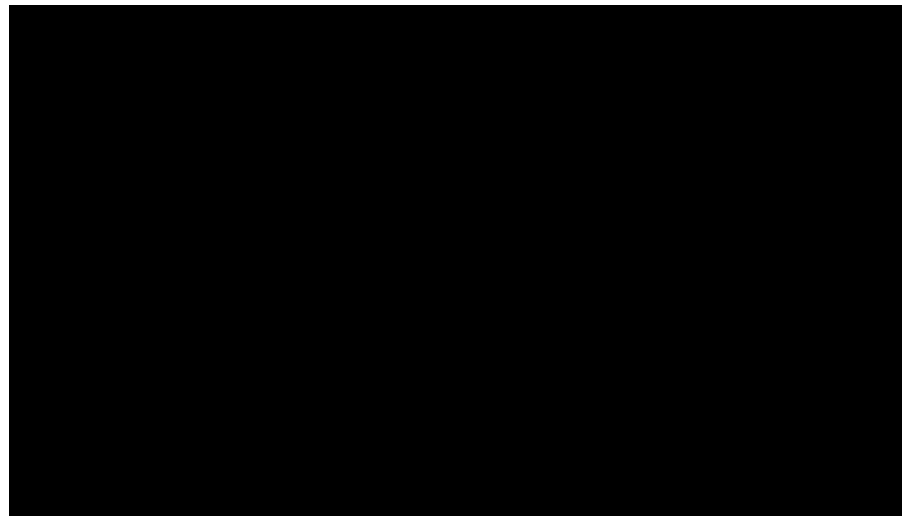
26. One indicator of whether parents are getting what they want for their children is the number of formal appeals against admissions decisions. These are rising sharply: between 1991/92 and 1994/95, the level of appeals increased by 58 per cent in the primary sector and 35 per cent in the secondary sector (Exhibit 10). And these national trends mask the extent of the problem that some authorities face in particular towns and areas. Appeals may be concentrated in ‘hot spots’, where either a shortage of places or a desire by parents to avoid the area’s poor schools leads to dramatically higher rates than the LEA-wide average (Exhibit 11, overleaf).

Exhibit 10
Admissions appeals in England:
1991/92 – 1994/95

Appeals have increased by 58 per cent in the primary sector and 35 per cent in the secondary sector.

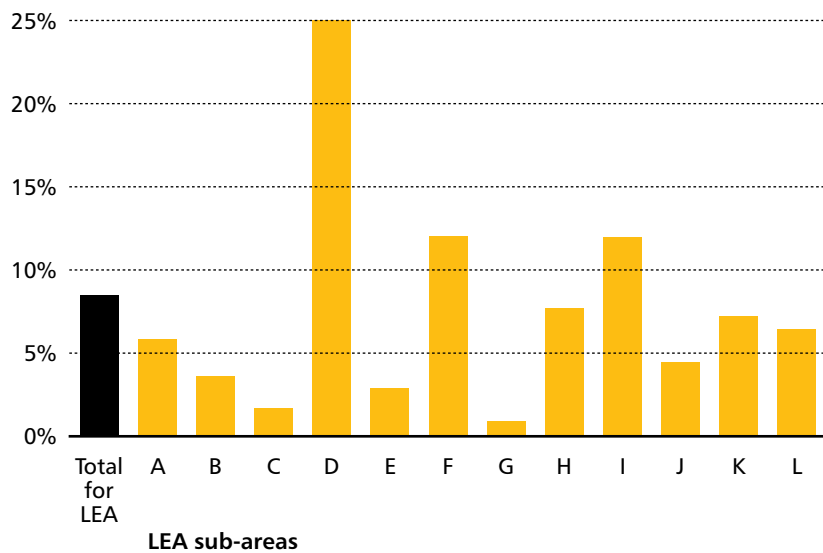


Source: DfEE



*Exhibit 11***Admissions appeals – ‘hot spots’ within an LEA**

Appeals may be concentrated in ‘hot spots’, with dramatically higher rates than the LEA-wide average.

Appeals as a percentage of year 7 pupil numbers

Source: *fieldwork LEA*

27. The national increases are greater than might be expected simply from the rising school-age population, which has risen by 5.3 per cent in the primary sector and 3 per cent in the secondary sector over the period 1992 to 1995. Rising appeals may result from an increased awareness and motivation by parents attempting to get the best for their child. But they may also reflect unmet parental expectations – which, given the high rate of unsuccessful appeals, must often remain unmet. And while successful appeals may satisfy the appellants, they may bring difficulties for the school (which will face an increase in class size), and may cause dissatisfaction for parents whose children already had a place at the school but who face larger classes as a result of the successful appeals. Appeals frequently cause parents distress (as evidenced, for example, in Ref. 7) and make the efficient and effective planning of school places more difficult – yet with rising pupil numbers and parental expectations, the increases of recent years look set to continue.

28. The Audit Commission survey of parents offers further insights into how parents feel about the processes and outcomes of expressing a preference about their children’s schooling. In all five areas where the survey was undertaken, authorities were able to offer the majority of parents a place for their child at the preferred school. But the survey revealed that around 10 per cent of parental preferences could not be met by the admissions authorities. In addition, 9 per cent of parents did not express their genuine first preference.¹ This was for a number of reasons, the most common of which was the belief that their application would not be successful. Some parents did not apply to their real first preference school for fear of being unsuccessful and ending up with a school they wished to avoid – since many LEA admissions systems have the effect of pushing unmet first preferences to the bottom of the queue for

¹ This figure excludes parents who would have preferred an independent or selective school.

other schools. In total, taking into account the limited overlap between these two categories, nearly one parent in five did not get a place for their child at their genuine first preference school. Success in meeting preferences varies between areas, as does the level of overall satisfaction with the process of transfer to secondary schools (Exhibit 12, overleaf). In some parts of the country, the system is able to give nearly all parents what they want for their children, whereas elsewhere, low levels of satisfaction are experienced (in particular, the results from inner London may be an indication of greater difficulties in the capital). Overall, the picture revealed by the interviews is one of a system that is creating high expectations throughout the country and leaving many parents satisfied. This success is to be welcomed. But the existence of a sizeable minority of unsuccessful and dissatisfied parents means that there is no room for complacency.

Summary

29. The current approach to the supply and allocation of school places is:

- ◆ leaving a large number of schools with a significant mismatch between pupils and places;
- ◆ generating inefficient and educationally ineffective outcomes at some schools; and
- ◆ in some areas, offering limited diversity and choice, and resulting in low levels of satisfaction for a significant minority of parents.

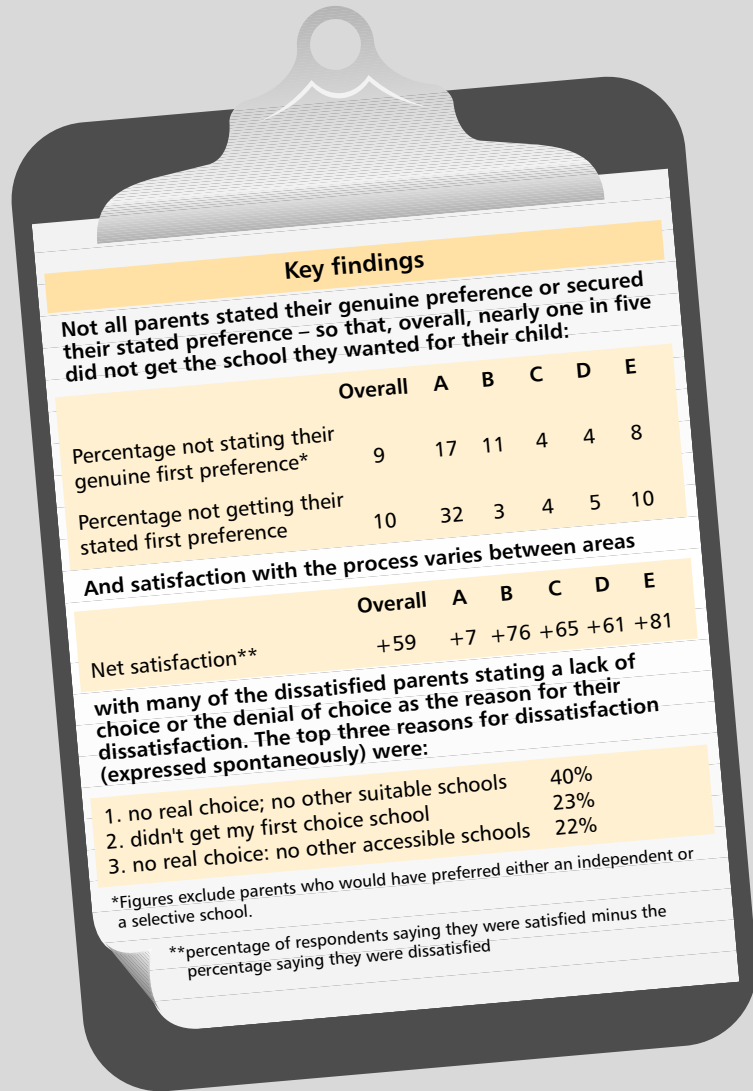
These criticisms should be balanced by a recognition that the current approach, with its emphasis on greater expression of parental preference, has certain advantages over a system where places are allocated solely by the decisions of school admissions authorities: for example, many parents feel a greater sense of influence and control over their children's education. Moreover, the Government would argue that within the context of a range of reforms, increased choice and diversity have resulted in higher standards. Certainly it would be wrong to conclude that the current approach is *creating* all the problems highlighted in this chapter. Many predated the reforms, and arguably some of the reforms have performed a valuable role in bringing others to light. But while the current approach has not created all the problems, it is also not resolving them and is making some of them worse. The causes of these problems are to be found in both *varying LEA performance* and in the *framework of national policy* – issues which are tackled, in turn, in Chapters 2 and 3 of this report.

Exhibit 12
The views of parents

Success in meeting preferences varies between areas, as does the level of overall satisfaction with the process of transfer to secondary schools.

The Commission employed MORI to carry out home interviews of 1029 parents about the process of transferring their children to secondary schools. Samples of around 200 parents were drawn in five areas:

- A – an area contained within an inner London borough LEA
- B – part of a large city, contained within a metropolitan LEA
- C – a large but sparsely populated rural area, contained within a rural county LEA
- D – a medium-sized industrial town in an urban county LEA
- E – a small city in the South East, within a semi-rural county LEA



Source: MORI survey of parents

LEA performance in supplying and allocating school places varies. Poor performance explains, at least in part, a number of the current problems.

LEAs vary in their willingness to tackle problems generated by unfilled places. In many of the LEAs where these problems are most acute, no action has been taken over the past three years to remove places.

In areas experiencing problems with school admissions, the quality of information to parents is often poor. Only 14 per cent of LEAs run a fully unified system of admissions administration which covers all local schools.

Few LEAs have comprehensive strategies and systems for tackling the problems of small schools, small sixth forms and schools in difficulty. There is also scope to improve working relationships with other organisations involved in the planning of school places.

2 The Impact of Varying LEA Performance

Introduction

30. All LEAs work within the same national policy framework, but some achieve better value for money than others. Much of this is down to the practices of individual LEAs. Three main activities make up the LEA task of matching supply with demand:

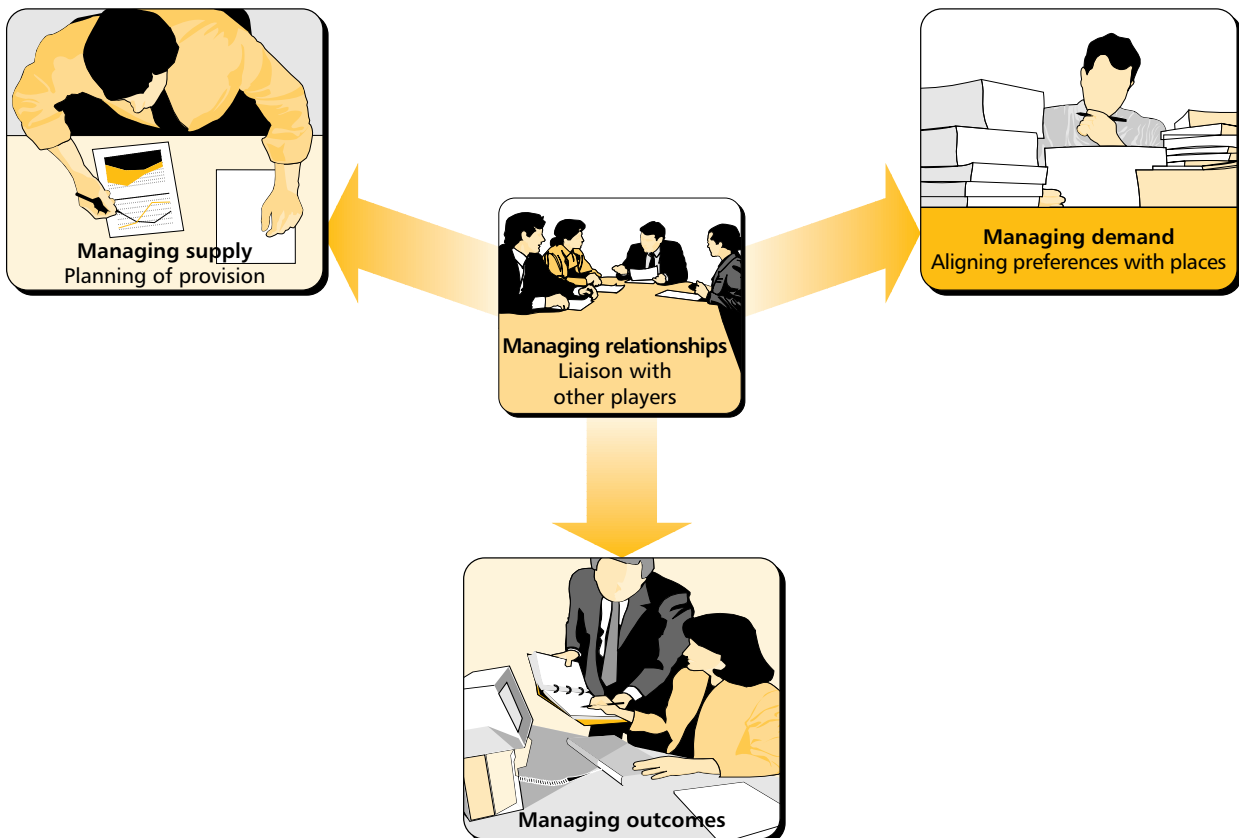
- ◆ **managing the supply of places;**
- ◆ **managing demand** through admissions and appeals procedures; and
- ◆ **managing outcomes** by tackling problems – such as small schools and schools in difficulty – that emerge as a result of attempts to match pupils with places.

Given the dispersed nature of responsibilities for education planning, a fourth activity – **managing relationships** with other organisations and stakeholders – is likely to be central to achieving success in the first three activities (Exhibit 13). Variations in performance can be identified for each activity; and poor LEA performance explains, at least in part, a number of the problems currently experienced within the education system.

Exhibit 13

The planning task

Three main activities make up the LEA task: managing the supply of places; managing demand; and managing outcomes; and a fourth activity – managing relationships – is central to achieving success in the first three.



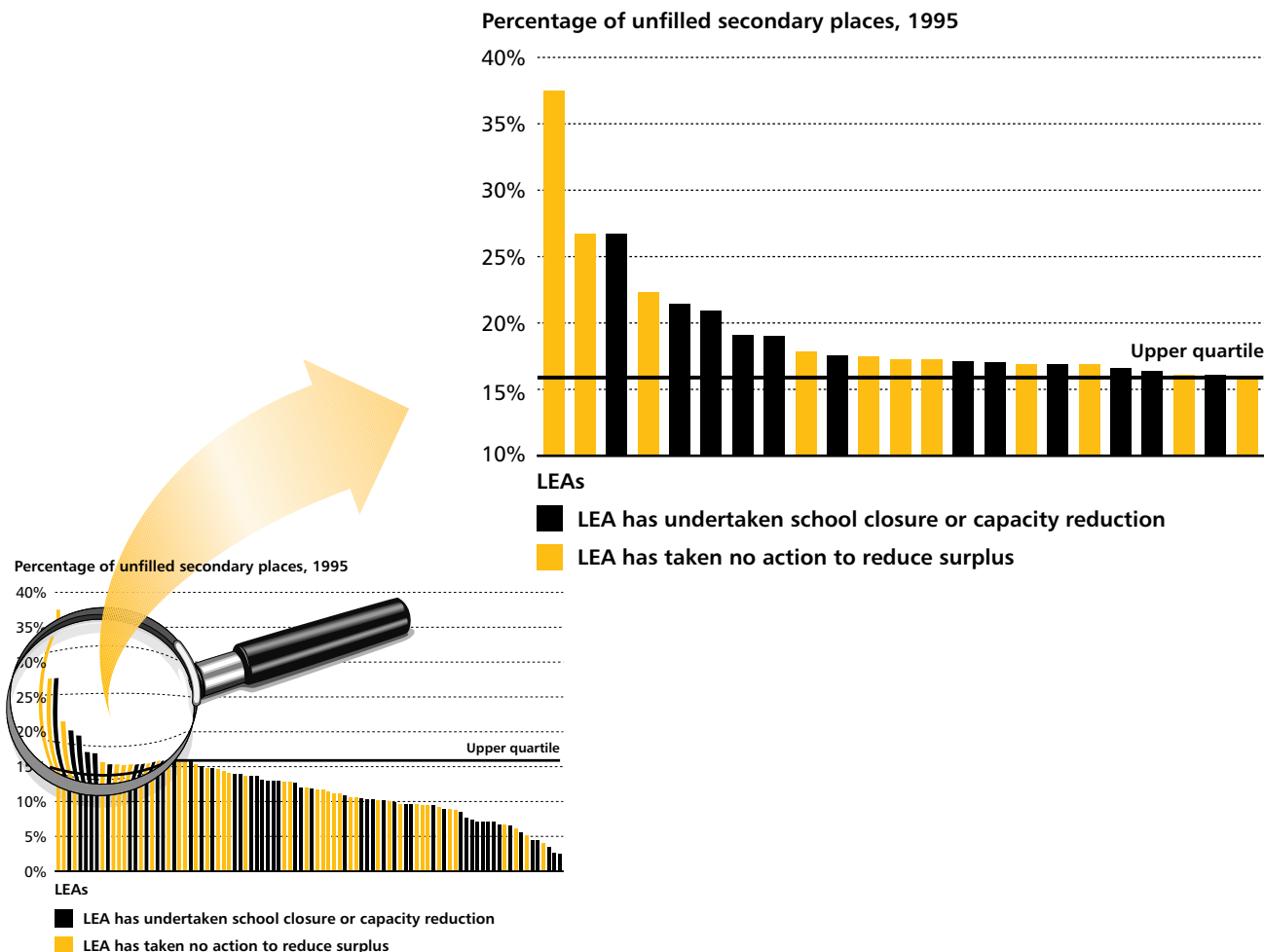
Source: Audit Commission

Managing supply

31. The starting point for managing the supply of places is the possession of accurate and reliable information. Unfortunately, not all authorities have reliable base data on the physical capacity of each school. Moreover, nearly half of all LEAs fail to forecast effectively by firstly, making use of either health authority or GP records (which, though not wholly reliable, appear to be an improvement on the use of Census data); and secondly, reviewing actual numbers against forecasts to identify the scope for improving the methodology. More importantly, LEAs vary in their willingness to tackle problems generated by unfilled places. Of the authorities in the upper quartile for the level of unfilled secondary places (that is, those that would appear to have the greatest need for school rationalisation), half had taken no action over the past three years to remove any places (Exhibit 14).

Exhibit 14
Unfilled places and LEA action

Of the authorities in the upper quartile for the level of unfilled secondary places, almost half had taken no action to remove places over the past three years.



Source: Audit Commission national questionnaire to LEAs – England

Managing demand

32. In the management of admissions, some LEAs offer parents insufficient information and advice to assist with the expression of preferences, often producing admissions brochures that appear to have been written with lawyers and officials, rather than parents, in mind. Co-operation between LEAs and other local admissions authorities (in particular, voluntary-aided and GM schools) varies considerably around the country, with only 14 per cent of LEAs running a unified system of admissions administration covering all secondary schools in their area.¹ Many LEAs have significant problems with appeals against admissions to the schools they maintain (Exhibit 15). The problems relate less to the cost (about £100 per appeal for the LEA) than to the effects on schools and parents. Some of the LEAs experiencing high levels of appeals respond with little more than a solid presentation of the authority's case to an appeals panel. Others have extensive strategies which aim to prevent appeals from arising in the first instance, to discuss alternative options with appellants, and to increase the likelihood of a successful outcome at panel meetings. Over time, such strategies have reduced the difficulties caused by appeals.

Managing outcomes

1

A unified system does not require the LEA to determine the admissions *policy* for all schools, merely to develop and operate common *procedures* to ensure that those policies are implemented.

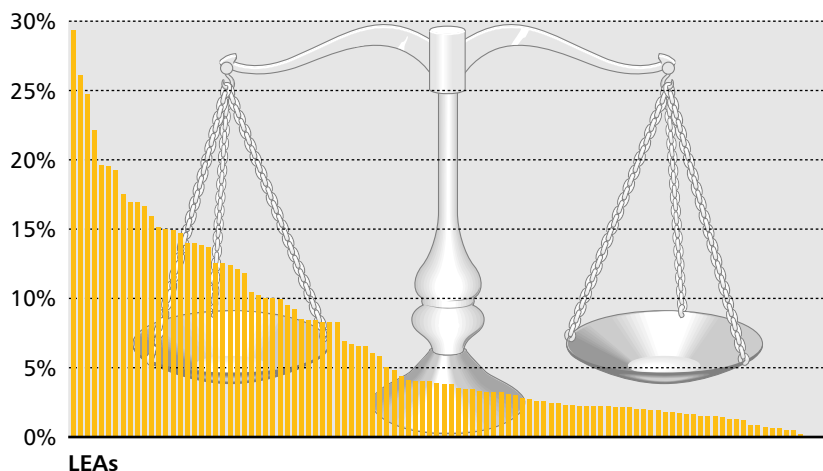
Arrangements can be voluntary or, in the last resort, imposed by the Secretary of State.

33. LEAs' responses to the problems of small schools and small sixth forms range from the sound to the non-existent. For example, only two LEAs visited during the study fieldwork had robust techniques for differentiating between a) those schools which, as a result of a sparse population in an area, were required to meet local needs but almost certain to remain small and b) those schools which were small because of their unpopularity and which therefore could be closed or merged. Nationally, few LEAs have taken steps to tackle the problems of small sixth forms – only five proposals to close or merge sixth forms have been submitted to the DfEE since April 1992, and only a minority of fieldwork LEAs were pursuing alternative means of alleviating the problems, such as the encouragement of collaboration or franchising.

Exhibit 15
Secondary appeals as a percentage of first year admissions, LEA-maintained schools in England, 1994/95

Many LEAs have significant problems with admissions appeals.

Appeals as a percentage of admissions



Source: DfEE

34. Although most LEAs are likely to have some schools that are experiencing difficulties, the capacity for detecting and responding to them varies. While the best LEAs have comprehensive monitoring techniques to ensure the early identification of schools in difficulty and then take action to resolve the problems, other authorities do not. As a result, schools in difficulty may not be tackled effectively until they are designated as ‘failing’ following an Ofsted/OHMCi inspection, by which time the problems may be endemic or chronic, making it more difficult to turn the school around.

Managing relationships

35. Depending on local circumstances, LEAs’ ability to manage supply, demand and outcomes will be influenced by how well they work with a range of other organisations. Authorities may need to establish effective working relationships with some or all of the following: diocesan boards of education, FAS (in Wales, the Welsh Office), GM school governing bodies and foundations, voluntary-aided school governing bodies and foundations, neighbouring LEAs, CTC boards, the FEFCs and individual colleges. Such relationships require goodwill from both sides if they are to be successful. And this is often the outcome: for example, evidence from fieldwork and from questionnaire returns suggests that relationships between LEAs and FAS are generally good. Yet, in circumstances where liaison and joint working are essential for success, many LEAs:

- ◆ do not share forecasting information with neighbouring LEAs and with diocesan boards, and so cannot appreciate possible changes in cross-boundary flows or the likely levels of future demand for places in church schools;
- ◆ have been unwilling or unable to obtain information on the capacity and admission numbers of local GM schools (where less than 10 per cent of the LEA’s pupils are in GM schools, placing these schools outside any planning orbit) and CTCs, and have no arrangements for obtaining information about future development plans;
- ◆ do not share information on admissions policies, and have not developed arrangements for the co-ordination of admissions (see above); and
- ◆ have not established forums in which the various providers of post-16 education can raise any concerns about marketing practices or over/under-provision, and discuss opportunities for the production of joint information for students.

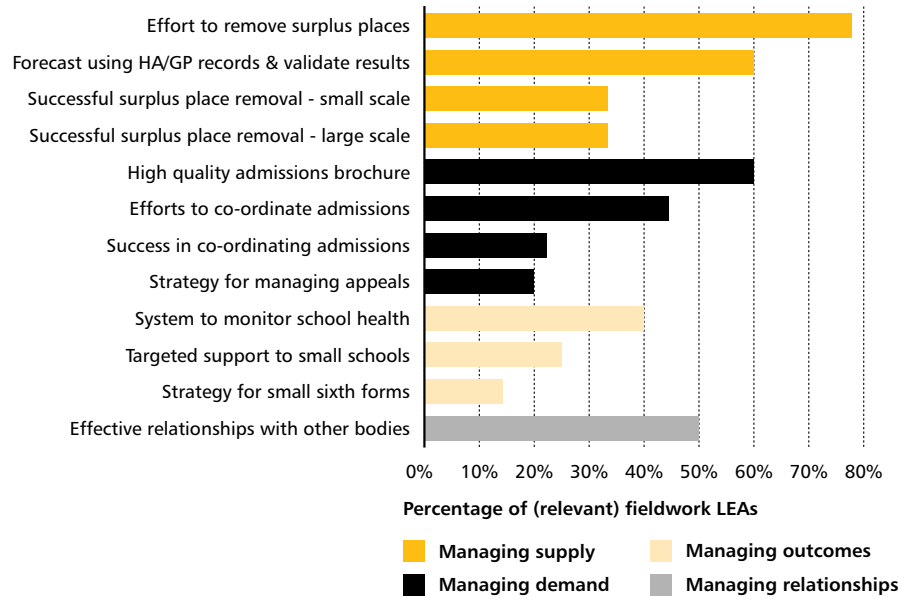
Summary

The high level of fieldwork LEAs’ efforts and success in removing surplus places is, in large part, a consequence of the Commission’s desire to visit authorities that were known to have undertaken rationalisation programmes. The LEA survey returns reveal higher proportions of authority inaction or lack of success (as shown, for example, by Exhibit 14).

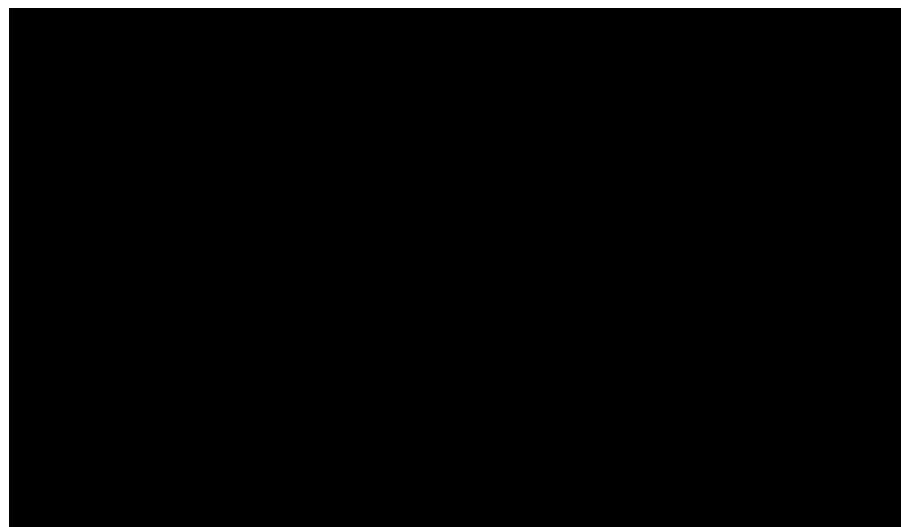
36. The variations in LEA performance are reflected within the sample of fieldwork authorities: some aspects of good practice have been widely adopted¹, while others are rare (Exhibit 16, overleaf). Similar, and often greater, variation is to be found across the sample of 96 authorities that responded to the Commission’s survey of LEAs, suggesting considerable scope for improvement. But to assess whether such local efforts will be sufficient to resolve the problems highlighted earlier in this report, it is necessary to explore the impact of the national framework of policies, regulations and procedures created by central government. It is these issues of national policy that the next Chapter examines.

Exhibit 16
Variations in performance:
fieldwork LEAs

Some aspects of good practice have been widely adopted, while others are rare.



Source: Audit Commission analysis of fieldwork LEAs



Many of the current problems are, in part, attributable to the national framework of legislation, policy and procedure laid down by government.

The system is approaching 'policy gridlock', as the tensions and conflicts between policies prevent any of them from being implemented with full effect. Policies on GM status, capital allocations and school capacity impact on LEAs' ability to achieve value for money.

There is a mismatch of powers and responsibilities at the local level. Neither LEAs nor the FAS are adequately equipped for the local interventions that are necessary to manage the quasi-market. And incentives to achieve value for money – for both LEAs and schools – are limited.

3 The Impact of National Policy

Introduction

37. The problems described in Chapter 1 of this report cannot be attributed entirely to local performance. LEAs' endeavours take place within a policy framework laid down by government; and many of the failures to achieve value for money are, in part, attributable to aspects of this framework. There are three main areas in which the framework is giving rise to problems:

- ◆ the system is approaching '**policy gridlock**', with little opportunity for LEAs to move forward and achieve value for money;
- ◆ the Government has created a **mismatch between powers and responsibilities** at the local level, leaving neither LEAs nor the FAS adequately equipped for the essential task of managing local education 'markets'; and
- ◆ there are **too few incentives** for LEAs, FAS and schools to secure economy, efficiency and effectiveness.

Policy gridlock

38. Government attempts to pursue a wide range of competing policy objectives have generated what can best be described as an impending 'policy gridlock', where the tensions and conflicts between policies prevent any of them from being implemented with full effect (Exhibit 17). It is not possible to move forward on all of these policies, as currently defined, and maximise value for money.

*Exhibit 17***Policy gridlock**

The tensions and conflicts between policies prevent any of them from being implemented with full effect.

‘...the GM issue continues to affect reorganisations...losing savings opportunities and discouraging other LEAs from bringing forward proposals...’

Promoting GM versus promoting economy and efficiency

39. There is a tension between the policy of promoting GM schools and that of ensuring the economic and efficient supply of school places. Schools threatened with closure (or any other reorganisation) by their LEA as part of a scheme to remove surplus places can attempt to escape the axe by seeking GM status. In these circumstances, the Secretary of State must decide whether to approve the LEA proposal or allow the school to become GM. DfEE figures show that in the 111 cases in England between 1989 and September 1996 when the Secretary of State faced this dilemma, 40 per cent of schools were allowed to become GM and thus escape closure. In addition, 21 per cent of LEAs indicated in questionnaire returns that they had experienced further problems related to GM status and reorganisation. In these LEAs, schools identified for possible reorganisation had sought and been granted GM status *before* any statutory notice was issued.

40. In 1994, the DfEE responded to LEAs’ concerns by stating that ‘the Secretary of State will not normally approve applications for GM status which are prompted by the threat of closure arising in the context of a well-founded scheme’ (Ref. 8); and, since the publication of this circular, the rate of GM approval has reduced to below 30 per cent of the 14 conflicting cases that have arisen in 1995 and 1996. But, even with this reduced opt-out rate, the GM issue continues to affect reorganisations (see Case Study 5 below, for example), losing savings opportunities and discouraging other LEAs from bringing forward proposals not just for removing surplus places but also for tackling small sixth forms. In short, although the Secretary of State has clarified the Government’s position, it may be that memories of previous difficulties remain strong among LEAs.

41. There is a further tension between efficient planning and the promotion of GM schools. In authorities where between 10 per cent and 75 per cent of the pupils are in GM schools, both the LEA and FAS can bring forward proposals for new capacity where basic need exists. Ideally, joint planning would lead to both parties agreeing how the need for additional places should be allocated between the LEA and GM sectors. In practice, however, there are instances of both bodies submitting separate proposals to the Secretary of State for a school on the same site to meet the same basic need, with each incurring expenditure on separate design briefs, consultants’ fees, publication of proposals, public consultation, etc. To date, this problem has occurred in only two areas (Colchester and Epsom). In both cases, the Secretary of State endorsed the FAS proposal for new GM schools rather than the LEA’s for new county schools. But such duplication, and the waste and risk of delay that it incurs, may become more frequent as school rolls rise; and, if the proposals in the 1996 White Paper to allow FAS to propose new GM schools in all LEAs become law, duplication may become common.

Promoting choice versus controlling expenditure

42. A more fundamental tension exists between the objective of promoting choice and that of controlling public expenditure on education. Some surplus places are necessary in most areas to allow parents a meaningful choice, whereas the tightest control of public expenditure is best served by eliminating surplus. It is not for the Audit Commission to determine how the balance between these objectives is best struck; but value for money will suffer without clear guidance as to what the balance should be – and a number of LEAs are unclear about where, in the Government’s view, the balance should lie. When it comes to the allocation of capital resources, the interests of economy have been given priority: in England, the DfEE will not normally provide capital to expand existing over-subscribed schools while surplus places exist in other (less popular) local schools – even if these other schools are of a different type (Case Study 2).

43. The Welsh Office has attempted to overcome these problems through the Popular Schools Initiative (PSI). This initiative was set up to address the Secretary of State’s concern that the Welsh system of education did not promote choice and diversity for parents.¹ PSI allowed the Welsh Office to direct capital resources to schools that were deemed to be ‘popular’ – that is, with a roll at or over their physical capacity, consistent and significant levels of oversubscription and continuing pressure on school admissions. Following a bidding exercise, 24 schools will receive £26 million over four years (which represents approximately 13 per cent of the total education capital expenditure), with a total of 2,100 places being added. Six of the winning bids were for Welsh Medium schools, suggesting that PSI has been successful in increasing diversity for parents in some parts of the Principality. But a survey of LEAs revealed that nearly half of the 24 schools face ‘rising demand’ that is caused by increases in the local population, rather than by the school’s intrinsic popularity alone.

Controlling expenditure versus providing a high-quality infrastructure

44. The current system of capital allocations does not just create difficulties in promoting choice and diversity: it also causes problems for LEAs that do not have rising school rolls. English LEAs can secure capital allocations from the DfEE under a number of categories (Box B, p36). More and more of the total resource is going towards the supply of new places for the rising school population (basic need funding), with DfEE formula allocations for existing schools reduced to £30 million – which, even if it was all to be spent on the improvement and replacement of school buildings and facilities, equates to just £1,440 per English LEA-funded school in 1996/97. This means that some LEAs with little or no population growth may effectively be denied capital resources (Exhibit 18, p36), a problem which will have profound implications for the future condition of these LEAs’ building stock and their ability to provide a high-quality education infrastructure.

1

Welsh local authorities do not receive separate education credit approvals and cannot make bids under any of the categories that exist in England (see Box 2 below). Instead, authorities finance their education capital expenditure from the single block approvals granted to them by the Welsh Office.

Case Study 2

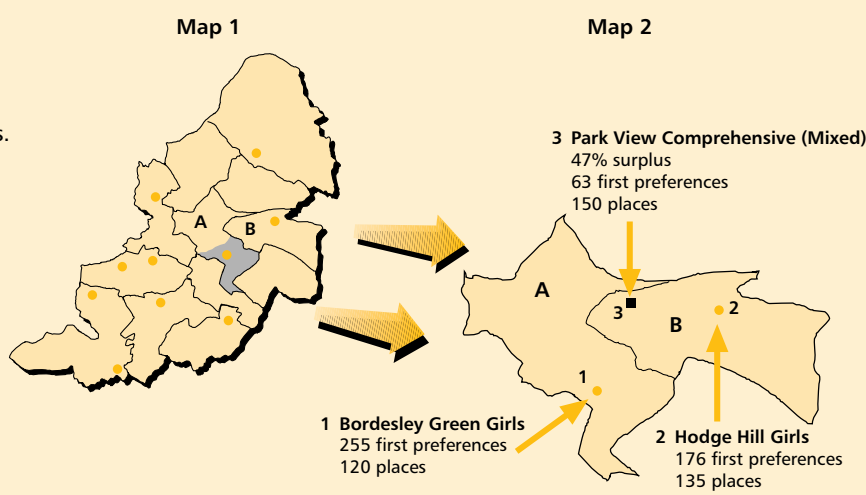
Bordesley Green Girls school, Birmingham LEA

Birmingham’s single-sex girls’ schools are concentrated in the south and west of the city (Map 1 shows the girls’ schools as dots). But within some of the inner-city wards, particularly the southern part of Sparkbrook constituency (the shaded area in Map 1), there is a high percentage of Muslim parents who, for cultural reasons, are keen for their daughters to receive a single-sex education.

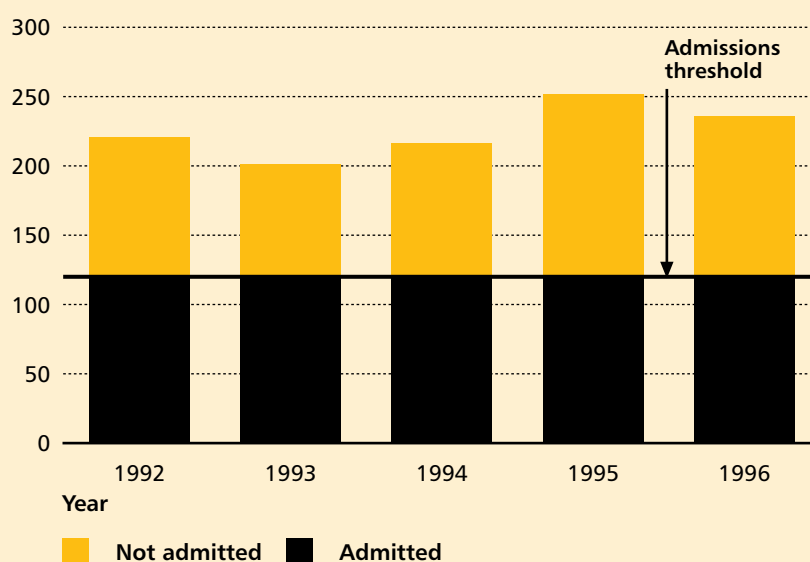
The most convenient girls’ school for these families is Bordesley Green (school 1 on map 2), with an admissions threshold of 120. The school has been extremely popular over the past five years. The number of Birmingham parents expressing Bordesley Green as their first preference school is shown in the exhibit to the right.

Birmingham prioritises applications according to (i) whether the applicant has a sister at the school and (ii) how far the applicant lives from the school. In 1995, this meant that parents who lived more than 0.575 miles from Bordesley Green were not offered a place. The next most convenient girls’ school for the parents who fail to get their daughters into Bordesley Green is Hodge Hill (school 2 on Map 2), which has an admissions threshold of 135. But Hodge Hill has also been oversubscribed in each of the past five years.

From the parents’ perspective, the ideal solution would be to expand either Bordesley Green or Hodge Hill. But within a three-mile radius there are a number of schools with unfilled places. The biggest problem is to be found at Park View (school 3 on map 2) – a co-educational comprehensive which has a surplus of 50 per cent and which attracted just 63 first preferences in September 1996 against its admissions limit of 150. These surplus places mean that any bid to the DfEE for capital funding to expand girls’ school provision in the area is likely to be rejected. So, unless the LEA has other resources available to fund expansion, many parents will be prevented from securing a place at a girls’ school. In short, the difficulties for LEAs of coping with complex local patterns of parental demand are exacerbated by the criteria for the allocation of very limited capital resources – resulting in parental dissatisfaction and disappointment.



Number of first preferences



Box B
Capital allocations to English LEAs from the DfEE

Priority is given to:

- ◆ **basic need** (where additional places are needed for rising school rolls); and
- ◆ **exceptional basic need** (where there is an urgent need to cover the replacement of existing school teaching areas which are condemned, unsafe or structurally unsound, and for which repair is impractical or prohibitively expensive).

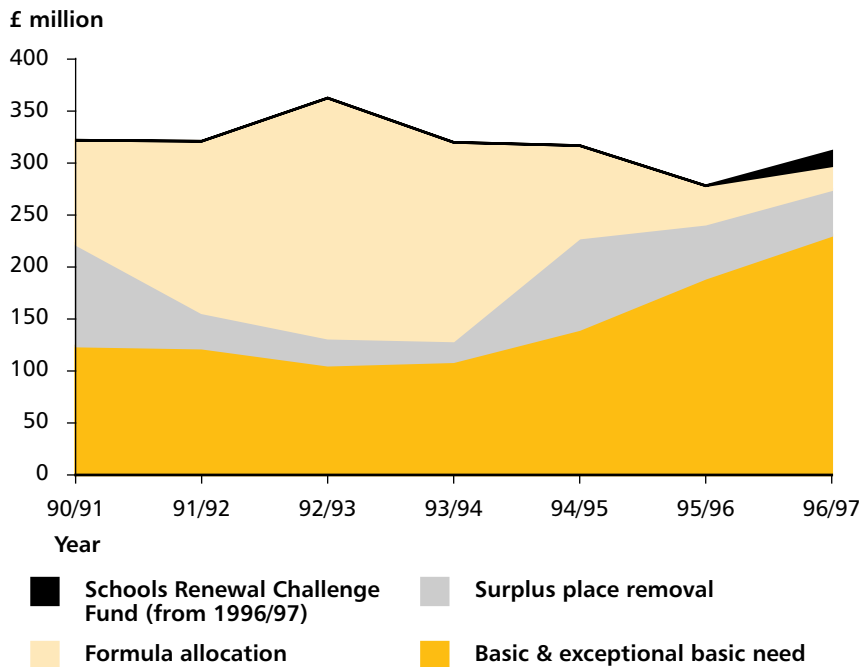
Beyond these priority allocations, capital is made available for:

- ◆ schemes for **surplus place removal** – where the scheme meets an 8 per cent rate of return on the capital sum; and
- ◆ funding for work to meet the needs of pupils with **Special Educational Needs**.

The remaining provision, covering a range of purposes but principally the improvement and replacement of existing buildings is allocated according to a **formula**. From 1996/97, some capital has been made available through the **Schools Renewal Challenge Fund**, to which LEAs can make bids.

Exhibit 18
Capital allocations to English LEAs

More and more of the total resource is going to basic need, meaning that LEAs with little or no population growth may effectively be starved of capital resources.



Source: DfEE

Note:
These figures are the monetary value of each year's allocation with no adjustment for inflation.

Promoting choice and controlling expenditure versus facilitating effectiveness

45. The tension between policy objectives is also manifested in government regulations on the definition of school capacity. The Government prescribes two definitions of school capacity, one of which relates to the whole school and the other to the school's admission year/s (see Appendix 1 for more details) – but these have no necessary relationship to each other. As a consequence, a school's admissions threshold can be above its physical capacity – indeed, in a sample of around 1,300 primary schools in six fieldwork LEAs, this was the case for 48 per cent of schools. In 1989 and 1991, when More Open Enrolment regulations were first introduced for secondary and primary schools respectively, pupil numbers were low and so an inappropriate threshold rarely caused difficulties. But it is now common for popular schools and schools in areas with a rising pupil population to reach their threshold (Case Study 3). And the admissions threshold is not a maximum, only a point at which the school can turn down applications. If any of these rejected pupils appeal successfully, then they must be admitted, thus exacerbating any problems of overcrowding. So a school with a threshold above physical capacity can experience profound difficulties with large classes and insufficient space and facilities. Large classes in popular schools will not necessarily deter applications: but they create a situation where parents are dissatisfied (as a result of the large classes), even though they have been able to secure a place for their child at the preferred school. In short, satisfaction through achieving the school of your choice may be a path to dissatisfaction with its large class sizes.

46. Many LEAs and schools report that large classes may result from a number of other causes, notably the financial and staff recruitment difficulties that some schools face. But even without these difficulties, the Government's system of prescribing standard numbers can force schools into operating with larger classes than they would like. In the late 1980s, standard numbers appeared to be an ideal mechanism for promoting both choice and economy with no knock-on effects: but now choice and economy may be achievable only at the expense of large classes and overcrowding.

Case Study 3

Large class sizes resulting from high standard numbers

Coombe Hill Infants' School in Kingston-upon-Thames is a popular two-form entry school for children aged five to seven years, achieving above-average results for Key Stage 1. The school's standard number is 70, deriving from the admissions limit for 1990/91 published by the LEA. This standard number gives the school a notional size of 210, that is 70 pupils in each of three age groups. However, the physical capacity calculated using the MOE formula is 168, 20 per cent below the number of pupils dictated by the standard number.








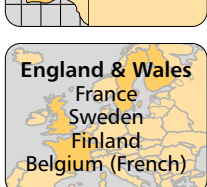
This discrepancy, arising from an unusually high standard number, has an immediate and continuing impact on class sizes at Coombe Hill. As a result of its popularity, the school has had to admit up to its standard number for the last five years, resulting in class sizes of 35 for each of its six classes in all of those years.

Despite such large classes and overcrowding, by no means all parents wishing to gain access to the school are successful. For the current school year there were 16 appeals, two of which were found in favour of the parent; 35 names remain on the waiting list.

Exhibit 19

Capacity – the approaches of other nations

The majority of the countries surveyed have either a nationally recommended minimum space allocation or a maximum class size for primary pupils.

Countries specifying the size or capacity of classrooms	Country	Minimum square metres per class	Maximum children per class
<p>Countries specify the size of schools in a variety of ways when they are built. A set amount of space per child may be laid down, or alternatively a set amount per class. The space may relate to the area of the classroom or to all school building space.</p> <p>National rules for new classroom sizes and/or maximum numbers in all <i>primary school classes</i> include those shown to the right:</p>	 <p>Austria</p>	<p>55-60m² (regulations)</p>	<p>30 (legislation)</p>
	 <p>Belgium (Flemish)</p>	<p>54m² (compulsory guidelines)</p>	<p>30 (advisory guidelines)</p>
	 <p>Italy</p>	<p>61m² (legislation)</p>	<p>25 (legislation)</p>
	 <p>Netherlands</p>	<p>60m² (resource allocation for normal-size class of 25-30)</p>	<p>No maximum</p>
	 <p>New Zealand</p>	<p>65m² (recommended)</p>	<p>No maximum</p>
	 <p>Norway</p>	<p>No minimum</p>	<p>28 (legislation)</p>
	 <p>Portugal</p>	<p>48m² (advisory guidelines)</p>	<p>24 (advisory guidelines)</p>
	 <p>England & Wales France Sweden Finland Belgium (French)</p>	<p>No minimum</p>	<p>No maximum</p>

Source: Audit Commission survey of OECD countries

47. The approach in England and Wales to determining school capacity is relatively unusual among OECD countries. There are many different systems for relating capacity to admissions, and any comparisons should be treated with caution. However, it is worth noting that, in the case of primary schools, the majority of the 10 countries¹ surveyed by the Commission either build classrooms to a specified space standard, or limit the number of children per class, or both (Exhibit 19). Within the English and Welsh systems, the device that came nearest to a recommended space standard was the ‘minimum teaching area’ prescribed by the 1981 School Premises Regulations – but these minimum standards were abolished by the Government from September 1996.

A mismatch between local powers and responsibilities

48. A series of Education Acts and White Papers since 1980 has led to a significant increase in the powers of the DfEE and Welsh Office in the supply and allocation of school places (Exhibit 20). It may be that the Government’s motivation in assuming this increased role is to attempt to ensure that other bodies, particularly LEAs, act to fulfil their duties and responsibilities satisfactorily. But many LEA officers argue that three of the main reasons for limited action by authorities are:

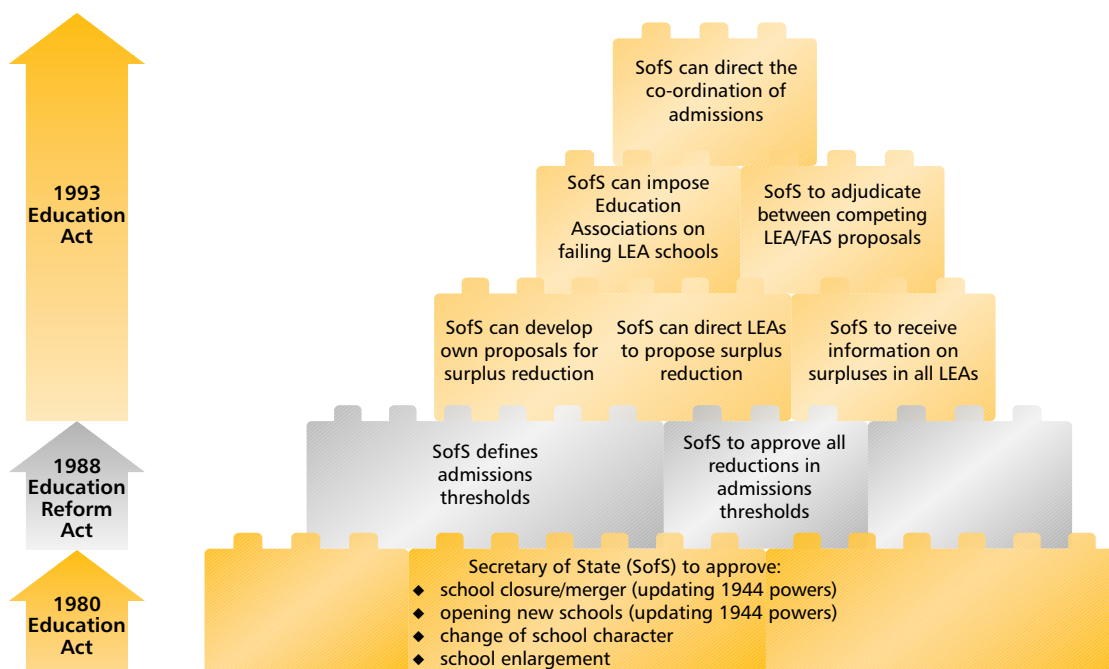
- ◆ confusion, given the conflicting policy objectives, about what exactly it is that they are meant to achieve;
- ◆ a loss of some powers to central government; and
- ◆ the dispersal of other powers between LEAs, schools, FAS and the FEFCs.

I
The US and Germany were excluded because they are federal countries with many different systems.

Exhibit 20

The growth of DfEE and Welsh Office powers

There has been a significant increase in the powers of the DfEE and the Welsh Office in the supply and allocation of school places.



Note: the current Education Bill proposes further powers for the DfEE and Welsh Office

Source: Audit Commission

Thus there is a danger of establishing a vicious circle. Dispersal of LEA powers encourages central government to take more powers to itself; which in turn limits the scope and incentives for LEAs to act of their own volition; which in turn encourages central government to assume more powers of direction and co-ordination; which in turn reduces the LEA role still further. This approach does not appear to be the best way to resolve problems arising from the quasi-market. Such problems require local intelligence, local judgement and local action – and national government is too remote to be able to provide these as quickly¹ or as effectively as a local agency.

49. If one regards LEAs' 'responsibilities' merely as the duty to secure the supply of sufficient places, then their powers – to add capacity and bid for basic need capital funding – are adequate. But if responsibilities are viewed more broadly – covering, for example, the pursuit of value for money, the raising of standards and intervention to tackle difficulties within the local 'market' for education – then neither LEAs nor FAS are well-served by the current statutory framework. Judged from this perspective, the Government has created a mismatch between powers and responsibilities at the local level. LEAs have no statutory duty to plan education provision in their area, only to ensure a sufficient supply of places. LEAs also have limited powers to overcome problems with admissions in an area; and can only influence, not direct, schools in difficulty to make changes before an Ofsted/OHMCi inspection has declared those schools to be 'failing'. And where LEAs do have power, they have little scope for autonomy in its use: every change to all of the 23,000 LEA-financed schools in England and Wales – from closing a large urban secondary school to reducing the admissions threshold of a village primary school – must be referred to central government for decision if more than ten local electors object or if the Secretary of State wishes to determine the proposal (and it should be noted that all changes to admissions thresholds require government approval). While the Secretary of State allows many minor and technical proposals to be determined by LEAs, the majority of significant proposals concerning the supply and allocation of school places are decided in Whitehall or the Welsh Office.

50. The powers of FAS are even weaker. FAS' powers in respect of adding capacity – whether through proposing new schools or directing an increase in the admissions threshold of existing schools – are strong. But it cannot set or direct any GM school's admissions policies; nor can it direct any reduction of capacity short of closure (and, to date, there have been no school closures in the GM sector); nor can it determine any change in character – for example, around the reinstatement or closure of a school sixth form.

51. While the current dispersal of functions between LEAs, central government, schools and other agencies has left LEAs with an increasingly limited set of powers, they retain responsibilities – both in law and in the eyes of local parents. So, for example, the Government may continue to express concerns about an LEA's high level of unfilled places, parents will continue to complain about admissions difficulties, and criticisms will continue to be made from various quarters about the waste and ineffectiveness arising from schools

¹

For example, over the period 1/4/92-31/3/95 the DfEE aimed to reach decisions on each statutory notice issued by an LEA within 5 months of its publication, but met this target on only 36% of occasions.

in difficulty, small schools and small sixth forms. From Parliament to parish, people look to LEAs to make the current system work. And this is understandable: left to its own devices, the quasi-market cannot be depended upon to produce the desired outcome of consistently high quality, cost-effective education. Instead, it risks producing a supply of atomised schools, with few of the popular schools expanding to meet demand (because of difficulties in securing access to capital) and very few of the unpopular schools closing (because of LMS protection). Atomisation may bring further difficulties around school admissions. For example, once individual schools are able to set their own admissions policies independently of each other, a situation could arise in which *all* schools in an area opt to select a proportion of their pupils according to academic ability – which may not be in the interest of the local children who fail to be selected for any school.

52. The potential for such problems to arise within a quasi-market suggests a need for effective local intervention and co-ordination to ‘manage the market’. This conclusion has been drawn by the New Zealand government following the experience of that country’s market reforms in education (Case Study 4, overleaf): draft legislation has been discussed by the New Zealand government with other parties, but had not been introduced by the time of the 1996 election. But in England and Wales, effective local intervention is hindered by the current mismatch of powers and responsibilities.

Too few incentives

53. The current funding arrangements create a mix of incentives and disincentives for LEAs to remove surplus provision. Authorities can secure capital resources from the DfEE for the removal of surplus places, where the savings from removal meet government rate-of-return targets. But they enjoy little influence over the revenue savings from school closures since, under LMS, the funding formula automatically reallocates the bulk of the money to the new schools that will educate the displaced pupils. Yet because not *all* of the delegated school budgets are pupil-driven, and because there is no requirement on schools to pay an asset rent for the use of their buildings, it is possible for under-utilised, unpopular or small schools to continue to survive financially. Such schools are often kept afloat by subsidies to allow satisfactory delivery of the curriculum where pupil numbers cannot generate sufficient money for a full complement of teachers; or by formula allocations that are made on the basis of premises-related factors, providing income for the school regardless of the number of pupils. And formula funding creates little incentive for schools to embark on any significant expansions of capacity, because the marginal revenue from having more pupils on roll will be matched by the marginal cost of taking on extra teachers for the additional pupils, making the school no better off overall. In short, the ‘quasi-market’ could be viewed as falling between two stools: it is not sufficiently planned to give agencies a strong set of incentives to intervene, but it is also not sufficiently ‘market-like’ to ensure that desired outcomes occur automatically.

Case Study 4
New Zealand's market reforms in education

Responsibilities for education in New Zealand are shared between the Ministry of Education, which owns the schools buildings, and boards of school trustees, which are responsible not only for school management but also in law for the attendance of enrolled pupils. Until the introduction of open parental choice in 1991, the country was organised into catchment areas or zones. If a popular school had spare places once it had met its zonal obligations, these places were balloted. Thus 'parental choice' was largely residential choice.

Open enrolment altered this approach, replacing zones with a requirement on schools to publish enrolment schemes which had to meet requirements of Human Rights and Race Relations legislation. The role of the ministry was reduced to certifying that an enrolment scheme was required to remove the threat of overcrowding. The new enrolment regime was introduced at a time when rolls were growing in the North Island and the cities, but reducing in the more rural South Island. Some of the key consequences have been that:

- ◆ popular schools are able to choose their pupils through their enrolment schemes;
- ◆ there has been acute pressure on the older inner-city schools (usually single-sex and with good reputations), while outer-city schools with poorer reputations have struggled with lower-ability intakes; and
- ◆ some rural schools have experienced difficulties in remaining viable as rolls have fallen, partly because of the willingness and ability of parents to drive their children to more popular schools, which are often many miles away.

These experiences have resulted in a series of policy adjustments. For example, school improvement programmes have been introduced to revive schools with falling rolls in areas of rising pupil numbers, and some funds have been set aside to allow popular schools to expand in response to the exercise of parental choice. But there is a more fundamental recognition that the Ministry cannot leave the situation to the market: rather, there is a need to discharge a planning role, not only in assessing demographic changes and teacher supply, but also in providing buildings.

Overall, the New Zealand experience emphasises that although parental choice is popular with satisfied parents, it is no panacea for the provision of quality education to the entire school population. The education system needs supplementary programmes to deal with both unpopularity and success. A ringholding agency must be concerned about pupil participation (threatened by non-attendance and exclusions) and achievement, and must have the capacity to operate at a more extensive level than the individual school. In short, having dismantled much of its capacity to plan and to intervene, the New Zealand education system is re-inventing the means to ensure that the benefits of parental choice are not neutralised by any consequent social and financial side-effects.

Summary

54. As mentioned in the Introduction, the Government views recent education reforms as an integrated package, which has led to an increase in standards. This report does not consider the entire framework of education policy, merely the value for money achieved by LEAs in the supply and allocation of school places. However, given the creation of a quasi-market in education, it is difficult to avoid wider considerations about the impact of government reforms on education standards. Whether the market reforms contribute significantly to increases in education standards is controversial: while the Government may be convinced of their contribution, it could also be argued that any increase in standards has resulted from the national curriculum, testing and inspection. Evidence of the contribution of the quasi-market alone is not available. But it is clear from this report that the way in which the quasi-market operates is not maximising value for money in the planning and supply of school places. Ministers may wish to pay this price in return for their belief that market reforms contribute to educational effectiveness. However, the price is significant, not only in terms of finance but also in terms of the choice, educational experience and satisfaction of a sizeable minority of parents and their children.

‘The challenge is to review the system and enable an even greater proportion of children to enjoy the benefits of higher standards of education.’

55. National policies contribute to many of the difficulties currently experienced in the supply and allocation of school places. The national framework both gives rise to problems and, at the same time, fails to provide LEAs with sufficient powers and incentives to tackle them. Often, the balance between risk and reward is weighed in favour of the former, resulting in a lack of action by the LEA. But government policy has not created a sufficiently powerful set of market mechanisms which, by forcing uneconomic and ineffective schools out of business, removes the need for LEAs to intervene. The challenge is to review the system and enable an even greater proportion of children to enjoy the benefits of higher standards of education. Currently, the prospects of improvement in the operation of the market are not convincing. What is perceived by the DfEE as the progressive establishment of a coherent framework is seen by LEAs as the dismantling of their capability to operate effectively. This conflict of perceptions risks gridlock. It needs to be broken.

LEAs can secure better value for money under the current approach by adopting good practice. Authorities should review their performance in supplying places, managing admissions, and responding to outcomes that give financial and/or educational cause for concern. The Government can assist them by restating its support for local efforts to plan provision. It can also encourage and support more effective relationships between LEAs and other planning bodies.

But the Government should also review the national framework for planning school places. There are many options for avoiding the impending policy gridlock: the Government must choose its priorities and ensure that policies are adjusted accordingly. Local agencies should be given the powers and autonomy to play a greater role in managing the market for education. And there is a range of initiatives that could be introduced to create more powerful incentives for LEAs and schools to operate more efficiently and effectively.

4 What Needs to be Done

Action by LEAs

56. Criticisms of national policy are no excuse for LEA inactivity. It is possible for the LEAs that fall short of good practice to make improvements within the current framework. The Government can encourage LEAs to make these improvements by restating its support for local efforts to manage the supply and allocation of places. In particular, it can impress upon LEAs and FAS the need to bring forward proposals for rationalisation where these are justified in financial and educational terms. The Commission's forthcoming management handbook on the supply and allocation of school places will explore these local improvement opportunities in detail, but some are worth highlighting in this report. Auditors will be reviewing most LEAs over the coming year and identifying how well their approaches compare with good practice.

Managing supply

57. Many LEAs could improve pupil forecasting, by using health authority or GP data and undertaking retrospective analysis of forecasts against actual figures, and keep more accurate records of school capacity. Where this information reveals the need for extra places, LEAs should try to ensure that capacity additions reflect local parental preferences for school type (for example, single-sex or denominational). LEAs with surplus places should consider how best to remove them. This will not necessarily require a large-scale reorganisation programme. Many LEAs have removed surplus places through a range of cost-effective approaches that stop short of major rationalisation or school closure. These include removing temporary accommodation where it has no educational use; encouraging non-school use of surplus space on a school site (though there is a need to ensure that these other uses do not jeopardise the safe and effective education of children); and pursuing reorganisation that ensures the continuing existence of a school in the area – for example, through the merging of separate infant and junior schools. But LEAs should concentrate their efforts on schools where the occupancy rate is 75 per cent or less, since these offer the greatest scope for closure or the removal of an entire accommodation block – the ways of removing capacity that generate the greatest financial savings.

58. Reorganisation programmes can be either large-scale, tackling problems across the LEA (Case Study 5, overleaf) or smaller-scale, focusing efforts on a single area or a single school. Different approaches are appropriate in different circumstances. An LEA with a strong political commitment to rationalisation and a need to address authority-wide issues – such as a move from a three- to a two-tier system – might best tackle its problems via a single scheme, implemented in a single year or scheduled over a three- to five-year period; whereas an LEA with a more tentative member-level commitment might be better suited to a rolling programme of area reviews. When determining which schools should be reduced in size or closed, good practice authorities have attempted to create an 'infrastructure' of provision which best fits the authority's population distribution – so that capacity is removed from areas that no longer need a school or have insufficient pupil numbers to retain one cost-effectively.

Case Study 5
Large-scale reorganisation: Warwickshire LEA
Background

At the beginning of the 1990s, Warwickshire had a three-tier system of primary, middle and high schools, with transfer to secondary school taking place at age 12. Surplus places were high – 19 per cent overall (16 per cent primary and 24 per cent secondary) – and had prevented access to capital resources for a number of years. Warwickshire is a capped authority, so funds for much-needed school improvement could not easily be found from revenue resources. The financial arguments for school rationalisation were strengthened by the educational case for a two-tier system, with transfer at age 11 to tie in with the key stages of the National Curriculum.

Timescale

County-wide consultation on the principles and objectives for reorganisation took place in spring 1992. A public opinion survey carried out at this stage showed that the majority of parents were in favour of change. Reorganisation began in one area the following year and the process was extended to the rest of the county at the end of 1993. All proposals had been implemented by September 1996.

Outcome

Surplus places are projected to fall to 9 per cent by 1999 (13 per cent for primary and 4 per cent for secondary), resulting in an annual saving of £1.7 million. Ninety-eight per cent of statutory proposals were agreed by the Secretary of State – but five schools earmarked for closure were able to obtain GM status, thereby reducing the number of places removed and the savings to the county. The LEA and relevant voluntary-aided authorities obtained approval to spend a total of £30 million of surplus place removal capital from the DfEE as a result of the reorganisation, enabling significant investment in schools throughout the county.

Good practice points

- ◆ The authority-wide focus of the reorganisation programme was appropriate, given that surplus place problems existed throughout the county and the age of transfer was to be changed.
- ◆ An extensive three-stage consultation process was operated, signing up all concerned to the objectives and principles of the reorganisation process before it began, consulting on formative proposals and again on the formal proposals drawn up in the light of responses.
- ◆ Specific proposals were put forward and advocated by *officers*, enabling members to attend public meetings in an observer role and thus not having to express their opinion publicly until formal proposals had been agreed.
- ◆ A code of practice for teacher appointments and redeployments was drawn up and agreed with unions and school governors before the reorganisation began.
- ◆ The LEA and the diocesan authorities acted in partnership throughout the process, with all reports to LEA committees being joint reports.
- ◆ The LEA established and maintained a good relationship with officers of the DfEE Territorial Team.
- ◆ LEA officers produced high-quality written information for members, parents and schools at each of the key decision-making and consultation stages in the reorganisation programme.

59. Any reorganisation that involves school closure will almost always attract strong opposition from parents, staff and the local community. But evidence from fieldwork LEAs indicates that this opposition can largely be overcome when proposals have the support and commitment of elected members and are based on thorough research and option appraisal (in particular, a full appraisal of the likely financial savings, costs and educational benefits resulting from the reorganisation, taking capital receipts and home-to-school transport into account). Most importantly, proposals should be developed and progressed through effective communication and consultation with schools, staff and unions, parents and other planning bodies. Good practice fieldwork LEAs held open discussions with all interested parties at the start of their reorganisation

‘...admissions problems could be alleviated by better co-ordination between the different admissions authorities in an area.’

programmes. This enabled LEAs to establish a common recognition and understanding of the problems that the LEA wanted to tackle and the principles that would be used in evaluating options, before moving on to a second stage of consultation over the options for resolving the problems. Although this approach took longer and required more staff time, it made eventual success more likely.

Managing demand

60. Local improvement opportunities also exist in the management of demand. School admissions procedures could be improved both for parents and LEAs by developing more informative and accessible admissions brochures and establishing other channels through which parents can seek and receive advice. In many parts of the country, admissions problems could be alleviated by better co-ordination between the different admissions authorities in an area. LEAs should take the lead in trying to create single application forms through which parents can state their preferences, and to establish synchronised dates for parents to contact admissions authorities and for authorities to respond. Where multiple first preferences create difficulties, LEAs should be proactive in trying to overcome them. This might be achieved by canvassing support from all local admissions authorities in an area for a voluntary agreement to co-ordinate procedures, as has been established in Hillingdon LEA. Where this is not possible, LEAs should consider applying to the DfEE for a formal co-ordination agreement (granted under section 430 of the 1996 Education Act), as has happened in Sutton LEA and in parts of Essex LEA.

61. Opportunities also exist to minimise the problems created by rising admissions appeals. LEAs can encourage parents to express more realistic preferences, and meet dissatisfied parents to negotiate a satisfactory alternative offer that removes the need for the parents to submit an appeal. They can also train the members of appeals panels so that they are fully aware of the educational consequences of their decisions, and raise the standard of LEA case preparation and presentation. Partly as a result of adopting these practices, Southwark LEA experienced a 50 per cent reduction in the number of appeals over the period 1991/92 to 1993/94.

Managing outcomes

62. LEAs should also review their arrangements for the effective management of problems arising from attempts to align supply with demand – what this report has termed the ‘management of outcomes’. If small schools and small sixth forms are not going to be closed as part of an LEA’s efforts to secure the right number of places in the right locations, then other ways must be found of managing the financial and educational problems that they create. For example:

- ◆ financial support to small schools via protection factors in the LMS formula should be targeted to those schools that the LEA believes to be essential. LEAs can also promote clustering arrangements, which bring groups of small schools together to share expertise and resources (for example, specialist teaching staff whom none of the schools could fund wholly from its individual budget); and

- ◆ sixth forms with a number on roll of less than 150 should be reviewed to ensure educational and financial health. Where problems are identified in a small sixth form, but closure is not felt to be desirable or possible, LEAs should explore the scope for encouraging collaboration with other sixth forms, the organisation of consortia or franchising arrangements.

63. When facing schools in difficulty, LEAs can secure better value for money by intervening promptly than by relying upon the quasi-market to resolve problems over time. Since the quasi-market does not contain mechanisms of sufficient strength to force such schools to turn around or close quickly, they can struggle for a number of years, condemning pupils to a poor-quality education unless their parents are willing and able to transfer them to another school. The best way for LEAs to avoid problems with schools in difficulty is to prevent such schools from arising in the first place. To this end, Leeds LEA has established the Family of Schools initiative, where schools are encouraged to work together and support each other in their efforts to deliver high-quality education. Essex LEA has established a Schools Development Team to work alongside its Inspection and Curriculum Development teams, helping schools to address issues of teaching and learning methods. And where schools do get into difficulty, good practice involves:

- ◆ detecting problems at an early stage through a rigorous system for monitoring school health, gathering data regularly on educational performance, discipline, pupil numbers, parental preference, financial standing, staff turnover, governor turnover, etc; and
- ◆ if schools identified as being in difficulty are not to be closed, turning them around quickly through the work of the LEA inspectorate, the support of other schools, and (where necessary) changes to the school's management. In short, while the principal locus for school improvement needs to remain with the school, there is much that LEAs can do to assist and support this improvement. If LEAs are to work effectively, however, there is a need at a national level to align resources with responsibilities, ensuring that the regime of delegation does not leave the LEA with insufficient funds for its own direction of inspection and advisory work: if LEAs have no money, they will not be able to obtain value.

Managing relationships

64. Finally, LEAs should adopt good practice in managing relationships with other organisations, ensuring that contact is open and constructive. Depending on the LEA's circumstances, there may be a need to share information on school capacity and pupil forecasts, discuss how best to add or remove capacity, co-ordinate admissions procedures, and overcome difficulties and disagreements in the 16 to 19 sector. Good practice LEAs:

- ◆ establish communication channels that allow planned contact at appropriate intervals, with full exchange of information;
- ◆ discuss any proposal for the addition or removal of capacity with interested parties at an early stage;

‘...the framework of national policy must be reviewed.’

- ◆ ensure that publicity and information for school admissions arrangements and 16 to 19 provision detail the full range of options for parents, rather than merely those options within the jurisdiction of the LEA; and
- ◆ run forums in which the various providers of post-16 education can raise concerns about marketing practices of other schools and colleges or about any over/under-provision, with the LEA acting as ‘honest broker’ between the competing suppliers.

The Government should encourage and support LEAs in their efforts to develop and maintain effective relationships. One way of doing this would be to highlight and endorse impressive examples of local arrangements for joint working, such as those referred to in Case Study 5 above (p46).

Action at a national level

65. But local efforts alone will not be sufficient to tackle the problems: in addition, the framework of national policy must be reviewed. It is not possible to devise a faultless framework; any approach will contain drawbacks, not least because of the inevitable balances and compromises that need to be struck between conflicting policy objectives. In considering changes to the national framework, the Commission has no remit to question the broad direction of government policy and has therefore confined its deliberations to approaches that would retain a quasi-market. But under section 27 of the 1982 Local Government Finance Act, the Commission has a duty to comment on the effect of government policy on authorities’ capacity to operate economically, efficiently and effectively. In making such comments, it is appropriate to consider the broad principles on which changes might be based and to explore some of the ways in which these principles might be realised. The analysis in the previous chapter suggests that reform should be guided by three key principles:

- ◆ **achieving clarity and consistency** – the Government needs to avoid the impending ‘policy gridlock’ by choosing a clear order of priority between conflicting policies, or by finding a different way of striking a balance between them;
- ◆ **allowing local action** – the national framework should ensure appropriate devolution to align the powers and responsibilities of local agencies, since effective interventions are more likely to be made at the local level; and
- ◆ **creating incentives** – the Government should explore options for strengthening incentives within the system, particularly for tackling surplus places and unpopular or failing schools.

Achieving clarity and consistency

66. One way of resolving the tension between the policies of encouraging GM and promoting effective local planning would be to close off the ‘GM escape route’ available to schools which are threatened by reorganisation. This would not require the abolition of GM status, merely a stronger assurance than the one given in Circular 23/94 that LEA planning would not be undermined by schools’ attempts to opt out. For example, provisions could be introduced to prevent a school from seeking GM status for, say, a set period after the LEA had formally included it within a local review of provision, with safeguards to prevent an LEA from producing a series of such reports to place ‘GM blight’

‘...there is a need to choose between competing priorities...’

on a school. The major argument against such an approach is that it would place limits on the freedom of a school to seek GM status – and that it would therefore run contrary to the policy of allowing schools to exercise this freedom whenever they and their pupils’ parents felt it to be right, irrespective of any other considerations. In short, this is an area where the Government should consider its priorities.

67. Other areas for review include the arrangements for capital funding and the regulations on school capacity, particularly the setting of admissions thresholds. Many of the problems with the current system of capital allocation arise because there is insufficient capital finance to lubricate the operation of the quasi-market: with basic need taking first priority there is little money available to expand popular schools, but without the expansion of popular schools or the introduction of new suppliers, market forces are strangled. This is not to argue for an increase in education capital expenditure, but rather to point out that the implementation of one government policy blocks the implementation of another, and to draw the conclusion that there is a need to choose between competing priorities. If additional resources are not available to lubricate the market but there is a desire to address some of the problems raised by the current approach to capital allocation, options include:

- ◆ for basic need, directing more funding to LEAs via a formula-based approach (perhaps with provisional allocations for a number of years, rather than one year at a time) instead of allocating all money in response to bids. Such an approach would need safeguards to prevent abuse by authorities submitting inaccurate data and to cover the risk of pupils being left without places, but it may offer a more satisfactory and less bureaucratic means of allocating funds to authorities;
- ◆ for non-basic need funding, operating a bid-led system based on the submission of annual plans, thus making the capital allocation method for education more like the housing system of annual Housing Investment Programme submissions to central government; and
- ◆ exploring the opportunities for private finance to assist with the development and maintenance of school buildings and facilities.

These issues will be explored in greater detail in the Commission’s forthcoming report on the capital financing system, due for publication in mid-1997.

68. The problems surrounding school capacity appear more intractable. While economy and choice are currently being satisfied at the expense of educational effectiveness, any attempt to reduce class size or overcrowding can succeed only by increasing resources or by denying some pupils a place at the preferred school. In short, this is another area where there is a need to choose between competing policy objectives. But this choice does not need to be made by central government: it may be more appropriate for the balance between choice, economy and educational effectiveness to be struck by local agencies in the light of local circumstances. One safeguard against abuse of this local discretion could be to continue with a nationally prescribed definition of physical capacity (along the lines of the current MOE measure, but perhaps revised to take account of the requirements of the National Curriculum) and to prevent agencies from setting an admissions limit below the school’s physical capacity.

69. The tension between choice and economy is at the heart of many of the difficulties currently experienced within the education system. There are a number of ways in which central government could improve the clarity and impact of its policy to promote parental choice – all of which have the principal drawback of requiring an increase in expenditure (though any increase would in part be offset by the savings arising from the implementation of this report's recommendations):

- ◆ the Government could prescribe a level of unfilled places to be retained in each LEA (or each type of LEA) as a buffer for the promotion of choice between schools. This would allow the maintenance of some opportunity to choose, even where the local school-age population increases;
- ◆ it could establish a national fund to which bids could be made for resources to expand popular schools (explored in paragraph 77 below);
- ◆ it could change the method for allocating credit approvals so that the granting of basic need recognised all the different types of school. This would allow increases in demand for single-sex and denominational schools to be funded, even if there were unfilled places in nearby mixed or county schools; and
- ◆ a variation on this last approach might be to establish a clearer national statement of entitlement to choice. This has been adopted in the Netherlands, where parents are entitled to send their child to one of three types of school – municipal, Catholic or Protestant – provided that a minimum number of other parents in the area share this preference. Such an approach would bring greater clarity to parental understanding of choice and would help to resolve the difficulties with the provision of single-sex or denominational places (highlighted in Case Study 2 above).

70. An alternative route is to look for approaches that promote choice without incurring additional expenditure. One such approach, which might be feasible in urban areas, is to take a different view of what constitutes a school. Traditionally, schools have been seen as sets of buildings and facilities; but they could be regarded as the educational communities (principally the staff and pupils) that happen to occupy particular buildings at any given time. This concept raises the possibility of more than one 'school' operating out of a set of buildings, and of successful education providers taking on the buildings and pupils of a nearby unsuccessful provider, if the latter dropped below a financial or quality threshold. The planning challenge of this approach would be to ensure an appropriate infrastructure of school buildings, then create incentives and mechanisms to ensure that unsuccessful providers close and others enter to fill the gap.

Increasing the scope for local action

71. Central government may wish to grant local agencies the powers to play a stronger role in managing the local market for primary and secondary education. It is a matter for government to decide which agencies should have this role: the key principle is that local problems are solved most effectively by agencies operating at the local level. Such agencies could be given duties to plan the supply and allocation of places in the local area, to co-ordinate admissions if a set percentage of admissions authorities agreed, and to

intervene where a school was not delivering an adequate standard of education (by, for example, triggering an Ofsted/OHMCI inspection).

72. Whichever agency was given these duties, there would need to be a framework for setting objectives and reaching decisions about local provision, with opportunities for all interested parties to express views on how value for money – including educational effectiveness – could best be achieved. One approach would be for agencies to develop Local Education Plans (Box C), consulting extensively with interested bodies in the area. These plans, covering a three- to five-year period, would be submitted to central government for approval, after which as many decisions as possible should be taken by the agency without reference to the Secretary of State, provided that the decisions were consistent with the approved plan. The experience of Scotland (Case Study 6) suggests that a less centralised system of regulation

Box C

Local Education Plans

A Local Education Plan (LEP) could be an effective means of creating a strategic framework for the supply and allocation of school places in an area. Prepared by the responsible local planning agency through extensive consultation with local education 'stakeholders' (including governing bodies, diocesan boards, local colleges, the FEFC and the public), the LEP could:

- ◆ identify issues around supply, demand and quality that were likely to arise in the area over a three to five year period, and include details of the action proposed by the local agency to respond to these issues;
- ◆ require the local agency to project the level of unfilled places, estimate the proportion of these that might be necessary for population growth and volatility, and therefore determine the residual level of surplus that should be removed (although the Plan should not identify individual schools for closure);
- ◆ contain a statement of the local 'entitlement to choice' that the agency felt was appropriate, given central government objectives, resource constraints and patterns of demand. The entitlement could take forms other than a bald statement of the types of school that the agency would provide. It might also take the form of networks – perhaps operating across local authorities in urban areas – of comprehensive schools with different specialisms, if there was evidence of local parental demand for this sort of diversity;
- ◆ give details of the arrangements that the local agency would establish for the monitoring of school health over the course of the plan; and
- ◆ include outcome targets; for example, for surplus places and first preferences met.

By defining the levels of surplus to be maintained for volatility and the local entitlement to choice, the LEP could act as a mechanism for trading off economy and choice. The device could shift the debate about choice from a national to a local level, and allow an explicit recognition of the fact that choice will vary from area to area. Most importantly, it would allow these issues to be debated openly between the local planning agency, other stakeholders and central government.

This approach to enhanced local planning would need to be matched with changes to the role of the DfEE and the Welsh Office. Under a regime of greater local power and autonomy, the key planning roles for the Secretaries of State could be to:

- ◆ consider draft plans and receive any objections from local stakeholders to those plans (in particular, adjudicating between the local planning agency and denominational interests where these conflicted);
- ◆ satisfy himself/herself that the local plans supported and reflected any national initiatives concerning the supply or allocation of places, the promotion of parental choice and the monitoring of school quality;
- ◆ approve the plans or direct amendments to be made, thus allowing the Secretaries of State the opportunity to tackle recalcitrant local agencies; and
- ◆ monitor performance over the life of the plan against agreed objectives and targets.

Within the framework of approved LEPs, as many decisions as possible should then be taken by local agencies without reference to central government.

*Case Study 6***Relations between local agencies and central government – Scotland**

Education authorities in Scotland have more autonomy to manage the supply and allocation of places in their areas. The Scottish Office has less of a role than the DfEE in England or the Welsh Office in Wales, both in terms of setting frameworks and making decisions. However, when the Scottish Office does become involved, its role is felt by authorities to be helpful and supportive. Key differences between the Scottish and the English/Welsh approaches are:

Capacity definitions, appeals and class size: unlike England and Wales, Scotland has no national formulae for determining school capacity or school admissions limits. Authorities are free to decide their own approaches, and most have based admissions limits on agreed class size maxima. This allows authorities to defend themselves against admissions appeals on cost as well as educational grounds: appeals can be rejected if the authority can demonstrate that admitting the appellant would require another teacher to be employed. The approach also ensures that few schools have a number on roll in excess of their physical capacity. Finally, the use of class size maxima (set at 33, except for primary mixed-age classes where the limit is 25 and secondary classes in practical subjects where the limit is 20) helps to keep average class sizes below those in England.

School reorganisation: authorities are required to consult locally over any proposals to close a school, change its character or modify its admissions policy. Proposals need to be referred to the Secretary of State in only three circumstances:

- ◆ where the school is more than 80 per cent full;
- ◆ when any child in attendance at that school would have to attend a different school at a distance of five miles or more (primary) or ten miles or more (secondary) from the school proposed for closure; and
- ◆ where the school has a religious character and a senior representative of the relevant denomination makes a written representation to the Secretary of State, arguing that the proposal would be seriously detrimental to religious education.

This regime allows Scottish authorities to take a greater proportion of decisions for themselves, and reduces the administrative burden on the Secretary of State.

GM and reorganisation: a number of school boards – the Scottish equivalent of governing bodies – have used the procedures for self-governing status (the Scottish equivalent to GM status) to delay or frustrate school closure proposals. The Scottish Office has responded to the concerns of education authorities on this issue and an amendment to the procedures has been made in the Education (Scotland) Act 1996 which will prevent school boards from seeking self-governing status once a decision has been taken by the LEA to consult on reorganisation proposals.

Government/LEA relations: although the Scottish Office plays a much smaller part in the detail of education planning, it is nevertheless felt by LEAs to be an important partner, acting in a responsive and supportive fashion. For example, in response to suggestions from LEAs, the Secretary of State amended in the Education (Scotland) Act 1996 the legislation allowing parents to make placing requests to schools of their choice. The amendment will allow authorities to reserve a number of places in schools to accommodate additional pupils who might come into the catchment area through such developments as new housing or other changes in the locality.

and decision-making can work effectively, allowing local agencies the necessary autonomy to implement proposals while preserving the rights of affected schools and denominational bodies to seek arbitration where appropriate. Although it would not be appropriate to aim for Scotland's level of surplus places (which are higher than in England, primarily because of Scotland's geography and demographic changes), it might be desirable to adopt some of its procedures, which make education planning and surplus place removal easier.

Creating incentives and trigger mechanisms

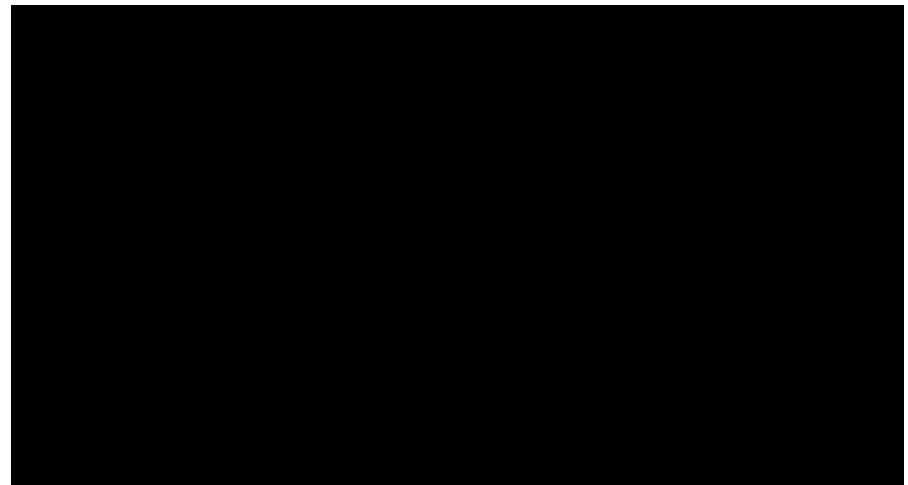
73. There is no single simple solution that can overcome all the problems arising from the current lack of incentives to match supply and demand. One approach might be to create stronger financial incentives to deliver desired outcomes. This could be achieved through the introduction of asset rents or an

increase – from the current proportion of 80 per cent – in the funding that is pupil-driven. Making schools pay a rent for their buildings and facilities would create strong incentives to expand, contract or close depending on the school's popularity. For example, if the school had too few pupils to pay its asset rent, then there would be a need to remove any surplus accommodation (in order to reduce the rent) or, in extremis, for the school to close. On the other hand, a popular school would have sufficient funds from its larger roll to pay a higher asset rent: this money could fund the interest payments on a loan to expand its existing buildings. The actual model of asset rental that should be applied to schools would need some development and piloting.

74. If introduced, such devices would need to be used intelligently by local agencies, because a mechanistic application might jeopardise the survival of many schools that there is no practical alternative but to retain. A variation on this theme, which might help to achieve similar outcomes while allowing more flexibility, is to prescribe – either nationally or in Local Education Plans – a series of triggers for size and occupancy rates. These triggers would need to be sensitive to issues of school type, area type and population distribution, but should nevertheless be capable of being set from a national level. When a school dropped below the trigger point, the planning agency would be required to consider its future and pursue its closure unless there were overwhelming arguments in favour of its retention. Proceeding on the assumption of closure until the case for retention had been proven might provide a useful spur for rationalisation. But it could also prove a useful mechanism for small rural schools to ensure that they have the explicit backing of the local agency – and the additional funds, via small school protection factors, that this would bring.

75. If such devices were felt to be inappropriate, there are a number of alternative means for building incentives for both LEAs and schools into the system. For example:

- ◆ the Government could encourage popular schools to expand by establishing a national fund (along the lines of the Welsh PSI, but with clearer criteria) to which LEAs and schools could bid – although if this fund were to be top-sliced from current resources, there would be a danger



of exacerbating other problems (for example, those arising from the limited improvement and replacement programme);

- ◆ LEAs could be given stronger incentives to take out surplus provision; for example, by further changing the regulations governing the use of capital receipts so that 100 per cent of the proceeds arising from any school closure could be used to improve the education infrastructure in the rest of the authority;
- ◆ schools targeted for merger – whether to overcome difficulties of size or surplus places – would have a stronger incentive to co-operate if the resulting school was able to keep the revenue savings arising from the merger for a fixed period, say two to three years (this approach has been adopted successfully in New Zealand); and
- ◆ if LMS formulae reduced the amount of delegated funding driven by property factors (and, instead, increased the amount allocated through targeted protection programmes), schools would have less of a disincentive to give up blocks of accommodation that had been identified as surplus. This option can be pursued by LEAs under the current framework, but government direction could ensure its full implementation.

Summary

76. There are no utopian solutions that will overcome all the current problems of securing value for money in the supply and allocation of school places. While there are difficulties with the current approach, any realistic alternative will also have pros and cons. Arguments can be made against many of the potential changes to the national framework discussed above – indeed, such arguments can be viewed as an inevitable consequence of attempting to pursue policy objectives that conflict. But the three *principles* that underpin these changes – avoiding the impending gridlock by choosing priorities between competing policies, encouraging action at a local level wherever possible, and creating incentives to bring about the desired results – are likely to be central to any reforms of the national framework that bring about improved value for money.

Effective local intervention is necessary to manage the education 'quasi-market'. But LEAs' attempts at intervention and management are hampered – sometimes by their own poor performance, but also by the defects of the national policy framework.

Tackling the current shortcomings will require effort at both a local and a national level. These efforts could yield both financial savings (ultimately, around £100 million) and improved educational effectiveness and quality.

5 Conclusions

77. These outcomes, and the balances that will inevitably be struck between them given limited resources, can be achieved only by active intervention to manage the market. The analysis and arguments in this report suggest that such intervention and management is best undertaken at a local level. But local intervention and management is currently undermined – and sometimes prevented – by three problems:

- ◆ the conflicts and tensions within the national framework that have led to an impending policy gridlock;
- ◆ the mismatch between the powers and responsibilities of local planning agencies; and
- ◆ the lack of incentives to bring about the desired outcomes.

78. Tackling the shortcomings of the current approach will require effort at both a local and national level (Exhibit 21, overleaf). The desired outcomes of economy, efficiency, educational effectiveness and the satisfaction of parental choice will not be achieved automatically through the operation of the market alone. Some of the national changes will require legislation. Such efforts can yield the financial savings that the Commission has identified: the eventual prize of £100 million a year is substantial, attractive and realisable. But implementation of this report's recommendations can also help to create a climate within which national and local government can best address the most important challenge facing the education service – the raising of standards across all schools, to equip the current generation of pupils for the challenges of the next century.

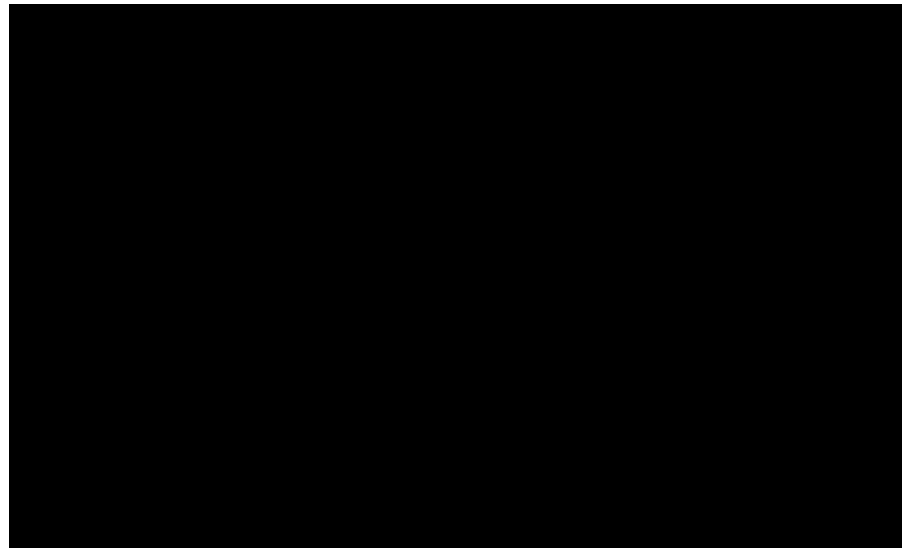
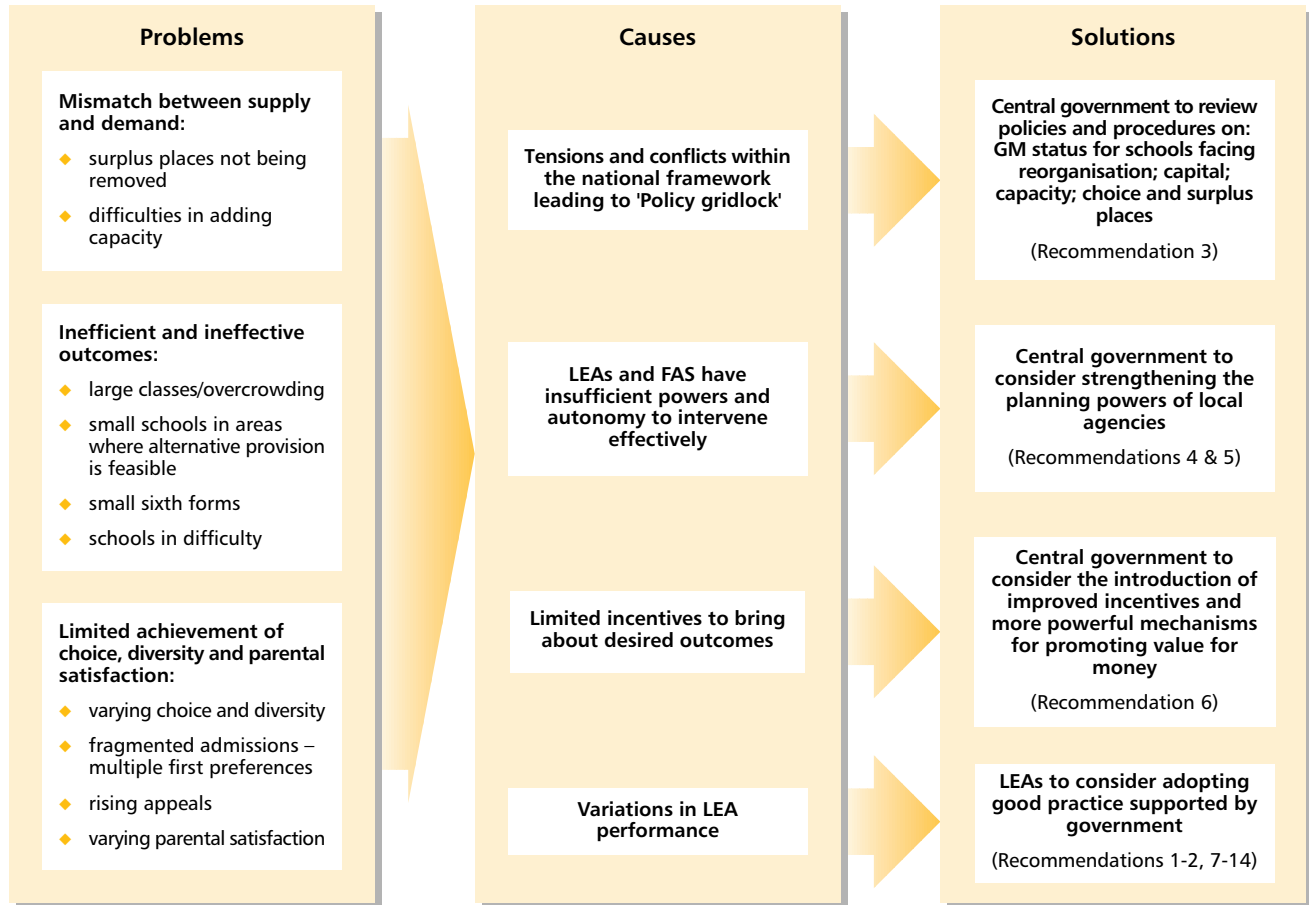


Exhibit 21

Planning of school places: problems, causes, solutions

Tackling the shortcomings of the current approach will require effort at both a local and national level



Source: Audit Commission

Recommendations

Recommendations to central government

(a) To make the current approach work better

1 Restate its support for local efforts to manage the supply and allocation of places, and impress upon LEAs and FAS the need to bring forward proposals for rationalisation where these are justified in financial and educational terms (para 53).

2 Encourage and support effective working relationships between LEAs and other bodies with responsibility for the supply and allocation of places (para 61).

(b) To change the current approach

3 Consider options for tackling the impending policy gridlock by reviewing the consistency between existing policies and procedures on:

- ◆ GM status for schools facing reorganisation;
- ◆ capital;
- ◆ the definition of school capacity and the setting of admissions limits;
- ◆ the entitlement of parents to choose; and
- ◆ the balance between promoting choice and tackling surplus places (paras 63-67).

4 Consider options for ways of giving more effective powers to local agencies (LEAs and FAS) to plan provision, and consider the introduction of mechanisms which allow central government to retain a role in approving strategies for local provision while granting maximum autonomy to local agencies to implement agreed strategies (paras 68-69).

5 Consider options for ways of giving local agencies more powers to manage the market in their area; in particular, to co-ordinate admissions and to tackle failing schools (para 68).

6 Consider options for the introduction of an improved set of incentives and trigger mechanisms to promote value for money; for example, the use of asset rents or the development of school roll/surplus triggers, below which a school would be reviewed and expected to close unless there were compelling arguments for its continuing existence (paras 70-72).

Recommendations for local action

-
- 7** **Adopt good practice pupil forecasting arrangements**, developing systems that estimate reliably the demand for places in the LEA (para 54) and **maintaining up-to-date capacity records**, covering the space available at each school and its use (para 54).
-
- 8** **Bring forward proposals to add new capacity** when pupil numbers generate the need; ensure that, wherever possible, the form of the new capacity accords with local parental preferences (para 54).
-
- 9** **Identify scope for removing surplus places**, whether through minor changes, non-school use, partial removal of capacity or school mergers/closure; **concentrate on schools with greater than 25 per cent unfilled places** (para 54). If there is scope to remove places, **choose the most appropriate reorganisation strategy** for the LEA's circumstances and **adopt good practice** in communication, advocacy, member involvement, staffing resources and option appraisal (paras 55-56).
-
- 10** **Manage demand for places** by providing accessible advice and information about admissions policies, attempting to co-ordinate the administration of local admissions to overcome the problems around multiple first preferences, and pursuing strategies aimed at controlling the overall level of appeals (paras 57-58).
-
- 11** Identify all LEA-maintained primary schools with a roll less than 90 and secondary schools with a roll less than 600 (if no sixth form) or 700 (with a sixth form), and **determine whether these small schools should be retained or expanded/closed**, ensuring proper financial and educational support for the small schools in the first category (para 59).
-
- 12** **Review smaller sixth forms** (that is, those with 150 or fewer pupils); if financial or educational problems exist, attempt to overcome these by encouraging collaboration, consortia and franchising and, if these prove unsuccessful, issuing statutory proposals for the removal of school sixth forms (para 59).
-

Recommendations for local action continued...

13 **Tackle schools in difficulty** within the LEA by establishing comprehensive systems for the monitoring of school health, which allow the early identification of problems, and help these schools to recover by directing resources (including LEA inspectorate and advisory staff) to support them – or ensure their rapid closure if they cannot be turned around (para 60).

14 **Develop and maintain open and constructive relationships** with other bodies involved in the supply and allocation of school places; in particular, governing bodies, diocesan boards, FAS and central government departments (para 61).

Appendix 1: Definitions of Capacity – Standard Numbers and Physical Capacity

Standard Number/Approved Admissions Number

The purpose of the Standard Number (SN)/Approved Admissions Number (AAN)^I is to act as a **minimum threshold for pupil numbers in each principal admission year**. Each school is required to admit pupils on demand^{II} up to the limit of the SN for that year. If applications exceed the SN for the admission year, it is for the admissions authority to decide whether those pupils should be admitted or whether their admission would prejudice the efficient and effective provision of education. The SN is not an admissions ceiling: an authority can admit over its SN, and is free to set and publicise a higher admissions number than the SN (and some choose to do so). Moreover, parents whose children have been refused admission to a school have the right to appeal – and, if their appeal is successful, the school is bound to admit them, even if admitting them takes the number on roll above the SN.

Since the purpose of the SN concept is to maximise the scope to meet parental choice, SNs are selected by taking the highest number from a menu of possible figures:

for *secondary schools*, SN is the higher of the admission year's number of pupils in 1979/80, the number in 1989/90 or any higher admission number set out in a statutory proposal for the school; and

for *primary schools*, SN is the higher of the admission year's physical capacity, the average number of pupils per year group in 1990/91, the admissions number in 1990/91, or any higher admission number set out in a statutory proposal for the school.

More Open Enrolment (MOE) physical capacity

The purpose of the MOE measure is to provide a **measure of physical capacity for the whole school**. It is calculated according to formulae prescribed by the DfEE and Welsh Office. The MOE figure is compared with the number on roll to produce an annual statement of surplus places at each school.

Because the two definitions of capacity have different purposes and are calculated in different ways, there is no necessary relationship between the two. Thus a school can be overcrowded in terms of having a number on roll greater than its MOE physical capacity, but still be required to admit pupils in an admission year because it has a high standard number.

I
County, voluntary and special agreement schools have Standard Numbers; GM schools have Approved Admissions Numbers.

II
Unless the school is an aided or special agreement school with an arrangement to preserve its - generally religious - character, or is fully selective.

Appendix 2: Methodology for Calculating National Savings Opportunities

Estimating the number of places that could be removed

In five sample LEAs, including one from each of the four main authority types¹, the following procedure was adopted:

1. Separately for primary and secondary schools, identify all schools with an occupancy rate of less than 75 per cent.
2. For each school with less than 75 per cent occupancy, identify any other schools with unfilled places within a radius of two miles (primary schools) or three miles (secondary schools). Taking account of any projected rise in pupil numbers over the next four years across the area, assess whether there is scope to accommodate in these schools all the children from the school with less than 75 per cent occupancy.
3. If yes, assume that the under-utilised school can be closed. If no, assume that capacity at the school could be reduced (either by removing some temporary or permanent accommodation or by non-school use of part of the buildings) such that 90 per cent of the remaining physical capacity is filled.

This analysis generated a figure for the total number of places removed from the schools with an occupancy rate of less than 75 per cent (namely, the sum of total MOE capacity at the schools identified for closure plus MOE reduction at the schools identified for some reduction in capacity). In order to reflect the ‘real-life’ problems encountered in school rationalisation programmes, the total was reduced by 20 per cent. This adjustment was designed to reflect the experiences of fieldwork authorities, where few rationalisation programmes had been implemented in their entirety: individual proposals may be altered following local consultation, they may not be endorsed by members, or the school proposed for closure may apply for and obtain GM status.

The resultant figure, representing the number of places that each sample LEA could realistically remove using the methodology outlined above, was then expressed as a percentage of the total number of unfilled places in schools with an occupancy rate of less than 75 per cent for that LEA. This percentage was then used to derive a target percentage for each type of LEA, and applied to the known number of unfilled places in schools below 75 per cent occupancy in each LEA nationwide.

1

Inner London boroughs, outer London boroughs, metropolitan districts and counties. The sample was not entirely made up of fieldwork authorities.

Estimating financial savings

Financial savings have been derived directly from the LMS formulae in the sample LEAs. The following assumptions were made:

- (i) in the event of a school closing, it was assumed that the entire non-Age Weighted Pupil Unit (AWPU) driven portion of the school's budget can be saved;
- (ii) in the case of capacity reduction, it was assumed that the property-related element of the school's budget would reduce commensurate with the reduction in capacity.

In each sample LEA, savings were calculated separately for primary and secondary schools and then divided by the number of places removed. Averaged across all the LEAs, this methodology estimates a saving of £203 per primary place removed and £281 per secondary place removed.

Using the approach outlined in this appendix, the total financial savings opportunities from surplus place removal are estimated to be £100 million per year – a sizeable amount for reinvestment within the education service, though one that will take a number of years to achieve. There may be costs associated with reorganisation that need to be set against this: for example, closures may create a need for ongoing security and maintenance of sites earmarked for disposal; and, if it is not possible to redeploy teaching staff, closure will involve redundancy costs.

In addition to these opportunities, there will be significant savings from closing some small primary schools (defined as having a number on roll of 90 or below) where there are other primary schools within close proximity.

Points to note

The Commission considers the approach to estimating opportunities for surplus place removal savings outlined in this appendix to be a conservative one on the grounds that:

- ◆ the methodology focuses on schools with an occupancy rate of less than 75 per cent. In reality, LEAs have closed schools with higher occupancy rates, provided that there is sufficient spare capacity across the area;
- ◆ it has been assumed that school closure cannot take place unless there is sufficient space to accommodate pupils within the existing capacity of neighbouring schools. In practice, expansion of neighbouring schools may be possible while still making a net saving; and
- ◆ the experience of LEAs that have carried out large-scale rationalisation programmes suggests that both the number of places removed and the financial savings generated are well within reach.

Appendix 3: List of Main Fieldwork Sites

Birmingham City Council

Doncaster Metropolitan Borough Council

Essex County Council

Royal Borough of Kingston upon Thames

Lancashire County Council

Leeds City Council

Mid-Glamorgan County Council

Northumberland County Council

London Borough of Southwark

Warwickshire County Council

Appendix 4: Members of the Study Advisory Group

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Index References are to paragraph numbers

District Auditors were first appointed in the 1840s to inspect the accounts of authorities administering the Poor Law. Auditors ensured that safeguards were in place against fraud and corruption and that local rates were being used for the purposes intended. The founding principles remain as relevant today as they were 150 years ago. Public funds need to be used wisely, as well as in accordance with the law. The task of today's auditors is to assess expenditure, not just for probity and regularity, but for value for money as well. The Audit Commission was established in 1983 to appoint and regulate the external auditors of local authorities in England and Wales. In 1990 its responsibilities were extended to include the National Health Service. For more information on the work of the Commission, please contact:

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