National Audit Office

Departmental Overview, November 2018

Department for Education

Department for Education

This overview summarises the work of the Department for Education (the Department) including what it does, how much it spends, recent and planned changes, and what to look out for across its main business areas and services.

Overview

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The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund, nationally and locally, have used their resources efficiently, effectively, and with economy. The C&AG does this through a range of outputs including value-for-money reports on matters of public interest; investigations to establish the underlying facts in circumstances where concerns have been raised by others or observed through our wider work; landscape reviews to aid transparency; and good-practice guides. Our work ensures that those responsible for the use of public money are held to account and helps government to improve public services, leading to audited savings of £741 million in 2017.

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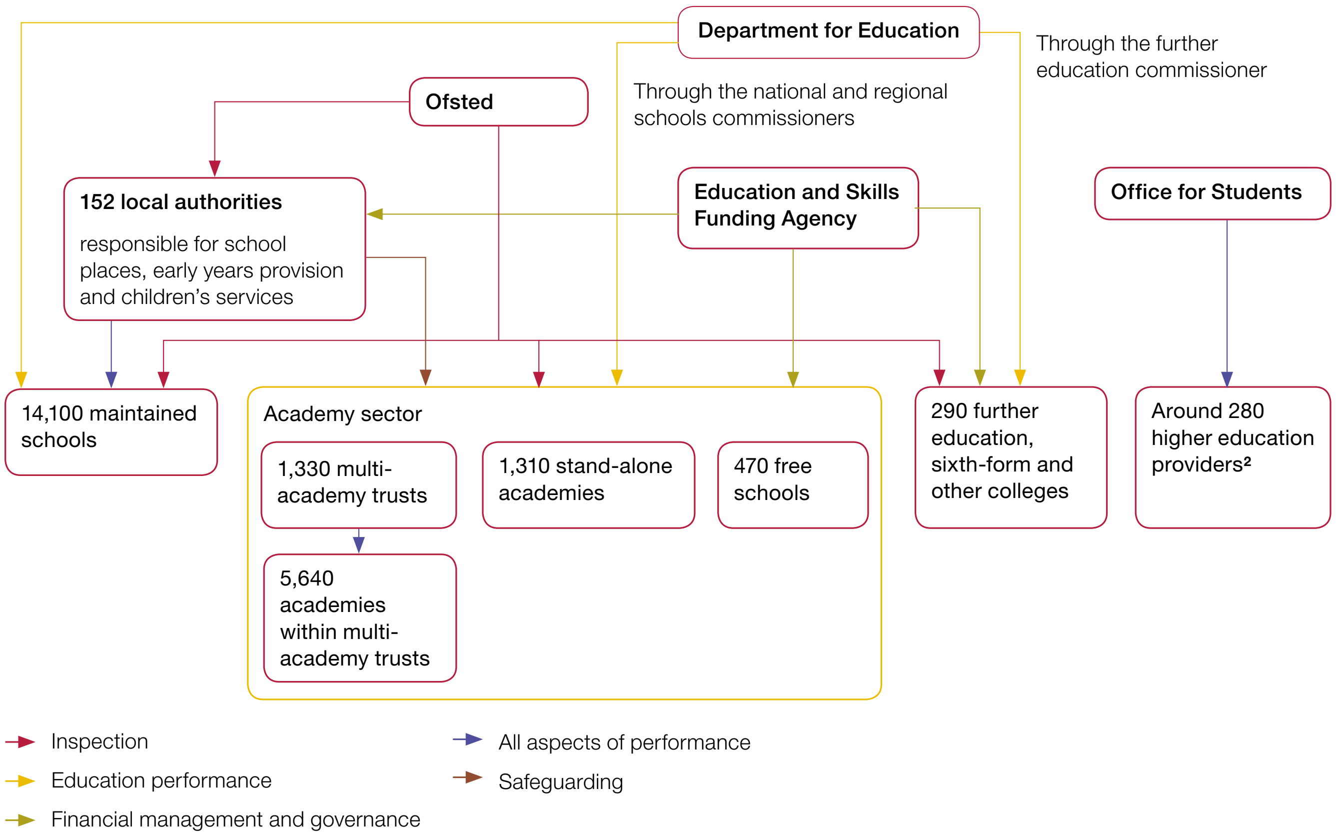
About the Department

The Department for Education is responsible for children's services and education and training in England, including early years, schools, higher and further education policy, apprenticeships and skills. The Department works with others to provide children's services and education and training that ensure opportunity is equal for all, no matter what their background, family circumstances or needs.

Oversight arrangements for education and children's services



Notes

1 This is a simplified diagram showing only the main delivery and oversight bodies in the education system. For example, it does not include private early years providers such as childminders, or employers of people undertaking apprenticeships.

2 Numbers of schools and academy trusts are at January 2018. Numbers of further education, sixth-form and other colleges and higher education providers are at September 2017.

3 Higher education providers comprise providers funded via the Office for Students and alternative higher education providers which are regulated, but not funded, by the Office for Students.

In 2017-18, 11,000 staff worked in the Department and its agencies and non-departmental public bodies (3,700 in the Department alone).

The Department's vision is to provide world class education, training and care for everyone, whatever their background. With this in mind, it has set out seven principles that guide its work:

1 Ensure that academic standards match and keep pace with key comparator nations.

2 Strive to bring technical education standards in line with leading international systems.

3 Ensure that education builds character, resilience and well-being.

To achieve this, the Department seeks to:

4 Recruit, develop and retain the best people to deliver education, training and care.

5 Prioritise the most disadvantaged people and places.

6 Protect the autonomy of institutions by intervening only where clear boundaries are crossed.

7 Make every pound of funding count.

How the Department is structured

Early years and schools

Responsibilities include: oversight of academies and free schools; enabling a school-led improvement system; the system of funding for schools and early years; resilience of the school system; supply and retention of teachers and leaders; curriculum and qualifications.

Higher and further education

Responsibilities include: skills and lifelong learning; oversight of higher education and further education; technical education; and apprenticeships.

Social care, mobility and disadvantage

Responsibilities include: children's social care; social mobility; and some corporate functions including policy and communications.

Operations

Responsibilities include: the main corporate functions such as finance, digital and human resources.

Main contributing agencies and non-departmental public bodies

- **STA** (Standards and Testing Agency): Develops the curriculum and sets tests to assess children in education from early years to the end of key stage 2.
- **STRB** (School Teachers' Review Body): Reviews the pay, professional duties and working time of school teachers in England and Wales.
- **TRA** (Teaching Regulation Agency): Regulates the teaching profession.

- **CITB** (Construction Industry Training Board) and **ECITB** (Engineering Construction Industry Training Board) and **FITB** (Film Industry Training Board for England and Wales): These three training boards work with their respective industries to ensure enough people are trained to meet industry needs, and give professional advice and skills development to individuals in their sectors.
- **IFA** (Institute for Apprenticeships): Responsible for apprenticeship standards and advises government on funding for each standard.
- **OfS** (Office for Students): Provides funding to higher education providers and regulates them on behalf of students.
- **SLC** (Student Loans Company): A non-profit-making government-owned company that administers loans and grants to students in universities and colleges in the UK.

- **OCC** (Office of the Children's Commissioner): Supports the Children's Commissioner, who promotes and protects children's rights in England.
- **SMC** (Social Mobility Commission): Monitors and promotes social mobility (jointly sponsored by the Department for Education, the Cabinet Office and the Department for Work & Pensions).
- **Social Work England:** Will be the new regulator for social workers in England. Expected to start regulating the profession during 2019.

- **ESFA** (Education and Skills Funding Agency): Provides funding for education and training for children, young people and adults; and oversees governance and financial management in education and training providers.

There are also two non-ministerial departments working in the sector:

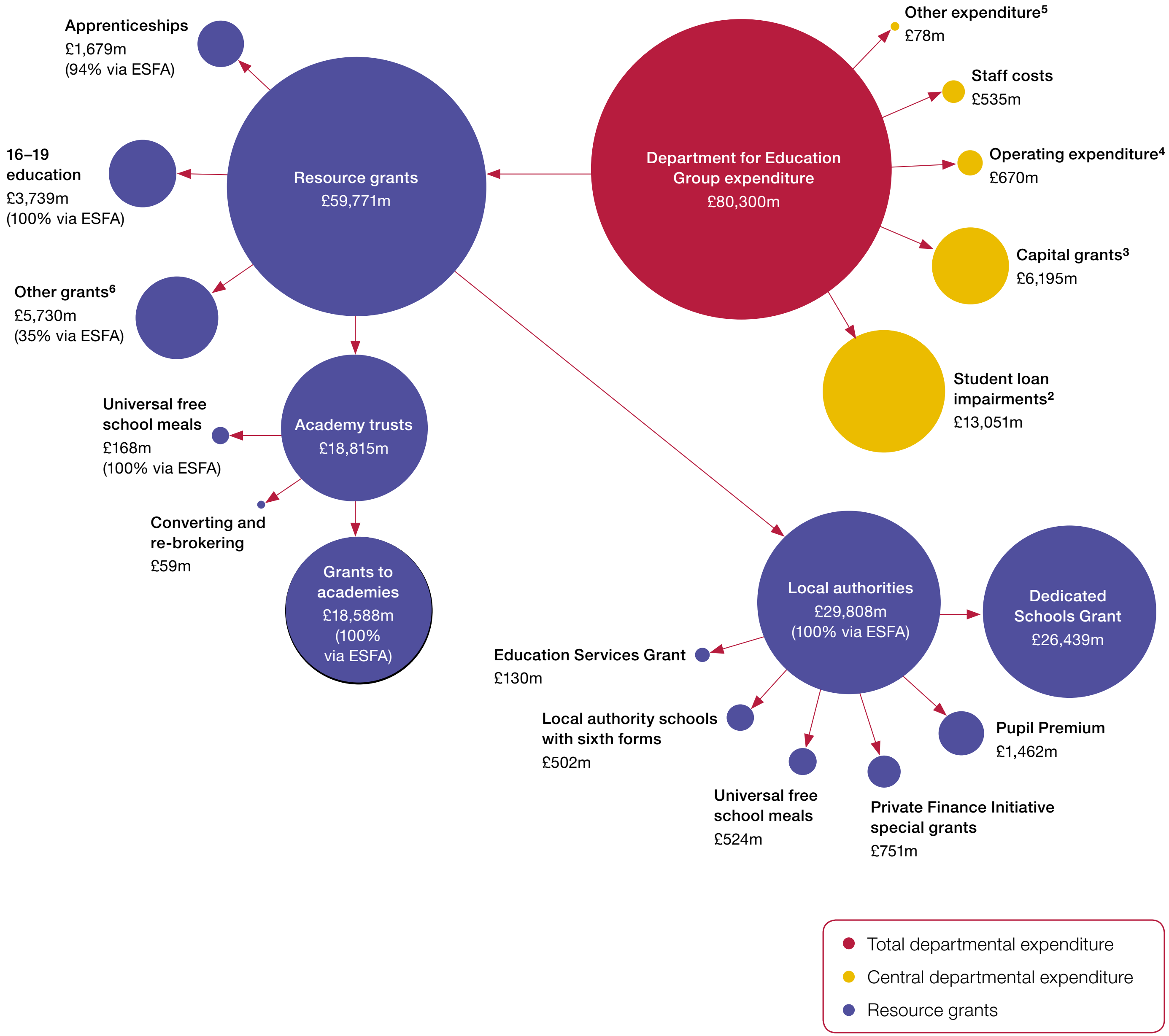
- **Ofqual:** Regulates qualifications, examinations and assessments in England.
- **Ofsted:** Inspects and regulates services that care for children and young people and services that provide education and skills for learners of all ages in England.

Where the Department spends its money

Department for Education Group expenditure in 2017-18

The Department for Education Group consists of the core department, its executive agencies and its non-departmental bodies. Group expenditure totalled £80.3 billion in 2017-18.[1]

Resource (that is, non-capital) grants constituted 74% of the Group's expenditure; £55.9 billion (94% of resource grant expenditure) was spent via the Education and Skills Funding Agency (ESFA).



Notes

1. In addition, the Department is responsible for the Teachers' Pension Scheme: England and Wales (the Scheme). This falls outside the Departmental Group as it has a separate supply estimate and produces its own resource account. In 2017-18 the Scheme had a net cash requirement of £3.4 billion, accounted for largely by the shortfall between pension payments to retired teachers and pension contributions from teachers and employers. The Scheme's net resource outturn was £15.7 billion, largely comprising the actuarially assessed cost of future pension benefits accrued by members in the year and the interest on the Scheme's pension liability.
2. Student loan impairments are the amount of loans which the Department expects never to be repaid and which it therefore writes off in the financial year.
3. Capital grants include basic need schools capital grant (£1,501 million), maintenance capital grants to local authorities and voluntary aided schools (£761 million), academy capital grants and the Free Schools Programme (£1,240 million), the Priority Schools Building Programme (£471 million), higher and further education capital grants (£2,193 million) and other capital grants (£29 million). In addition, the Department's annually managed capital outturn for 2017-18 was £15.8 billion.
4. Operating expenditure includes expenditure such as consultancy costs, maintenance costs, IT and telecommunication costs, rentals, and travel and subsistence.
5. Other expenditure includes depreciation and other non-cash charges.
6. Other resource grants include grants for initial teacher training, adult education, other further and higher education grants, grants to other bodies, and grants to individuals.

Source: Department for Education *Annual Report and Accounts 2017-18*; Education and Skills Funding Agency *Annual Report and Accounts 2017-18*

Financial commitments and pressures

The Department's spending on administration – running costs including back-office staff, buildings and ICT – increased between 2015-16 and 2017-18 as it took on new responsibilities including in respect of higher and further education policy, apprenticeships and skills, following 'machinery of government' changes. Its administration budget has been reduced significantly for 2018-19 and 2019-20.

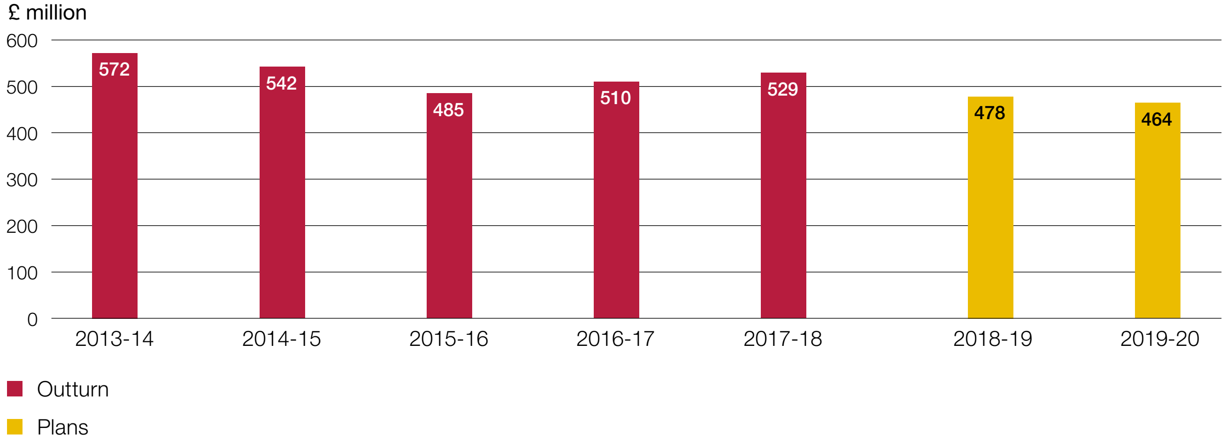
The Department's total spending is affected by changes in demand and demographics. For example, the Department forecasts that secondary school pupil numbers will increase by 540,000 (19.4%) from January 2017 to January 2025.

The Department reported a £337 million cash underspend on its resource departmental expenditure limit for 2017-18, which was mainly the result of volatility in demand-led programmes such as apprenticeships.

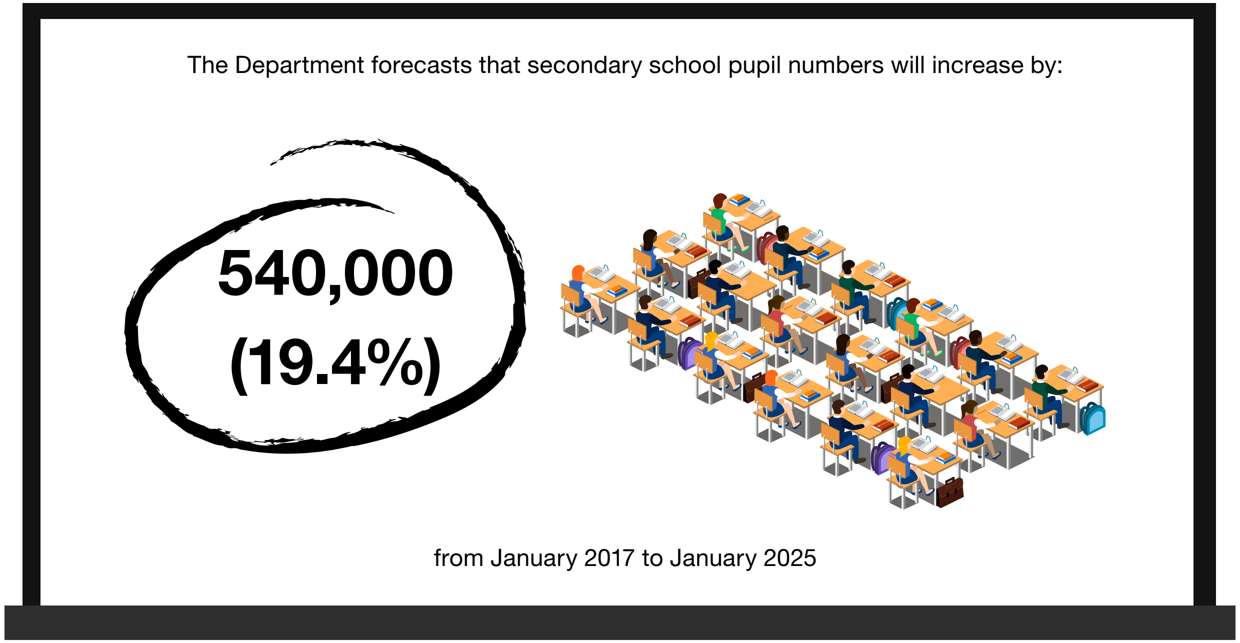
The Department's expenditure compared with its budget is also affected by macroeconomic forecasts. For example, it reported significant underspends in 2017-18 due to volatility in forecasting student loan repayments.

Both schools and further education providers are facing financial pressures. As we reported in December 2016, schools need to make efficiency savings to counteract a range of cost pressures including pay rises and higher employer contributions to national insurance and the teachers' pension scheme. In relation to further education, the government facilitated 37 area-based reviews, with the aim of supporting the creation of more financially stable and efficient providers and improving collaboration between providers. The reviews have led to college mergers or other types of restructuring, which are likely to continue.

Administrative spending, 2013-14 to 2019-20



Source: *Department for Education Annual Report and Accounts 2017-18*



Financial commitments and pressures

National Audit Office report findings – local authority children's services

Our March 2018 report on *Financial sustainability of local authorities* highlighted growth in demand for children's social care, which was adding to the cost pressures on local authorities. From 2010-11 to 2016-17, the number of looked-after children grew by 10.9%. Many aspects of children's social care services are statutory responsibilities, which means that spending has been relatively protected, with local authorities using reserves or reducing spending in other service areas to fund children's social care.

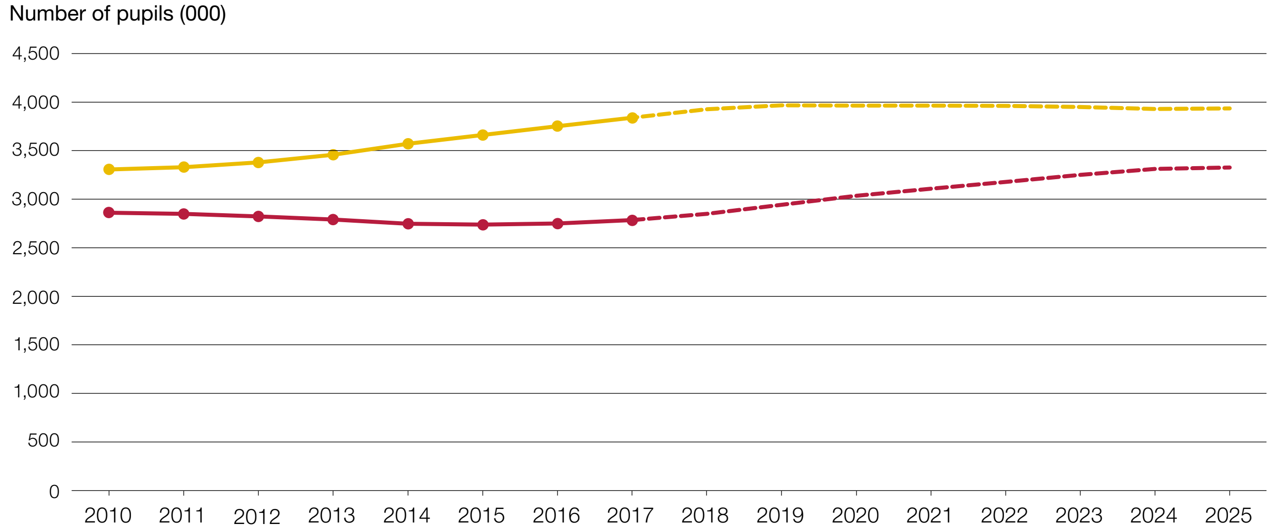
We are planning to publish a report on managing the demand for children's services in early 2019.

From 2010-11 to 2016-17, the number of looked-after children grew by

10.9%

Pupil numbers, 2010 to 2025

The number of secondary school pupils is expected to rise by 19% between 2017 and 2025



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Pupils aged 5 to 10 – primary age	3,306	3,330	3,380	3,458	3,570	3,661	3,752	3,839								
Pupils aged 11 to 15 – secondary age	2,862	2,849	2,823	2,790	2,747	2,738	2,751	2,786								
Pupils aged 5 to 10 – primary age (forecast)									3,925	3,966	3,965	3,965	3,960	3,948	3,928	3,934
Pupils aged 11 to 15 – secondary age (forecast)									2,850	2,941	3,035	3,107	3,179	3,251	3,312	3,326

Note

1 Figures are based on the number of pupils aged five to 10 in state-funded primary schools, and aged 11 to 15 in state-funded secondary schools, in January each year.

Source: Comptroller and Auditor General, *Retaining and developing the teaching workforce*, Session 2017–2019, HC 307, National Audit Office, September 2017 (Figure 3)

Exiting the European Union

In March 2019, the United Kingdom (UK) is set to leave the European Union (EU). The UK government has instructed departments to make the necessary arrangements for Exit.

In March 2018, the Chief Secretary to the Treasury announced the allocation of funding for "essential programmes to realise the opportunities from EU exit". The Department for Education was not among the departments that received funding.

In April 2018, the Department for Exiting the EU wrote to the Committee of Public Accounts with a summary of the workstreams under way to implement Exit. This stated that the Department for Education had 11 active workstreams relating to policies affected by leaving the EU. These covered issues relating to access to education and training, the higher education sector, EU-funded education programmes, skills and training provision in the UK, and sectoral workforces.

The government has committed to act to provide certainty to higher education staff, students and institutions wherever possible.

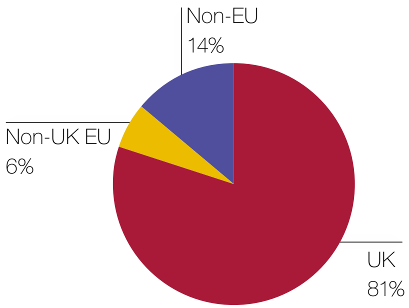
Higher education students

Of the 1.9 million students in state-funded higher education institutions in England in 2016/17, 6% were from non-UK EU countries and 14% were from outside the EU.

In July 2018, the Secretary of State confirmed that EU students starting courses in England in 2019/20 will be charged the same tuition fees as UK students. They will also be able to access financial support for the duration of their course.

Nationalities of students in higher education, 2016/17

There were 1.9 million students in state-funded higher education institutions in England



Note

1 Figures may not sum to 100% due to rounding.

Source: National Audit Office analysis of Higher Education Statistics Agency data

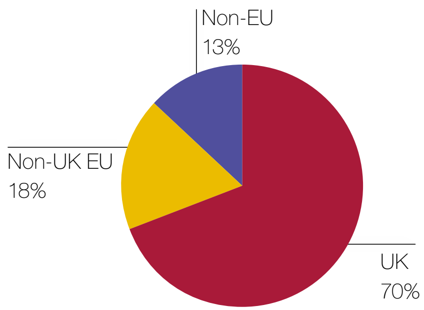
Higher education staff

Of the 205,000 academic staff with known nationality in higher education providers in England in 2016/17, 18% were from non-UK EU countries and 13% were from outside the EU.

In June 2018, the government announced its EU Settlement Scheme. Under the planned scheme, EU citizens who, by 31 December 2020, have lived in the UK for at least five years, along with their family members, will be eligible for 'settled status', enabling them to stay in the UK indefinitely.

Nationalities of academic staff in higher education, 2016/17

There were 205,000 academic staff in higher education providers in England



Note

1 Figures may not sum to 100% due to rounding.

Source: National Audit Office analysis of Higher Education Statistics Agency data

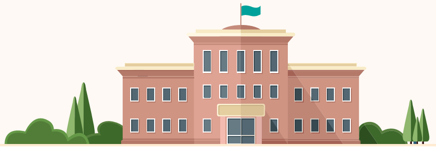
Academies

Academies are independent state schools that receive funding directly from the Department rather than via local authorities. Converting maintained schools to academies has been at the heart of the government's education policy for some time. The Department provided revenue funding of £17 billion to academies in 2016-17, 35% of the total amount spent on schools.

Academy trusts acquire substantial new freedoms and responsibilities that maintained schools do not have, including responsibility for financial as well as educational performance. It is therefore vital that the Department has assurance that academy trusts have capacity and capability to run academy schools well and that they can be trusted to manage large amounts of public money.

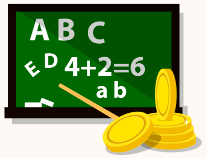
Things to look out for

Free schools



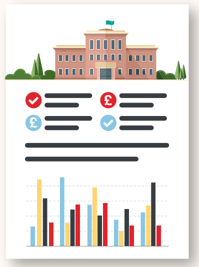
Free schools are a type of academy that can be set up by people or organisations as an alternative to existing local schools. The aims of the Free Schools Programme are to give parents more choice, encourage innovation and raise educational standards. At January 2018, there were 473 free schools (representing 2% of state-funded schools in England). A further 61 new free schools were expected to open in the 2018 autumn term. The Department has set up a company (LocatED) to buy and develop sites for new free schools.

New national funding formula for schools (applies to all state-funded schools)



The Department is in the process of introducing a new system for distributing funding to schools, which will mean that schools' budgets will be set on the basis of a single national formula. Its aim is to reduce the disparity in funding received by schools with similar characteristics and to give schools more certainty about future funding. For 2018-19 and 2019-20, the Department will use the new formula to calculate notional allocations for individual schools and the total schools budget for each local authority area, but local authorities will continue to distribute funding using local formulae.

Academy finances



During the year ending 31 August 2016, 40% of academy trusts engaged in related party transactions, worth a total of £120 million. Following publication of the *Academy Sector Annual Report and Accounts* for the 2015/16 academic year, concerns were raised that the Department's rules around related party transactions were too weak to prevent abuse. The Education and Skills Funding Agency now requires academy trusts to report all related party transactions in advance, and to seek approval for certain types of payment.

There were also concerns that some academy trusts appeared to be using public money to pay excessive salaries. The Education and Skills Funding Agency has written to trusts paying salaries of £150,000, or two or more salaries of more than £100,000, asking for information on the rationale for the level of pay and the due process followed in setting the salaries.

National Audit Office report findings

Our value-for-money work regularly covers issues relating to academies, and we also audit the consolidated accounts for the academies sector.

Our February 2018 report on *Converting maintained schools to academies* found that, by January 2018, the Department had converted nearly 7,000 maintained schools to academies, at an estimated cost of £745 million since 2010-11. Academies were teaching an estimated 47% of pupils.

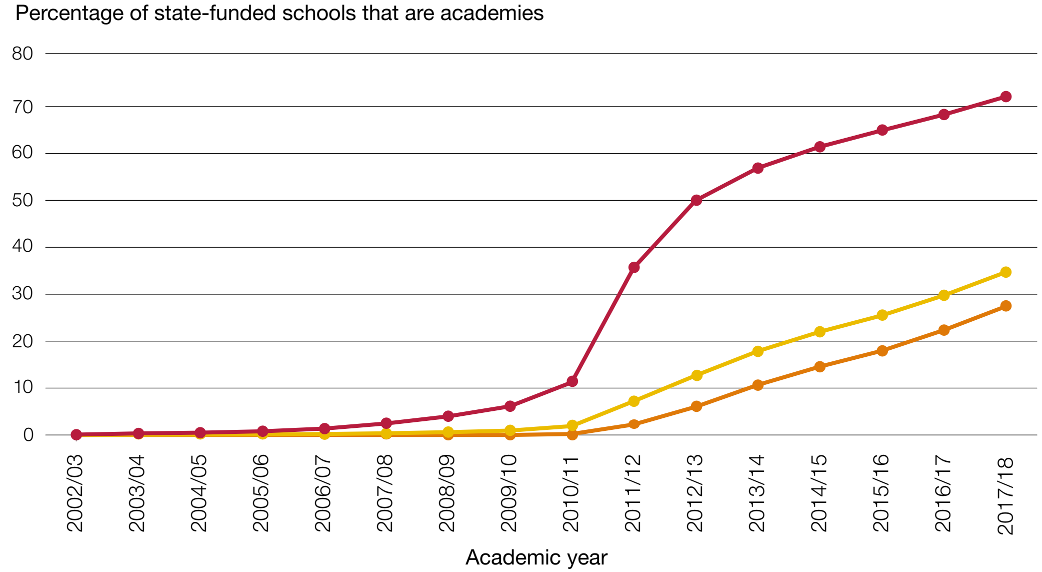
A much higher proportion of secondary schools than primary schools are academies – 72% of secondary schools compared with 27% of primary schools at January 2018. The proportion of schools that are academies varies widely across England – from 93% in Bromley to 6% in Lancashire, Lewisham and North Tyneside at January 2018.

The Department's spending on conversion has fluctuated considerably year-on-year. In 2016-17, the Department spent £81.0 million on converting schools to academies (including relevant central administration costs). This represented an increase of £41.5 million compared with 2015-16 and £17.1 million compared with 2014-15. The variation was broadly consistent with changes in the number of schools becoming academies.

Most academies were previously good or outstanding maintained schools. However, the Department has a statutory duty to direct maintained schools that Ofsted has graded as inadequate to convert to academies with a sponsor, usually a multi-academy trust. It has taken longer than the target of nine months to convert a sizeable proportion of these schools – for example, 63% of maintained schools graded as inadequate between April 2016 and March 2017 had not opened as academies nine months later. It can be difficult for the Department to find sponsors for certain types of school and there is considerable regional variation in the availability of sponsors located near underperforming schools.

Academies in England, 2002/03 to 2017/18

A higher proportion of secondary schools than primary schools are academies



	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Percentage of secondary schools	0	0	0	1	1	2	4	6	11	36	50	57	61	65	68	72
Percentage of all schools	0	0	0	0	0	0	1	1	2	7	13	18	22	25	30	35
Percentage of primary schools	0	0	0	0	0	0	0	0	0	2	6	11	15	18	22	27

Notes

1 Percentages are calculated using data collected in the January of each academic year. Percentages for 2002/03 to 2016/17 are based on published national statistics. The percentage for 2017/18 is an estimate based on our analysis of the Department's published database of schools.

2 In total, 21,538 state-funded schools were open at January 2018. Of these, 14,066 (65%) were maintained schools and 7,472 (35%) were academies. The number of academies comprised 6,996 converted academies, and 476 free schools, including university technical colleges and studio schools.

3 In addition to 16,768 primary and 3,434 secondary schools, 'all schools' includes 984 special schools and 352 alternative providers. At January 2018, 29% of state-funded special schools and 34% of alternative providers were academies.

Source: Comptroller and Auditor General, *Converting maintained schools to academies*, Session 2017-2019, HC 720, National Audit Office, February 2018 (Figure 1)

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PART TWO

Teachers

Having enough high-quality teachers in the right places is crucial to the success of the school system and to securing value for money for the £21 billion that schools spend on their teaching workforce. At November 2017 there were 452,000 full-time equivalent teachers in state-funded schools in England.

Schools face real challenges in retaining and developing their teachers. Performance against national indicators suggests progress: the overall teaching workforce has been growing and more children are in schools where Ofsted has rated teaching, learning and assessment as good or outstanding. However, these indicators mask significant variation and concerning trends.

National Audit Office report findings

Our September 2017 report on *Retaining and developing the teaching workforce* noted that the number of teachers in state-funded schools increased by 15,500 (3.5%) between 2010 and 2016. However, secondary schools face significant challenges to keep pace with rising pupil numbers. Teachers are increasingly leaving state-funded schools before they reach retirement, and workload is a significant barrier to retention.

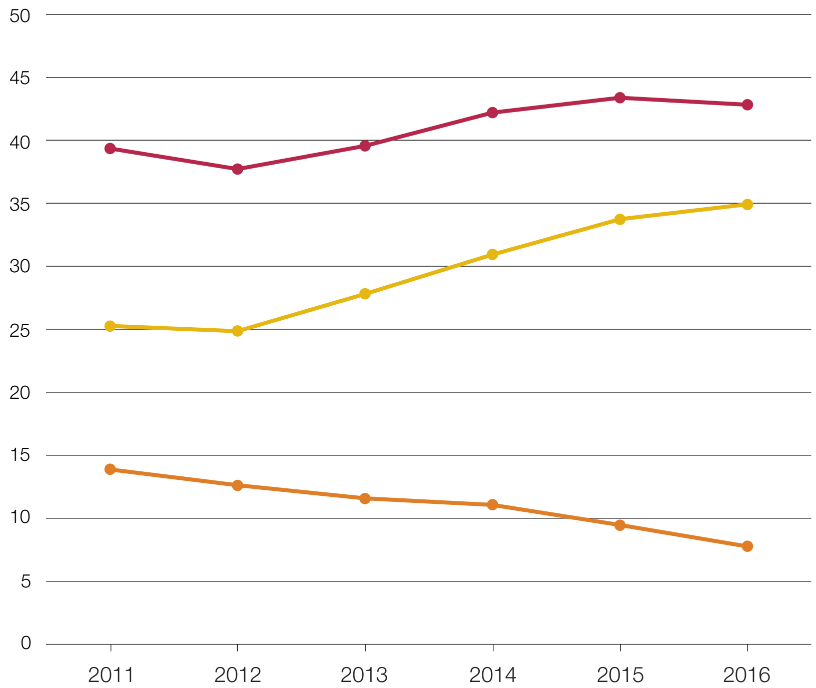
There are local variations in teacher supply – in 2015 the North East had the lowest proportion of primary and secondary schools reporting at least one vacancy (16% of secondary schools and 3% of primary schools), while outer London had the highest proportion of both (30% of secondary schools and 16% of primary schools). Our survey of school leaders found that schools filled only around half of their vacant posts during 2015/16 with qualified teachers with the experience and expertise required.

The Department's interventions to support the existing teaching workforce have been relatively small scale. In our survey, 74% of primary school leaders and 85% of secondary school leaders disagreed that the Department provides schools with sufficient support to retain teachers.

Our January 2018 report on *Delivering STEM skills for the economy* found that the Department has sought to improve the teaching workforce for science, technology, engineering and mathematics (STEM) subjects but faces considerable challenges. One of its main initiatives is to offer incentive payments to trainee teachers in a range of high-demand subjects. These include a combination of training scholarships or bursaries and retention payments for maths teachers, worth up to £32,000 in total.

The number of qualified teachers leaving by reason for departure, 2011 to 2016

The number of teachers leaving for reasons other than retirement rose, while the number retiring fell



	2011	2012	2013	2014	2015	2016
Total leavers from teaching in the state-funded sector	39,370	37,710	39,560	42,210	43,370	42,830
Leavers for reasons other than retirement	25,260	24,860	27,810	30,930	33,730	34,910
Retired	13,880	12,600	11,570	11,060	9,440	7,760

Notes

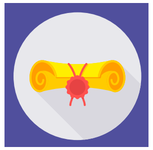
1 Data on leavers are available on a consistent basis only from 2011.

2 Dates are the year ending in November.

3 Teacher numbers are full-time equivalents.

Source: Comptroller and Auditor General, *Retaining and developing the teaching workforce*, Session 2017–2019, HC 307, National Audit Office, September 2017 (Figure 6)

Access to higher education and skills development



Government invests in higher education to help create a skilled and educated society and to support the economy. The Department's public funding for higher education in England, in the form of grants and tuition fee loans, is now more than £9 billion a year.

One of the UK's key economic challenges is a shortage of STEM skills in the workforce. In November 2017, the government's policy paper, *Industrial Strategy: Building a Britain fit for the future*, stated that "…we need to tackle particular shortages of STEM skills…".

The government has increasingly delivered higher education and skills development using market mechanisms. Our work has considered issues relating to access to education and training, including the participation of groups that have traditionally been under-represented in the past.

The Department's public funding for higher education in England, in the form of grants and tuition fee loans, is now more than

£9 billion

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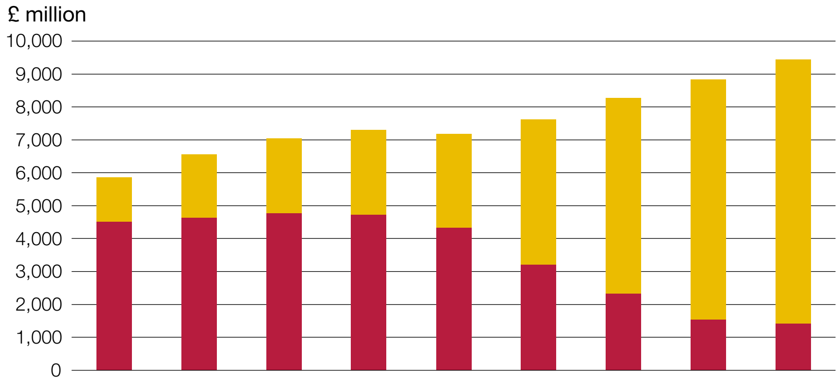
Higher education funding in England (£m)

Up-front funding for higher education in England has risen over the past 10 years



	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Tuition fee loans (£m)	1,344	1,918	2,268	2,572	2,852	4,408	5,938	7,291	8,032
Teaching grants (£m)	4,510	4,632	4,782	4,723	4,341	3,214	2,331	1,548	1,418
Total	**5,854**	**6,550**	**7,050**	**7,295**	**7,193**	**7,622**	**8,269**	**8,839**	**9,450**

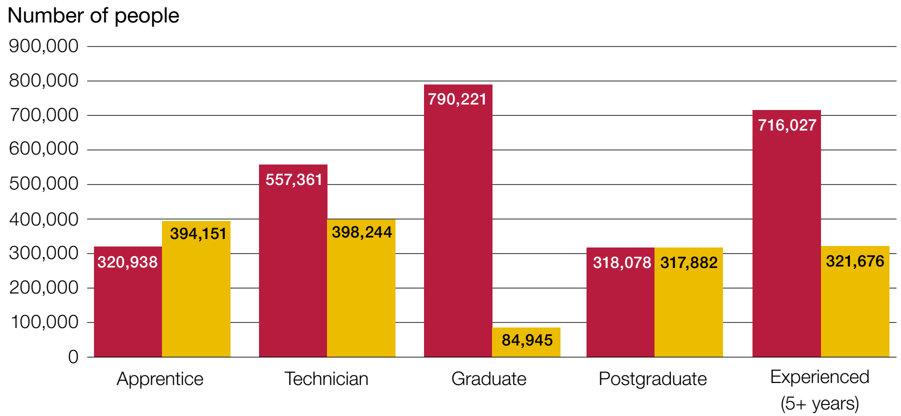
Note

1 Amounts are in cash terms and do not include maintenance loans for living costs.

Source: Comptroller and Auditor General, *The higher education market*, Session 2017–2019, HC 629, National Audit Office, December 2017 (Figure 1)

Estimate of employer-reported STEM recruitment shortages: 2015 and (expected) 2018

Estimated recruitment shortages vary substantially by level of STEM-qualified employee



STEM recruitment shortage 2015 Expected STEM recruitment shortage 2018

Notes

1 We carried out this analysis by matching 2015 CBI education and skills survey responses (quoted in the industrial strategy green paper) with Office for National Statistics data on businesses in England.

2 We have weighted the estimate by size of CBI survey respondent, and have used a figure of 1% of each business's workforce (to a minimum of one person) to generate a numerical estimate.

Source: Comptroller and Auditor General, *Delivering STEM skills for the economy*, Session 2017–2019, HC 716, National Audit Office, January 2018 (Figure 3)

Access to higher education and skills development

National Audit Office report findings

Higher education

Our December 2017 report on *The higher education market* found that the Department has improved the information available to help prospective students choose their course and provider, but only one in five use it and additional support does not adequately reach those who need it most. The proportion of young people from disadvantaged backgrounds entering higher education has increased, but participation remains much lower than for those from more advantaged backgrounds. We also found that lifelong learning in higher education institutions has fallen significantly since 2011, with a 39% drop in mature students (those aged 21 and over) and a 55% drop in part-time entrants.

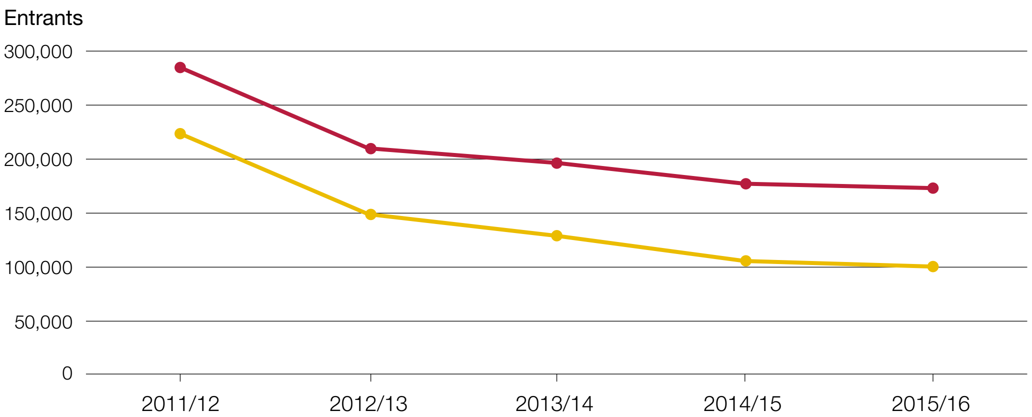
Our October 2017 report on *Alternative higher education providers* found that expansion of the sector appears to be widening access to higher education to under-represented groups. However, early indications are that graduates who studied at alternative providers have lower rates of progression into employment or further study, and lower salaries than graduates of publicly funded providers.

STEM skills

Our January 2018 report on *Delivering STEM skills for the economy* found that only 8% of science, technology, engineering and mathematics (STEM) apprenticeships were started by women in 2016/17, despite women accounting for more than 50% of all apprenticeship starts. There is also evidence of gaps in participation on the basis of other characteristics, such as ethnicity and socio-economic background.

Number of mature and part-time undergraduate entrants in England

Lifelong learning in the higher education sector has fallen significantly since 2011



	2011/12	2012/13	2013/14	2014/15	2015/16
Mature (full and part-time)	284,925	210,130	196,575	177,295	173,225
Part-time	223,495	149,050	129,120	105,715	100,500

Notes

1 Data for alternative providers are not available for the full period, and are therefore not included.

2 Data include all undergraduate qualifications.

Source: Comptroller and Auditor General, *The higher education market*, Session 2017–2019, HC 629, National Audit Office, December 2017 (Figure 13)

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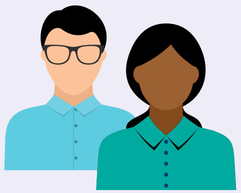
Things to look out for

Regulation of higher education

On 1 April 2018, the government established a new regulatory framework for higher education. The new Office for Students took on most of the functions of the Higher Education Funding Council for England and those of the Office for Fair Access, both of which were disbanded. The Office for Students is responsible for funding and regulating higher education providers on behalf of all students.

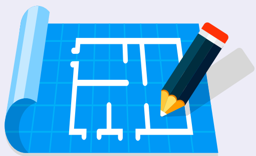
Apprenticeships



The apprenticeship levy was introduced in April 2017. It requires all employers with an annual pay bill of more than £3 million to pay 0.5% of their pay bill as a levy, which they can then use to fund apprenticeship training. The Department aims to support employers to create three million quality apprenticeship starts by 2020. Between August 2015 and June 2018 there were 1.3 million starts.

We are planning to publish a report on the apprenticeships programme in spring 2019.

T levels



The Department is implementing T levels as a technical alternative to the academic option of A levels; part of a reformed skills training system together with apprenticeships. The first three T level subjects (construction, digital, and education and childcare) will be taught from September 2020, with the remainder being rolled out in 2021 and 2022. The 2020 start date was confirmed through a ministerial direction in May 2018 after the Department's accounting officer raised concerns about the feasibility of the timetable and advised the Secretary of State to delay the start until 2021.

PART FOUR

Student loans

Government's student loan portfolio is expanding rapidly. The face value of all outstanding student loans rose from £89 billion in March 2017 to £102 billion in March 2018. The value of outstanding student loans is expected to reach £473 billion by March 2049. The government plans to sell a portion of its student loan book between 2017 and 2022, and aims to raise around £12 billion.

National Audit Office report findings

In December 2017, the government completed the first sale of student loans to private investors. These loans had an outstanding face value of £3.5 billion. The sale raised £1.7 billion. Our July 2018 report on *The sale of student loans* concluded that, in terms of the preparation, process and proceeds of the transaction itself, UK Government Investments achieved value for money. But the sale also showed limitations in the way that government assesses value for money and measures the cost of student loans over time. The Department and HM Treasury measure the value of the student loan book in different ways, which increases the risk that the government could sell loans too cheaply relative to their long-term value.

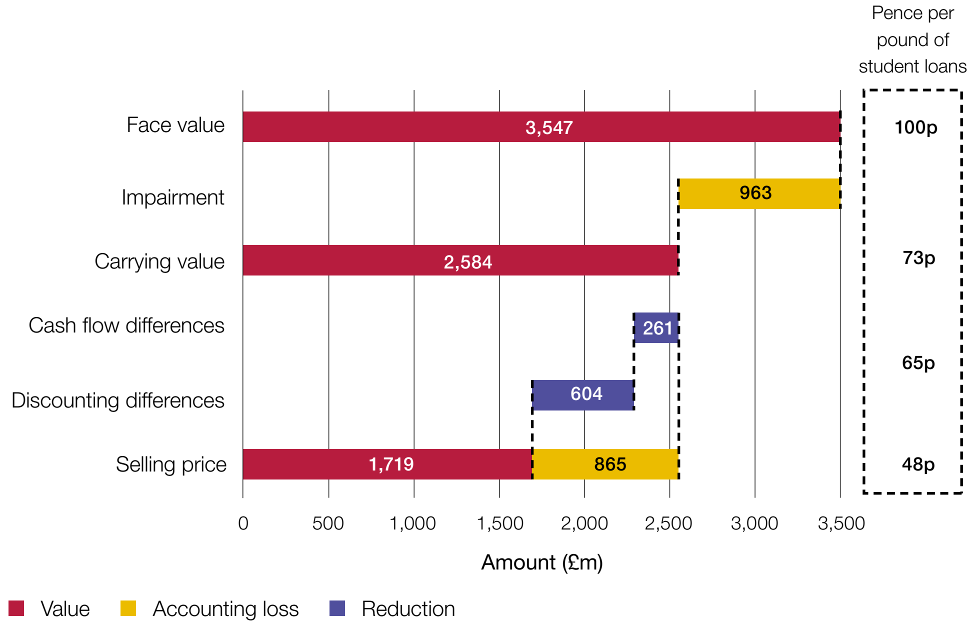
Taking out a student loan is a significant financial commitment. The average student debt, for a three-year course, is £50,000 on completion. Our December 2017 report on *The higher education market* concluded that the decisions students make when entering higher education have lifelong implications for their career prospects, earnings and debt. However, students taking out loans lack the level of consumer protection available for other complex products such as financial services.

Things to look out for

The Office for National Statistics is examining the classification of student loans as financial assets for government. This review will consider whether there is a basis to treat student loans differently from other loans in the UK National Accounts and public sector finances. The conclusions could have significant implications for the government budget deficit.

Accounting for the first sale of student loans

Differences in discount rate account for £604 million



Notes

1 Face value is the total outstanding balance of loans issued to students plus any interest that has accrued, less any repayments. This is as at March 2016.

2 Impairment has been recognised by the Department over time. It reflects the Department's assessment of the amount it does not expect to receive back from borrowers.

3 The carrying value reflects the amount the Department expects to receive from the loans issued to borrowers and interest it accumulated over time, discounted at a rate determined by accounting standards. This is as at March 2016, using data available at March 2018.

4 The face value and carrying value excludes 5% that is retained by the Department to comply with EU securitisation requirements.

5 The differences in the cash flows are from the two models (the transaction-based earnings and repayments model versus the stochastic earnings pathway. The 65 pence per pound relates to the carrying value less the cash flow differences.

6 The discounting differences are due to the different discount rates used and the model's macroeconomic assumptions, and not on investor assumptions. Therefore, the split between the cash flows and return rates for investors may be different.

Source: Comptroller and Auditor General, *The sale of student loans*, Session 2017–2019, HC 1385, National Audit Office, July 2018 (Figure 10)

Oversight and inspection

The Department needs effective oversight and intervention arrangements, given the large number of diverse bodies it oversees.

National Audit Office report findings

Since we first reported on the subject in 2014, the Department has taken steps to strengthen its oversight framework for *Alternative higher education providers*. It has increased its engagement with providers and its investigative capacity, and has taken action where it has had concerns. Of 32 potential investigations that the Department considered between January 2015 and November 2016, two-thirds were triggered by whistleblowers.

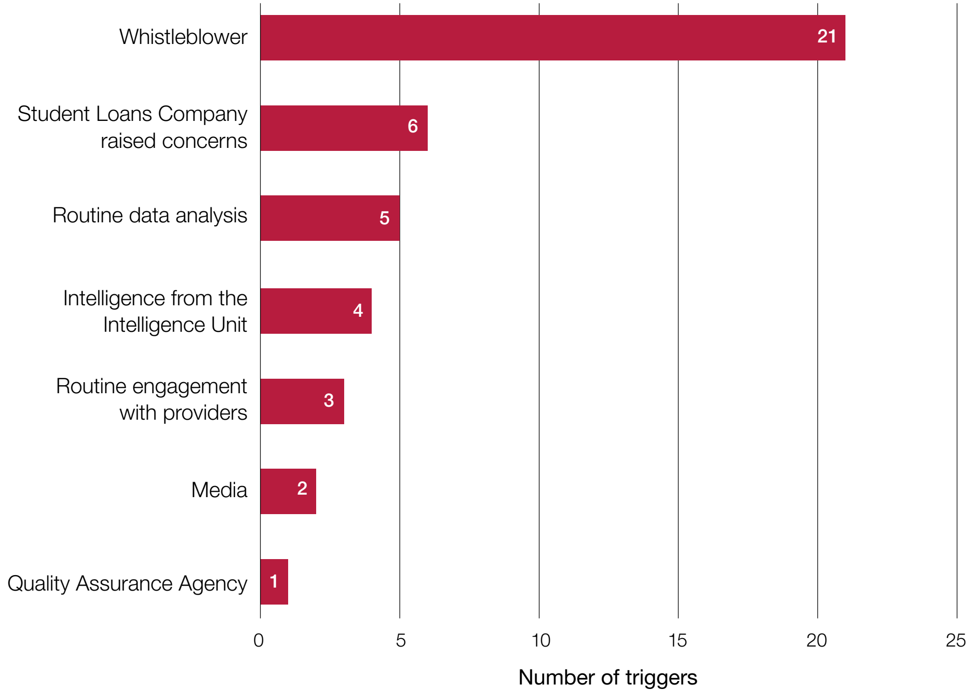
Our December 2017 investigation into the monitoring and funding of *Learndirect Ltd* found that the ESFA and Ofsted each concluded, to slightly different timescales in early 2017, that Learndirect's performance with respect to apprenticeships was below standard. Despite Ofsted rating Learndirect's overall effectiveness as inadequate, the ESFA decided that continuing to fund the company for the 2017/18 academic year was in the best interests of learners and the other public services that Learndirect delivered.

In May 2018, we reported that accountabilities, roles and responsibilities for the *Department's oversight of the Student Loans Company* were not up to date and lacked clarity. There were many changes in the Company in 2016, but the Department did not consider whether its oversight arrangements were sufficient. In addition, the Department did not fully implement all recommended measures for supporting and overseeing the Company's former chief executive, who was dismissed in November 2017 following investigations into allegations from two whistleblowers.

Concerns have also been raised that, with the growing financial pressures on schools, the Department is not doing enough to identify academy trusts that are at risk of getting into financial difficulty. At 31 August 2017 (the last date for which audited data are available), 185 academy trusts (5.9%) were in deficit.

Triggers for the Department's investigations into alternative higher education providers between January 2015 and November 2016

Whistleblowers were among the triggers of 21 out of the Department's 32 investigations



Note

1 Some investigations have multiple triggers, which is why the number of triggers total more than the 32 investigations.

Source: Comptroller and Auditor General, *Follow-up on alternative higher education providers*, Session 2017–2019, HC 411, National Audit Office, October 2017 (Figure 10)

Oversight and inspection

National Audit Office report findings

Ofsted plays a vital role in the functioning and assessment of the education, training and care system. In May 2018, we reported on *Ofsted's inspection of schools*.

We found that Ofsted's remit has expanded significantly since 2000. As well as schools, its remit now covers other sectors, including children's social care, early years and childcare, and further education and skills providers. However, its spending fell between 2005-06 and 2015-16 by 40% in real terms, and its budget to 2019-20 is expected to fall by a further 11% in real terms.

Ofsted has struggled to achieve its internal targets for how often schools should be inspected, but performance has improved since it has deployed more inspectors. In addition, Ofsted has extended some of the timescales for re-inspection to allow schools more time to improve, and this has also allowed Ofsted to spread re-inspections over a longer period.

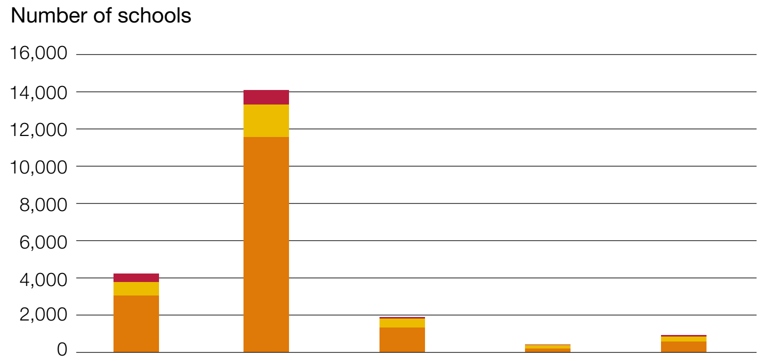
There is some evidence that inspections are helping schools to improve. In our survey, 44% of headteachers said that the inspection had led to improvements in the school, and 71% agreed that inspectors provided useful feedback during or at the end of the inspection visit.

At March 2018, 6.7 million pupils (86%) were in schools that Ofsted had graded as good or outstanding. However, at August 2017, 1,620 schools had not been inspected for six years or more, including 296 schools that had not been inspected for 10 years or more.

We concluded that the current inspection model, with some schools exempt from re-inspection, others subject to light-touch short inspections and the average time between inspections rising, raises questions about whether there is enough independent assurance about schools' effectiveness to meet the needs of parents, taxpayers and the Department itself.

Ofsted's grades for the overall effectiveness of state-funded schools at August 2017

Ofsted had graded two-thirds of schools as good at August 2017



	Outstanding	Good	Requires improvement	Inadequate	Not yet inspected	**Total**
			Ofsted overall effectiveness grade			
Special schools and pupil referral units	439	775	73	28	71	**1,386**
Secondary	728	1,750	474	179	244	**3,375**
Primary	3,062	11,576	1,333	214	598	**16,783**
All schools	**4,229**	**14,101**	**1,880**	**421**	**913**	**21,544**
Percentage (%)	20	65	9	2	4	**100**

Note

1 Figures exclude providers that are exclusively nurseries or post-16 provision.

Source: Comptroller and Auditor General, *Ofsted's inspection of schools*, Session 2017–2019, HC 1004, National Audit Office, May 2018 (Figure 3)

Things to look out for

Our report also noted that the system for school improvement and accountability is fragmented. In May 2018, the Secretary of State set out high-level principles for school accountability, and the Department plans to consult on detailed proposals in autumn 2018.