Not for profit?

by Nigel Gann, author of *Improving School Governance*

The last 25 years have placed increasing responsibilities on the shoulders of school governors and heads, who for the most part have acted with integrity. Unfortunately, the rapid increase in academies and free schools, along with the diminution of local authorities' powers of supervision, have created extensive opportunities for self-interest.

Until 1988 most services were either supplied to schools or purchased on their behalf by local authority staff. Generally 85-90% of the funding was spent on staffing, with salary differentiation held in check by national pay negotiations codified by the statutory annual Schoolteachers' Pay and Conditions Document.

Local Management of Schools put heads and governors in direct control of their budgets (in some larger schools over £1 million). This helped cut some costs, but there was also a rapid growth in independent consultants to replace local authority advice and support. Private companies took over building maintenance as a result of PFI for new-build schools (Labour Government of 1997-2010).

The first academies, presented by New Labour as ways of tackling failing schooling in inner cities, introduced even more independence from local government. From 2010, under a coalition government dominated by unashamed pro-market neo-liberals in all public services, the process began which would lead inevitably to the wholesale dismantling of education services provided by local authorities. Any state-funded school could apply for academy status, with financial advantages, while under-performing schools were required to convert under a sponsor. Multi academy chains built up, some with over 70 schools; by 2014, 23 such chains had more than 10 schools each. There are now over 4,000 secondary academies, free schools, UTCs and studio schools, and almost 2,000 primary academies.

'Parents' were encouraged, with healthy doses of public cash doled out, to apply to open their own 'free schools' but most were actually started by individuals with commercial backgrounds, including hedge-fund investors (two worked in the Department of Education).

The ground was clearly being prepared for a rapid growth in commercial management of schools, although this was stalled by the Liberal Democrats setting their face for the moment against profit-making from state-funded schooling. Though barred in most cases from running schools for profit, some sponsors were effectively business organisations with educational arms. Others were religious foundations or other genuinely non-profit organisations.

So, in England, opportunities inevitably arose for the sharper players in the educational market-place to benefit financially. Only one academy trust contracted out its entire operation to a profit-making company (Swedish-based IES) but there arose numerous covert ways to make money from schools.

1) **Excessive rewards for academy leadership**

The largest chain AET (around 70 schools) paid its Chief Executive (and founder) £214,500 in 2012, and over £240,000 to 'a senior employee', significantly more than any local authority. (The largest LA paid its strategic director just over £150,00 for over 300 schools, plus nurseries and children's centres and children's social services). Harris Federation (just 27 schools around London) paid its senior manager around £320,000 in 2010/11 (30% above the previous year). E-ACT (31 schools) paid its chief executive over £300K in 2011.

Many of these chains also paid considerably over the standard odds to the heads of individual schools. Harris, for example, paid £140,000 or more to 5 other headteachers and managers. Small trusts followed suit, eg Richard Rose Trust (2 academies) paid a manager up to £209,000; Basildon academies, also 2 schools, paid a senior member of staff more than £220,000.

All of this comes out of the resources provided to schools for children's education, though not all academy trusts paid such sums. This has also pushed up headteachers' salaries in non-academies, at a time of Austerity pay freezes for other staff. In 2014, the DfE published figures to show that 900 senior staff in schools were earning over £100,000, of which two-thirds were in academies.

2) Governors' companies supplying services to the school

In 2013, The Observer revealed that AET had paid substantial amounts to suppliers of services in which trustees and executives held interests. The company secretary, for example, was paid a little under £250,000 in one year *in addition to his salary* for 'project management services'. The chief executive was a director of a recruitment agency which the trust's schools were encouraged to use. There were numerous instances where services were not put out to tender.

The Guardian investigated other academy trusts. Examples included payments made to consultancy firms and legal companies owned by founders of chains, the employment of relatives, large amounts paid to directors/trustees for working as consultants and for expenses. Although all services are supposed to be provided 'at-cost', that is, at no profit to the recipient, the definition is unclear. (See also comments by Margaret Hodge, Chair of the House of Commons' Public Accounts Committee, March 2014).

3) Profit-making from schools

The first experiment in overt 'profit making' proved disastrous, involving a headteacher's forced removal and the school in Special Measures. The chair of governors had appointed her husband, father, best friend and best friend's husband to the governing body. Another free school paid companies belonging to its founders more than £100,000 before it even opened.

However there are many forms of covert profit-making. A new free school in Yorkshire was built on land belonging to a company chaired by the Conservative Party's vice chairman (rent of £6m over 20 years).

4) Financial malpractice

This takes various forms, and often when discovered has led to resignations (though in one case the individual went on to advise the government on academies). An audit showed that the Barnfield federation

had claimed almost £1m more than it was entitled to for students it could not account for, plus other examples of financial mismanagement. One 'superhead' resigned as executive head of 5 Hackney schools for Best Start after allegations that he had awarded a computer contract to a firm headed up by his 'boyfriend'. In May 2014, reports emerged from the Education Funding Agency about the Education Fellowship Trust (16 schools): £45,000 governors' expenses, a trip to New York, family members given unadvertised jobs.

We might also consider under this heading the increased incidence of cheating around exam results, given the high stakes attached to success or failure in this environment (cases doubled from 2011 to 2012).

Conclusion

In March 2014, a detailed research report for the TUC *Education not for Sale* levelled a series of concerns at the academy and free school programme. The major issues were:

- use of private consultants in providing 'additional' services to schools (calculated at over £75m);
- poor value for money (with many free schools remaining under-subscribed);
- conflicts of interest of major players;
- the payment of taxpayer-provided funds into private companies (termed 'value extraction');
- the increasingly corporate ownership of state-funded schools.

State-funded education was identified as a major source of profit in various ways to the corporate world.

In January 2015, the National Audit Office issued an 'adverse opinion' on the DfE's financial statements, concluding that 'error and uncertainty' was 'material and pervasive'. The department had spent £166m more than parliament had authorised. Michael Gove's legacy was to set a tone of wastefulness and lack of accountability in the funding of academies and free schools.

Beyond financial malpractice, we should also consider the ethics of governors and trusts imposing their own religious beliefs on nominally secular schools. This occurred with various Christian chains, but only met official disapproval with Muslim governors (the so-called 'Trojan Horse' plot).

Finally, we should consider the bigger picture. Education is the world's second largest traded service ('Education not for sale' TUC 2014). Pearson Group is a global business involved in many aspects of assessment and delivery. Murdoch identified the American education sector as a $500 billion market largely untapped by companies like his. In 2010 NewsCorp purchased the educational technology company Wireless Generation and hired former New York City schools chancellor Joel Klein. Michael Gove, the former Murdoch journalist turned secretary of state for education, had held a series of meetings with Murdoch before the News of the World investigations and arrests.

The line between schooling as a public good and as a profit opportunity for hedge fund investors, commercial companies and even plain old-fashioned crooks is increasingly blurred.

Routledge are publishing an updated edition of the author's 'Improving School Governance' in 2015.