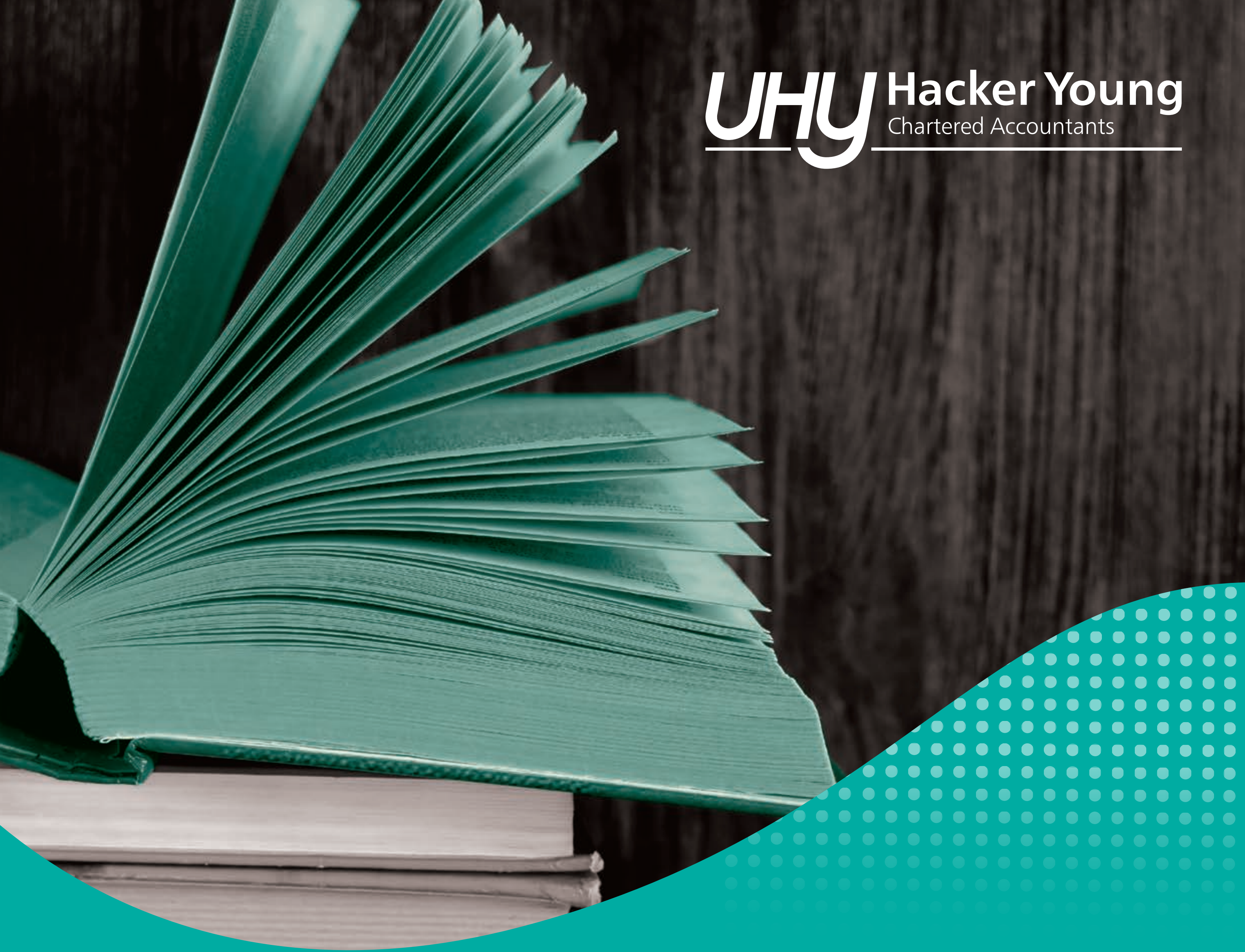

UHY Hacker Young
Chartered Accountants

UHY's 2018 academies benchmarking report

For academic year 2016/17

This is our sixth annual benchmarking report, developed to summarise the current academy sector trends and to allow you to benchmark your school against others.

www.uhy-uk.com/academy-schools

The headline statistics

Other key points:

One in five trusts paid out over £100,000 in restructuring costs

57% of primary academies reported a 2016/17 GAG deficit

30% of MATs had a large GAG deficit of > £250,000

61% of trusts had 5 or fewer management letter points

15% of trusts had at least one high risk management letter point

56% of trusts entered into a connected party transaction

The proportion of the budget being spent on staff costs has risen slightly in 2016/17

Average MAT CEO salary of **£127,576**

42% of trusts made severance and restructuring payments, up from 31% last year

Nearly 38% of all trusts are now MATs, up from 30% last year

£338 Amount of additional income per pupil generated by the average secondary academy

Only 91 trusts (3.4% of the total) hold responsibility for more than ten academies

18% of trusts saw a change in CEO/Accounting Officer

41% of MATs hold cash balances equivalent to £500-£1000 per pupil

73% of trusts saw LGPS liabilities fall significantly in 2016/17

Eight of the top 13 largest MATs have issued warnings with one speaking of "unsustainable deficits"

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Foreword from UHY's Head of academies and education

Allan Hickie
Head of academies and education

Due to the rise of MATs we have introduced a separate MAT category this year. We have shied away from this in previous reports because it is so difficult to compare MATs of different sizes, but the time has come.

Welcome to our sixth annual benchmarking report for academies. With continued uncertainties over funding in the sector, and pressures from rising staff costs, benchmarking your trust to help you understand where others are managing to be more efficient may help you to identify key areas which could help you achieve savings at your trust.

I can't believe another year has passed! Although maybe I shouldn't be so surprised. Auditors and academy finance staff find themselves in a continual cycle with the busy year end accounts and audit season in the last few months of the calendar year passing by in a flash, before moving on to Accounts Returns in January. After a brief rest it's looking forward to Teachers' Pensions End of Year Certificates and Budget Forecast Returns, before attention turns to planning next year's audit and attending interim audit visits and planning meetings. It almost seems next year already just thinking about it!

When we published our benchmarking report last year there were nearly 3,000 academy trusts, and approaching 6,000 open academies. As of 1 January 2018 there were 6,996 open academies; the fourth year in a row that around 1,000 schools have converted. Interestingly, there are fewer academy trusts than there were this time last year, the number having fallen to 2,694 trusts, and this is purely down to the rise of the multi-academy trust (MAT). We'll look at this in more detail later in our report.

The last twelve months has seen a number of changes amongst key individuals in the education sector:

- We have yet another Education Secretary with Damien Hinds replacing Justine Greening;
- In September Lord Agnew took over from Lord Nash as Secretary of State for Education;
- Eileen Milner replaced Peter Lauener as CEO and Accounting Officer of the Education and Skills Funding Agency (ESFA).

Time will tell whether the changes in personnel mean any changes in policy. Either way it would be good to see a period of stability now for the sector to provide some certainty.

Eileen Milner announced her arrival with some hard hitting "Dear Accounting Officer" letters, promising to publish the details of any trusts which fail to submit two financial returns by the due deadline during 2018 and writing to trusts where the Accounting Officer is paid over £150,000, asking for justification. This increased transparency and scrutiny can only be good for a sector that is becoming too accustomed to negative publicity when the failure of a large trust hits the headlines.

There remains uncertainty over the National Funding Formula. What is clear is that this is not going to be the saviour some academies were hoping for.

A summary of our report

We have expanded our benchmarking report this year to cover over 500 academies. As before our sample primarily covers our own clients, but to ensure we have covered all areas of the country we have sourced the information for some non-clients from Companies House and/or the trust websites.

Due to the rise of MATs we have introduced a separate MAT category this year. We have shied away from this in previous reports because it is so difficult to compare MATs of different sizes, but the time has come. Some of our graphs and analysis therefore have a MAT category next to the secondary and primary academies and, interestingly, the results for MATs are not always as one might expect.

Key findings:

- A rise in trusts suffering a deficit, particularly primary academies where over half posted a deficit for 2016/17.
- More MATs are likely to post significant deficits, but there are also a number of well managed MATs generating large surpluses.
- The proportion of the budget being spent on staff costs has risen slightly in 2016/17, especially in secondary academies.
- Big reductions in LGPS pension deficits.
- The number of trusts making severance and restructuring payments rose from 31% to 42%.

Once again we have included a benchmarking page at the end of our report which contains space for you to add your own trust's data alongside the average results in key areas. We would encourage you to make use of this. To try and make the averages and other data more comparable we have focused more on per pupil figures this year. If it is of interest we are able to produce a graphical representation of your results, so please contact us if you would find this useful.

I do hope that you enjoy our report, it has always proved popular in the past. Any of our academy specialists around the country would be pleased to help you understand the data, and do feel free to contact me if you wish. Finally, since we are always keen to improve our benchmarking report; we would be pleased to receive suggestions for areas to look at next year.

Allan Hickie

Allan Hickie
Head of academies and education

Our summary of the sector and the rise of the MAT

Nearly 38% of all trusts are now MATs, compared to 30% last year. There have been rises in all sizes of MATs as converters have joined directly in MATs and single academies have decided that they cannot continue on their own and would benefit from the support of a MAT.

As noted above there has been further growth in the number of MATs this year, to the extent that consolidation of single academy trusts into MATs has resulted in a decline in the number of overall trusts, despite the number of academies rising by over 1,000.

Academies in trusts and size of trusts

Trust size	No. of academies	% of total academies	No. of trusts	% of trusts 01.01.18	% of trusts 01.12.16
1	1675	23.9%	1675	62.2%	69.8%
2	618	8.8%	309	11.5%	10.5%
3-5	1595	22.8%	430	16.0%	12.7%
6-10	1388	19.8%	189	7.0%	5.0%
11-20	864	12.3%	64	2.4%	1.3%
21-30	438	6.3%	17	0.6%	0.4%
31-40	172	2.5%	5	0.2%	0.1%
41+	246	3.5%	5	0.2%	0.2%
Total	6,996	100.0%	2,694	100.0%	100.0%

Source: DfE Open Academies 1 January 2018 and 1 December 2016

Nearly 38% of all trusts are now MATs, compared to 30% last year. There have been rises in all sizes of MATs as converters have joined directly in MATs and single academies have decided that they cannot continue on their own and would benefit from the support of a MAT.

Despite the continued growth of some MATs there are only 91 trusts (3.4% of the total) that hold responsibility for more than ten academies. There is therefore still some way to go before we reach the idealistic MAT composition of 10-15 schools, as heralded by the DfE as the most efficient model.

There remain over 1,000 conversions in the pipeline, and in December 2017 the DfE received more than 100 applications, of which 67 have been approved already. Academies currently represent just one-third of all state funded schools, although there is a significant variation between the number of primary schools and secondary schools yet to convert.

Overall % of state-funded schools

Type of establishment	Primary	Secondary	Total
Academies	26.5%	64.7%	33%
Free Schools (including studio schools and UTCs)	0.9%	7.4%	2.0%
LA Maintained	72.6%	27.9%	65%

Source: DfE Open Academies 1 January 2018

Many of our own MAT clients have grown in the past year, and the majority of these expect further growth in 2018. It is vital that growing MATs have the appropriate governance structure and systems in place to avoid problems. From our experience, the early stages of a newly formed MAT are often the most challenging, and once MATs reach five or six academies the situation has usually settled. Growing too quickly can be problematic, and this is where some of the very largest MATs in the country have found themselves in difficulties. Some of these are now in the process of being broken up, and it is considered unlikely that ESFA will allow the creation of any more "super" MATs. There are only ten MATs responsible for more than 30 academies, and this number is up from nine last year with one trust just slipping over the 30 threshold.

MATs are increasingly looking at a fully centralised finance function. There are numerous benefits and efficiencies from operating this way, but it can be difficult for a small, growing MAT to reach this stage. Centralised finance departments require less staff compared to a set up where each academy remains autonomous in relation to its own finances but, unless staff leave naturally, there are costs to restructuring. It is also important to consider the morale of staff; there could be a significant negative impact if there are redundancies immediately after an academy joins a MAT.

Centralised finance functions work even better where there is one joint bank account. This removes the need to repeat control processes like the bank reconciliation across numerous accounts, and also helps to iron out any cash flow difficulties at individual academies.

Top slicing versus pooling

Most MATs continue to finance the central trust function via some form of top slice payment. MATs also have the freedom to amalgamate a proportion of general annual grant (GAG) funding for all the academies under its control to form one central fund. GAG pooling gives trusts the advantage of being able to use any surplus GAG funds available within the trust for individual academies with a funding commitment. This can help to alleviate financial pressures in the individual academy, ironing out periods of fluctuating income and expenditure.

GAG pooling has not been popular because it is often difficult to convince individual academies to buy into this option. MATs need to give individual consideration to the funding needs of each academy, set up an approvals process which considers their individual needs and be seen to be treating headteachers/principals of all academies within the trust fairly in the allocation of GAG pooled funds.

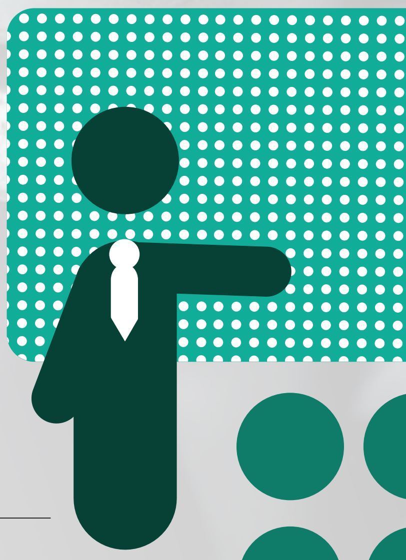
Some MATs have tried to pool an element of their funds, for example all unrestricted reserves, to give a pot of money, held at trust level, which is available. This gives the trust a pool of money that can be used to respond to the emergency needs of any individual academies. The only other way of building up a central pot is for the trust to retain and not fully spend an element of the top slice payments it receives, making it by far the most popular method of financing a central function.

Most established MATs offer services such as high level educational support, finance, HR support and policy, marketing, ICT support, and legal support. The larger MATs with more than five academies and 3,000 pupils are also able to offer capital expenditure support through the guaranteed School Condition Allocation funding.

The method of top slicing varies enormously, however. Below we give just some of the approaches we have seen:

- % of School Budget Share;
- % of School Budget Share plus direct recharges for specific contracts;
- Set different fees for all primary and all secondary academies;
- Flat rate % of School Budget Share and Education Services Grant;
- Amount per pupil based on SBS and/or ESG;
- % of GAG;
- Variable % based on Ofsted rating of each academy;
- Variable % based on internal risk assessment.

MATs are increasingly looking at a fully centralised finance function. There are numerous benefits and efficiencies from operating this way, but it can be difficult for a small, growing MAT to reach this stage.



There is no right or wrong approach here; the important thing is to develop a system that works for your trust and its academies. The most common percentages applied are between 3-5% of their chosen income streams, but naturally the percentages vary depending on the basis. Some MATs charge as much as 10%.

It is preferable and best practice to put a Service Level Agreement in place so that there is something clear in writing setting out what each academy will be paying and what services they will receive in return.

Are MATs successful?

There have been many commentators who have discussed the impact of MATs on the education system. It is clear that there are good and bad. Some MATs comprise mainly good or outstanding schools, and it is clear something is working. Other MATs have struggled educationally and have been stripped of academies where educational performance has been deemed unacceptable.

In terms of financial performance the ideology of the MAT structure is to deliver savings. A DfE survey last year of 326 MATs and 542 single academy trusts revealed that most MATs, especially the larger, can provide examples of financial efficiencies achieved, and it is encouraging to see that MATs are confident that efficiencies can be delivered.

But there are challenges. In January, an Observer newspaper investigation found that six out of the top ten academy trusts have raised warnings over pressures on pay, staffing levels, building maintenance and mounting deficits. In fact, eight of the top 13 largest groups have issued warnings with one speaking of "unsustainable deficits".

Academies of all types are struggling financially, and it is clear that MATs are no different. Section 8 shows that whilst some MATs have been able to post healthy surpluses, MATs are also more likely than other trusts to report large deficits, and over half of MATs (56%) reported an overall GAG deficit.

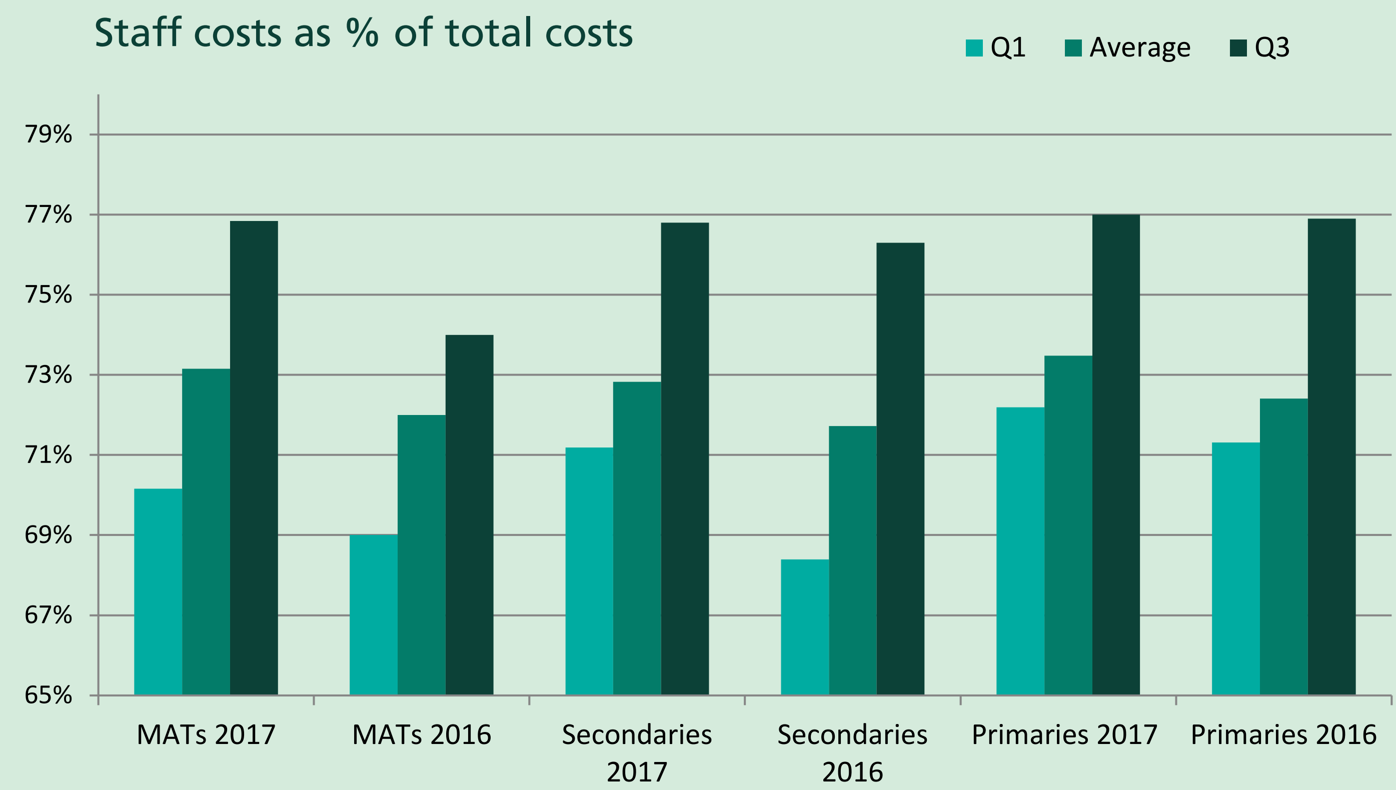
Some of the figures posted by the largest MATs are quite alarming for the sector. It has been too easy for some to attack the academy system in recent years, and easy headlines focusing on large deficits and financial inefficiencies are not helpful. Academies often bear the brunt of the criticism as in order to be transparent their information must be made publically available, which is not the case for Local Authority schools. It is important to remember that there is a funding crisis in the education sector generally, and academies are no different to Local Authority controlled schools; all are affected.

Staff costs, numbers and teaching staff to pupil ratios

Staff costs remain the largest part of any academy's annual budget, and the rising pressure on staff costs is perhaps the key factor in many trusts' financial difficulties; all whilst trying to maintain or ideally improve educational standards.

There is an argument that the education pay spine system is flawed. Too many staff receive automatic above inflation pay rises as they move up through the pay spines due to 'experience' but are these staff actually delivering? Whilst academies have the freedom to set their own pay structure, they face the continued pressure from teaching unions, as well as the fear that they will lose staff to a local school if they are not competitive with pay.

Two academies of the same size in terms of pupil numbers do not necessarily have the same staffing profile. It is clear that some academies operate more efficiently than others. Some have high teaching costs, others may have above average support staff costs. The majority of academies could probably make some savings without adversely affecting standards. It is, of course, difficult to compare two schools because there are always differences, but the ESFA's view seems to be that there are academies operating extremely efficiently whilst achieving excellent academic results, and it should be possible for more academies to achieve this.



The chart above and table below show the general consistency between the different types of academy and also from year to year, however it is notable that there has been a 1% rise in staff costs as a percentage of total costs across the board since last year. There is also clear pressure on secondary academies which have seen the average staff costs rise by 1% for the third year in a row.

2016/17 is the first full year that has experienced the impact of rising pension and National Insurance costs that began to come through in 2015/16.

	Average staff costs as % of total costs			
	2016/17	2015/16	2014/15	2013/14
Primary academies	73%	72%	72%	72%
Secondary academies	73%	72%	71%	70%
MATs	73%	72%	Not available since we did not split MATs as a separate category	

The above figures are averages. Most academies are within the first and third quartile ranges, but there are some where staff costs are much higher or lower.

It is vital that academies pay close attention to their staff costs and understand where they sit (and why) against the averages. There may well be a good reason to be above the average in the short term, but generally there would be a heightened level of concern or risk of financial difficulties if staff costs exceed 75%, and the risk increases the more staff costs exceed this level.

It is good practice to review staff costs and needs on a regular basis. When staff leave for natural reasons, is there a need to necessarily replace on a like for like basis, or is there an opportunity to bring in a cheaper alternative?

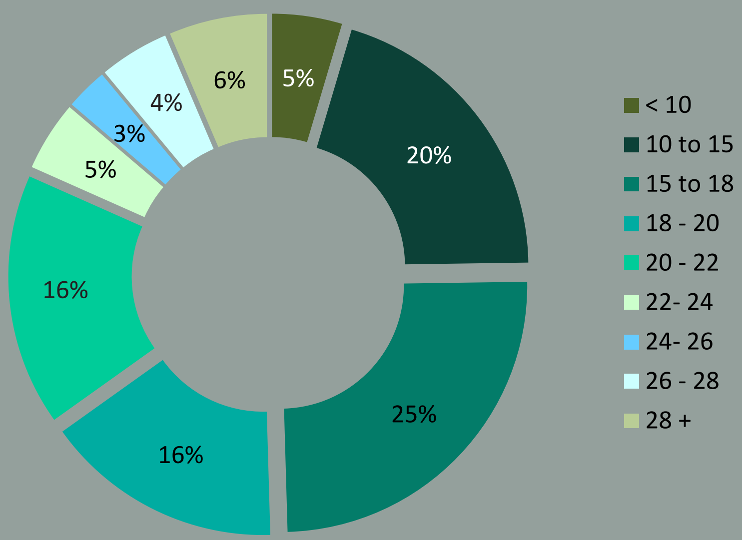
Staff costs represent such a large part of the overall budget that it is the easiest area in which to make significant changes, and quickly. Conversely it can be difficult to make meaningful changes to other parts of the academy budget that have an impact on the bottom line.

The Apprenticeship Levy

We reported last year that the new Apprenticeship Levy, introduced from April 2017, would be an additional cost for many MATs. The levy affects all employers with an annual wage bill of over £3m and is charged at 0.5% of wages costs over the £3m threshold.

From a brief review of some of the largest MATs' financial statements we can reveal some quite staggering costs. Bearing in mind these figures only cover the five months from the introduction of the levy, ARK Schools paid £152,000 which would equate to circa £364,000 for a full year. This may be spread across 35 academies but it is still a significant additional cost for the trust to bear.

Pupil to teaching staff ratio



45% of academies in our sample had a pupil to teacher ratio of between 10 – 18 pupils to one teacher, up from 40% last year. The result for 2016/17 has risen towards the 43% reported in 2014/15.

The very lowest ratios, with 5% reporting less than ten pupils per teacher, would be impressive at top independent schools.

At the other end of the scale, 6% of academies reported more than 28 pupils per teacher, and most of the academies reporting higher ratios are once again primary schools.

We are increasingly aware of secondary academies taking the difficult decision to increase class size, and this may see the pupil to teacher ratio continue to increase in the coming years.

Supply staff

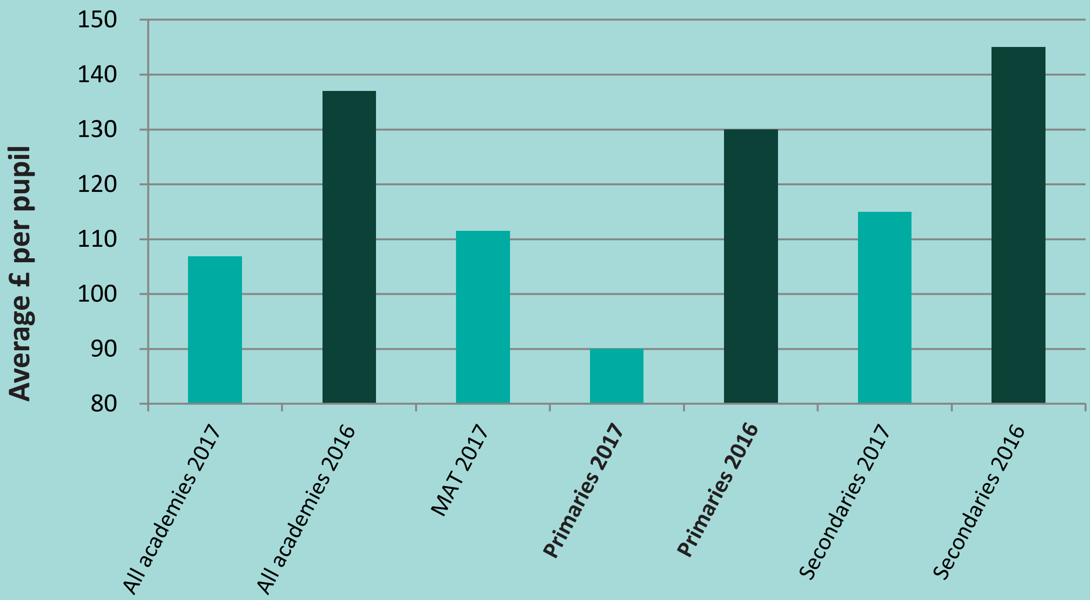
Our previous benchmarking reports have shown the high cost some academies incur on supply staff. Whilst some academies do take out insurance to cover themselves from the effects from absenteeism arising from sickness or maternity leave, in our experience most opt to 'self-insure' rather than pay the premiums.

Average supply staff spend 2016/17 (£s)				
	Q1	Average 2016/17	Q3	Average 2015/16
Secondary academies	21,906	117,811	140,470	97,822
Primary academies	5,863	45,772	65,140	28,844

The average primary academy has paid out £45k in supply costs in the last year, and the average secondary academy has paid between two to three times that amount. Both have seen significant increases on the 2015/16 average spend. This is the opposite scenario to last year when we saw the average spend reduce. We speculated that this could be because academies were increasingly reliant on using existing staff, for example teaching support assistants, in a different way. This year is it possible that, having cut staff costs in the previous year, some academies have found the need to bring in supply staff to respond to shortages at certain times of the year?

Looking at supply costs on a per pupil basis shows a different picture, however. The graph below reveals that the per pupil cost is lower for both secondaries and primaries in 2017.

Supply teacher costs to £ per pupil



Gender pay gap reporting

Many MATs are currently getting to grips with this requirement, which was introduced from 6 April 2017 for all companies with more than 250 employees. Affected trusts will have to publish their gender pay gap statistics on their websites, and must do so by April 2018. This will become an annual requirement thereafter.

Information such as the gender pay gap and the proportion of men and women in each quartile of the organisation's pay structure need to be stated.

The legislation does not require the numbers themselves to be explained. In a school environment, where there are a relatively small number of high earners on the school leadership team, it is easy for an apparent gender pay gap to arise, and trusts will be keen to explain the reasons. In primary schools, for example, it is common for a high proportion of teaching staff to be female and then, if the headteacher is male, the pay statistics become distorted.

Of course the gender pay gap is very different to equal pay, which deals with the pay differences between men and women who carry out the same jobs, similar jobs or work of equal value. There remains an element of confusion within the general public as to what the gender pay gap figures mean, and trusts will understandably have a desire to avoid statistics being misunderstood.

Senior leadership team remuneration

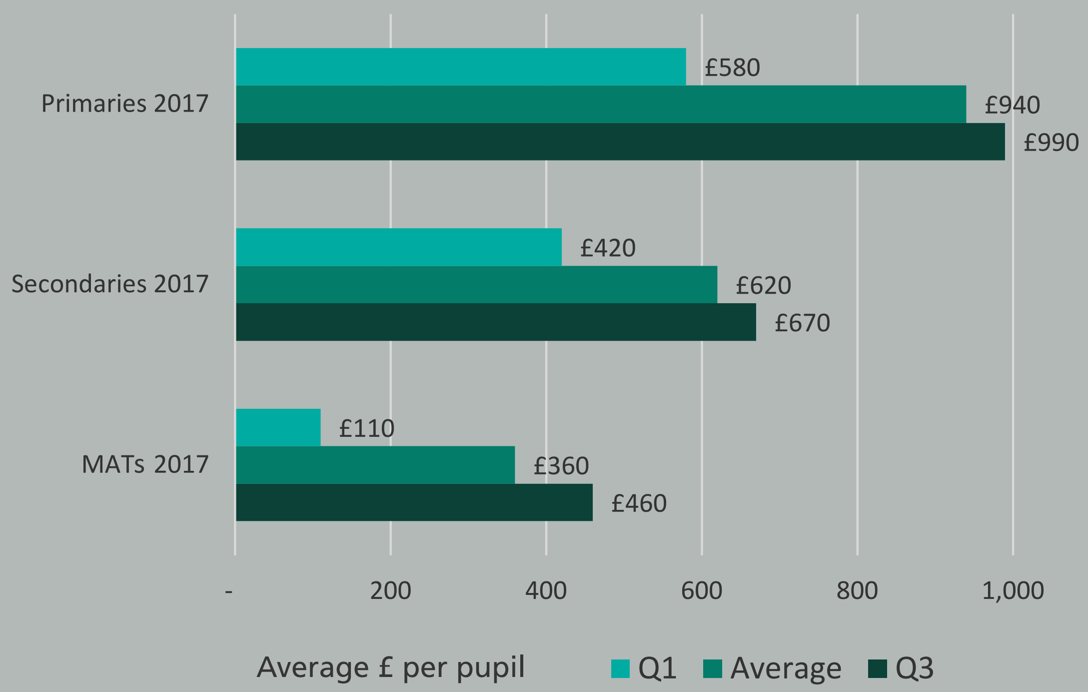
There is a sub division of staff costs which is usually itself significant – the costs associated with the senior leadership team (SLT).

Trusts should regularly assess whether their senior leaders are delivering value for money. Whilst most SLT positions demand a lot of time that is not direct face to face interaction with pupils, can you measure whether your SLT are spending sufficient time directly influencing the education of the academy's pupils?

Trusts were required to disclose remuneration paid to 'key management personnel' for the first time in their 2015/16 financial statement and, in most cases, this captures the SLT. The same disclosures were required in 2016/17.

The disclosed amounts understandably vary according to the size of the school, or the size of the trust in a MAT, so to enable comparisons we have reviewed the costs on a per pupil basis.

Senior leadership team remuneration per pupil



Immediately obvious is the way per pupil costs increase from a MAT to a secondary school, and then further to primary academies. It is logical that primaries would have a high per pupil cost because the SLT will often comprise four or five individuals, even in the smaller primaries, and the disclosed figure will also include anything paid to staff trustees.

The definition of key management personnel is important here. There is no set definition, and hence it is important to remember there will be different approaches. The Accounts Direction defines key management personnel as:

> "those persons having authority and responsibility for planning, directing and controlling the activities of a reporting entity, directly or indirectly, including any director (whether executive or otherwise). This definition includes academy trustees and those staff who are the senior management personnel to whom the trustees have delegated significant authority or responsibility in the day-to-day running of the academy trust. In practice this is likely to equate to trustees and an academy trust's senior leadership team. For multi-academy trusts it may also include principals and senior leadership teams of individual academies."

CEO/Headteacher/Principal salaries

There continues to be much public interest in the remuneration paid to academy trust CEOs and Accounting Officers, and there have been some high profile cases in the last year where trusts have come under attack.

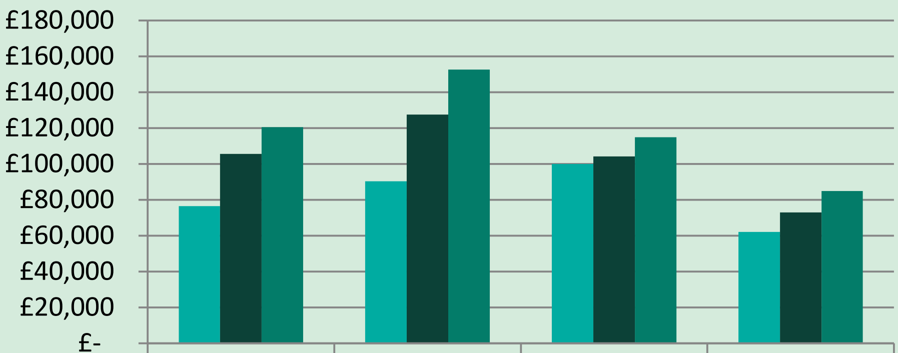
This is clearly on the ESFA's agenda. Whilst it is undoubtedly a huge responsibility to lead a large MAT, and a number of people would argue that it is right the person at the top of the organisation is paid a salary commensurate with that level of answerability, there does need to be appropriate challenge. At a time when the sector is facing financial difficulties, it can be good for no one if there is any perception, rightly or wrongly, that money is being 'bled' in an extravagant fashion.

On 1 December 2017 Eileen Milner, the new Chief Executive of the ESFA, wrote to the Chair of Trustees or all trusts who paid an executive salary of over £150,000. She referred to her responsibility to ensure value for money and that "salary payments are transparent, proportionate, reasonable and justifiable." She asked those trusts to explain to her the role and responsibilities of the individuals concerned and the level of challenge.

Ms Milner wrote a similar letter to those trusts paying a salary of over £150,000 which the ESFA believe are "at risk of experiencing financial difficulties". In this letter she refers to a risk-based approach taken to identify trusts that are "potentially vulnerable from a financial perspective" and that it is "critical" that all aspects of expenditure, including salaries, are reviewed.

The 2017 Academies Financial Handbook effective from 1 September 2017 includes a new requirement that "the board of trustees must ensure that their decisions about levels of executive pay follow a robust evidence-based process and are reflective of the individual's role and responsibilities".

CEO/Accounting Officer salaries



	All	MAT	Secondary	Primary
Q1	£76,500	£90,288	£100,000	£62,101
Average	£105,699	£127,576	£104,301	£73,008
Q3	£120,462	£152,652	£115,000	£85,000

This chart shows the average and upper and lower quartile results of salaries paid to CEOs/AOs of academies within our sample. As one would expect, the top CEO/AO salary rises from primary to secondary academies, and there is a further increase for MATs.

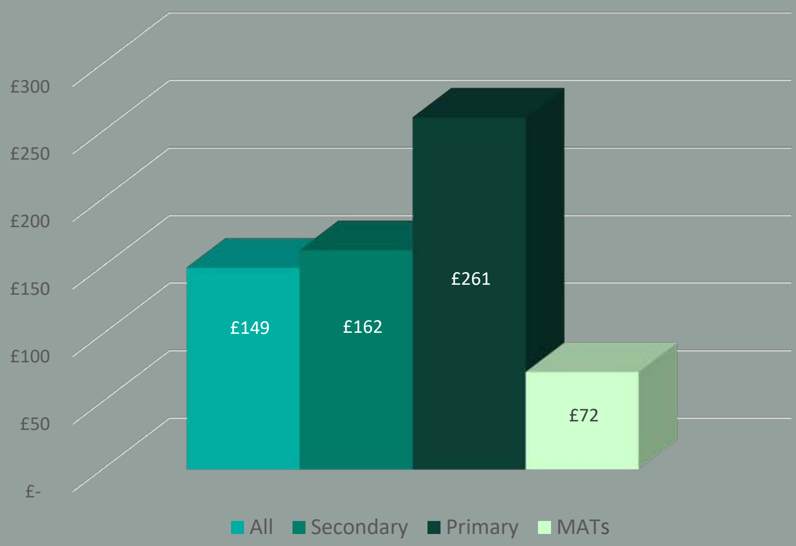
Of course the remuneration of a MAT CEO can vary enormously depending on the size of the MAT.

Whilst Lord Harris received over £440k (The Harris Federation has 40 academies), at the other end of the scale the lower 25% of MATs paid their CEO/AO less than many single secondary academies and less than some primaries.

Given the level of obvious scrutiny, it is vital that your trust has robust systems in place to justify all executive pay, not just for remuneration over £150,000. Slightly worryingly, at a parliamentary public accounts committee meeting in January 2018, at which the ESFA were questioned over academy finances, it was noted that a number of smaller trusts paying a remuneration over this level had so far been unable to justify the decision with a reasonable explanation.

Trusts are encouraged to benchmark their executive pay to help evidence their decisions. We would suggest that trusts that are experiencing any decline in educational standards, severe financial pressures, or other serious issues, should be particularly careful in how they justify remuneration.

Average CEO/Accounting Officer salaries per pupil

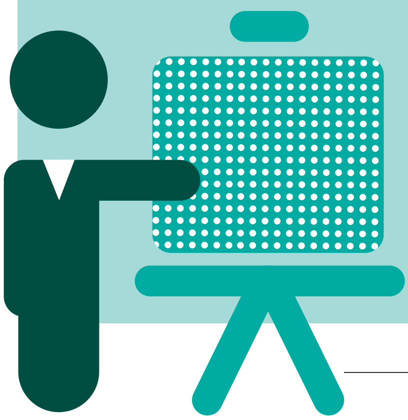


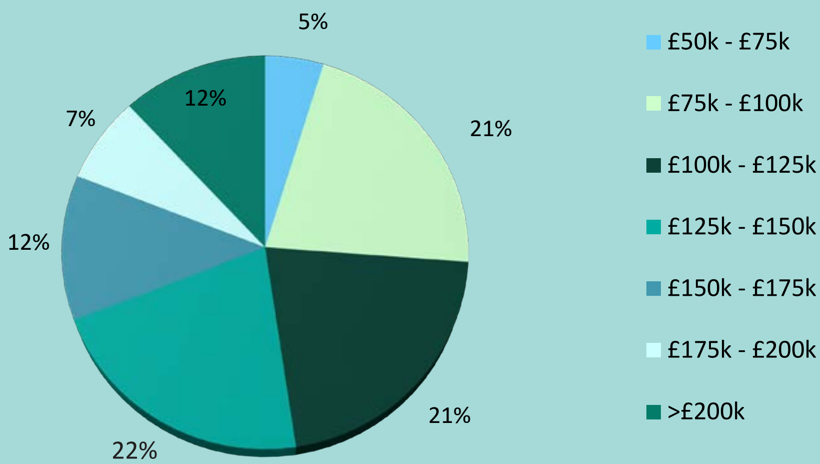
This chart shows the average AO remuneration per pupil. With primary schools much smaller than secondaries there is no surprise to see the difference between the two figures.

This average falls away further for the average MAT, where the one, albeit usually higher salary, is spread across several schools and many more pupils.

CEO/Accounting Officer salary bands for MATs

This chart shows the distribution of CEO/Accounting Officer salaries for the MATs in our sample across various ranges. 12% of the sample received over £200k but the £125k-£150k band was the most common with 22% of the total.

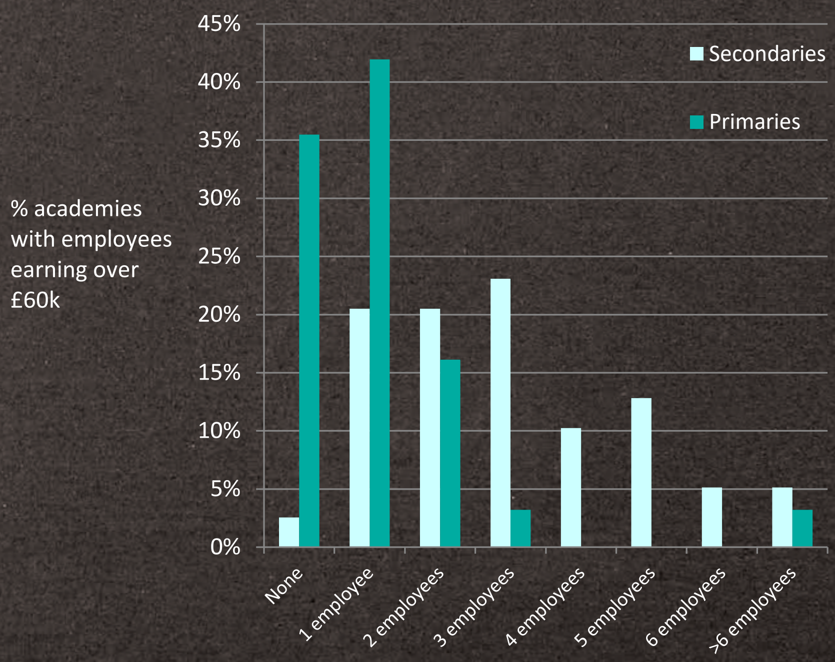




Staff salaries

The remuneration paid to CEOs and headteachers must be disclosed because these individuals are usually staff trustees. In addition to this information academy trusts must publish, confidentially, the number of employees receiving remuneration in excess of £60,000.

Academies with employees earning over £60k



As can be expected, this chart reveals that secondary schools are far more likely to have high earning employees. Many secondary schools have two or three deputy or assistant headteachers supporting the CEO or head, possibly explaining why 56% of secondary schools employed three or more members of staff earning in excess of £60k.

In the primary sector 77% paid none of the staff, or just the headteacher, more than £60k.

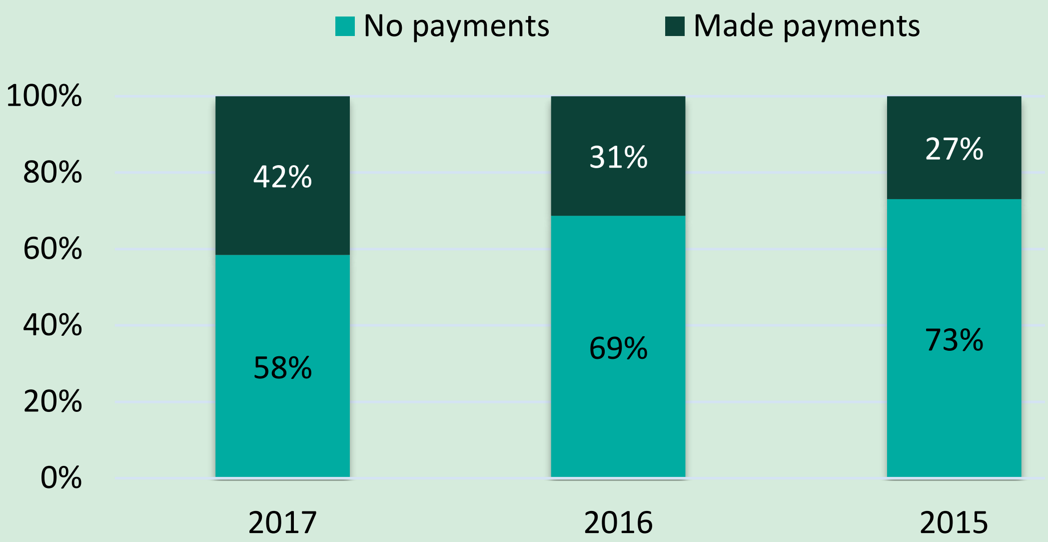
Compensation and severance payments

Many trusts have had to go through a period of restructuring and, with the financial pressures only increasing, we will see more trusts going through this process.

It is vital that trusts react as soon as possible where there is a problem. It can be possible to get fortunate with the natural loss of staff as employees retire or leave for other reasons, but there are times when trusts cannot afford to be passive. Whilst there is a short term cost of restructuring in the form of redundancies and other settlement payments, in the medium to long term these will bring substantial savings. It is important that the process begins as early as possible whilst the trust still has sufficient funds to meet the short term restructuring costs.

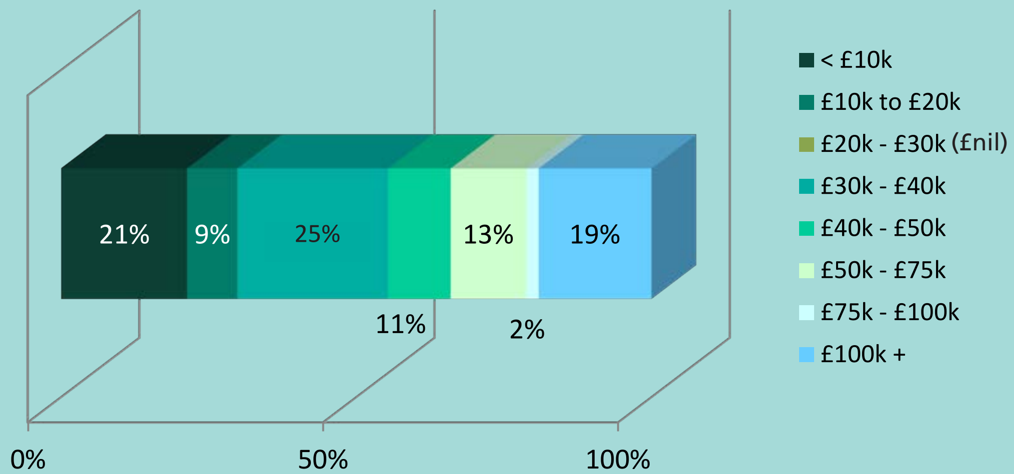
Severance payments are those payments made to employees "outside of normal statutory or contractual requirements when leaving employment in public service whether they resign, are dismissed or reach an agreed termination of contract."

Academies making compensation or severance payments



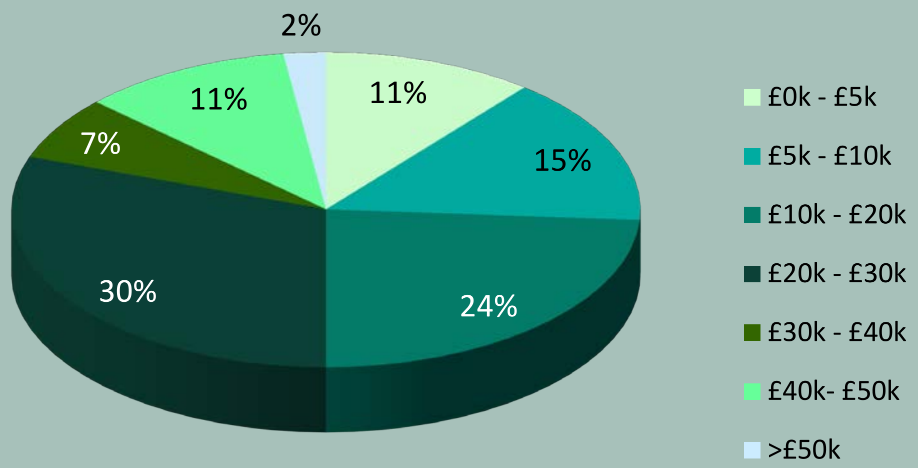
The percentage of trusts that have made compensation or severance payments has increased again in 2016/17, with more than four in ten trusts making at least one such payment.

Range of restructuring payments



In the past our analysis has shown that where academies have made payments to staff during a restructuring process the amounts are generally relatively low. This is once again the case, although in 2016/17 there was an upwards trend with only 21% of those making a payment falling in the less than £10,000 band, down from 32% in 2015/16. Nearly one in five of the trusts in our sample paid out over £100,000 in restructuring costs, although almost of all these were sizeable MATs.

Highest restructuring payment



Within the total payments made there are inevitably some large individual amounts. Trusts are required to list out individual compensation, severance and non-statutory redundancy payments in addition to disclosing the total payments made of this type. Of the trusts in our sample that did make such payments, 11% made a payment to an individual of between £40k-£50k (up slightly from 10% last year) which demonstrates how expensive payments of this type can be and how costly employing the wrong individual can become. In many cases the recipient of the very highest payments is an Accounting Officer. Even where there is a clear case of declining education standards, employment law being what it is means agreeing a costly severance payment is often the best way of drawing a line under a bad situation.

It is understandable that such "payment for failure" sits uneasily with many in the sector, and it is inevitable this brings further bad press. It is important trustees remember that restructuring payments need to be made with the interests of the trust in mind and need to represent value for money. Payments need to be justified, based on the legal assessment of the chances of the trust successfully defending the case at an employment tribunal.

It is rare to see payments in excess of the £50,000 threshold because anything above this level requires prior approval from the Secretary of State.

Pension costs and liabilities

We often receive questions from trustees about the LGPS deficits and what they mean. It is important to remember that the deficits do not indicate that an immediate liability exists.

Pensions. A typical topic of conversation in schools and at trustees' meetings.

The Teachers' Pension Scheme (TPS) remains a 'ticking time bomb'. The TPS is an unfunded scheme, which means an academy does not need to include its share of the liabilities on the trust balance sheet; indeed quantifying an individual share would be very difficult. The issue with the TPS is that it has historically been severely underfunded for years, resulting in an enormous deficit. The change a few years ago to move the scheme to an average salary basis, rather than a percentage of final salary, is very slowly helping to address the issue. It will take a long time, however. To be blunt, little will change until every retired teacher whose pension is based on or largely on the final salary, and every current teacher whose pension will largely be based on final salary, dies.

The TPS rates are national so all academies currently pay an employer rate of 16.48% of each individual's pensionable earnings. The current rate last increased in September 2015, rising from 14.1%, and will apply until April 2019. We have been advising clients for well over a year now that pension experts and actuaries are predicting at least the same rise again. Some experts hold the view that rates may rise to something approaching 20%. This will be a substantial increase as shown below by the indicative additional costs arising for a range of academies:

Indicative additional cost of rising TPS employer rate by:	Current TPS annual contributions £300,000	Average secondary TPS annual contributions £400,000	Current TPS annual contributions £500,000
1%	£18,000	£24,000	£30,000
2%	£36,000	£48,000	£60,000
3%	£54,000	£72,000	£90,000

Change in TPS rates always seem to be announced very late in the day. It is conceivable that the new rates that will apply from April 2019 will not be confirmed until the Autumn later this year. This does not leave much planning time, so it would be prudent to ensure forecasts take into account the expected rise.

Local government pension schemes

Trustees tend to focus more on the Local Government Pension Scheme (LGPS) since the usual deficit in the trust's share of the scheme appears in the financial statements.

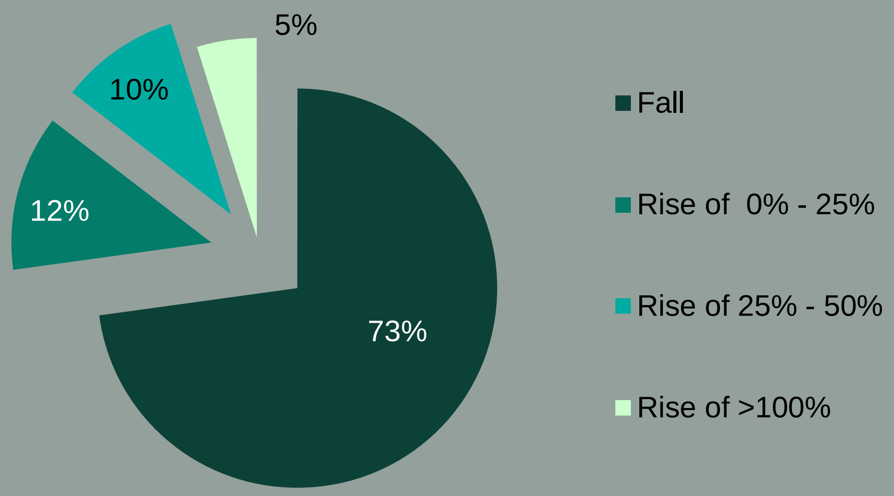
It is understandably concerning for trustees to see a large 'liability' on the balance sheets of their trusts.

We often receive questions from trustees about the LGPS deficits and what they mean. It is important to remember that the deficits do not indicate that an immediate liability exists. The impact is more of a long term cash flow in the form of possible future rises in contribution rates to help fund the deficit.

After several years of rising deficits most academies were pleased to see their closing LGPS deficit fall during 2016/17.

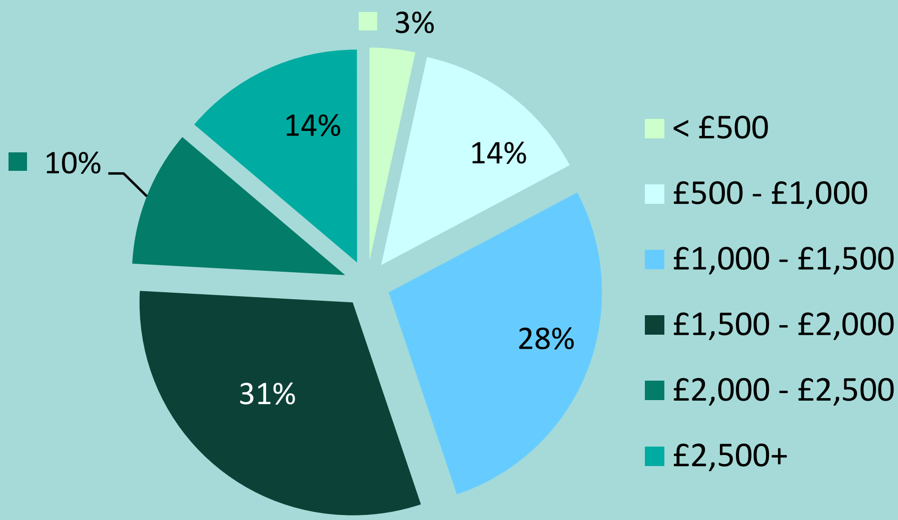
% movement in LGPS liability vs opening liability

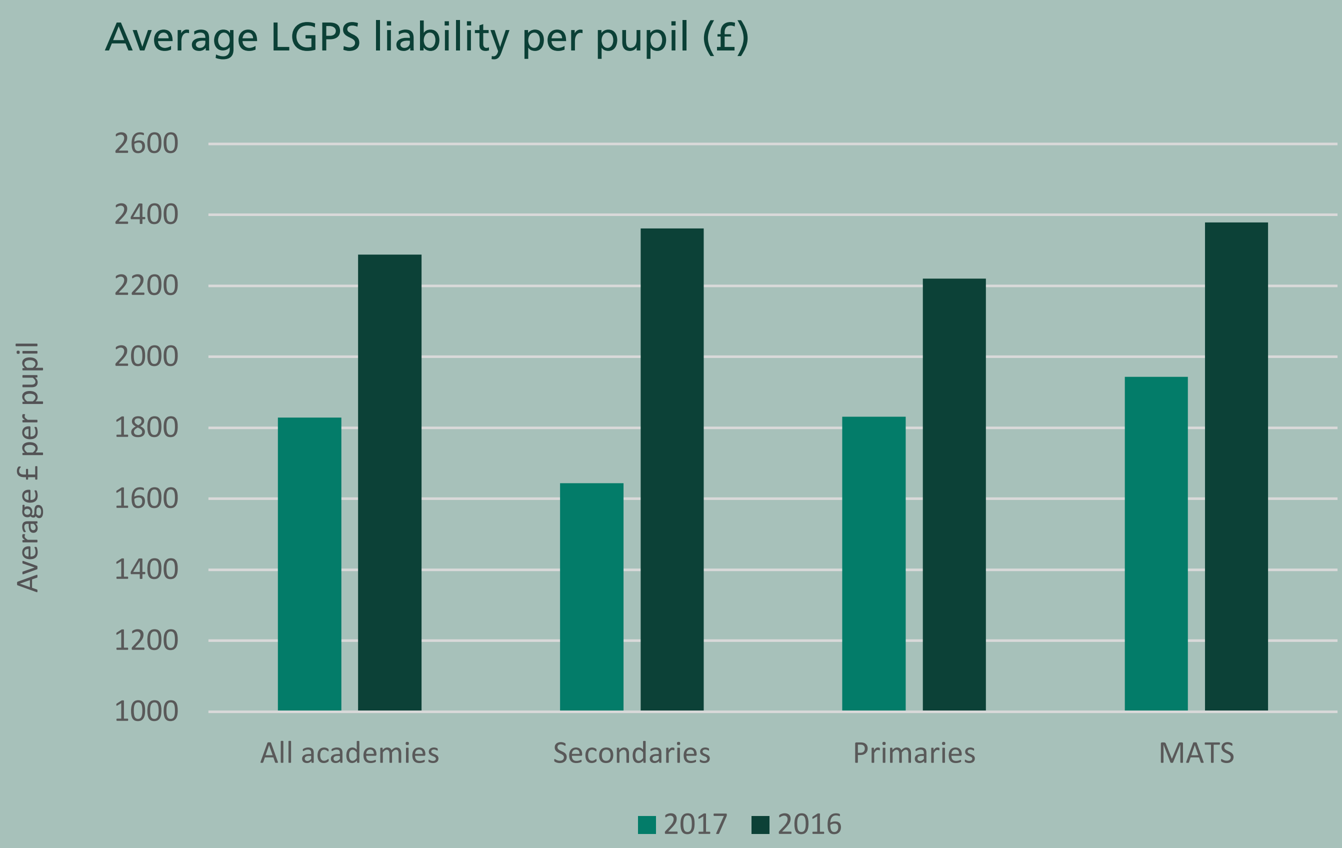
The reason for a fall in most deficits this year lies chiefly with the way the pension actuaries have calculated the figures. Each actuary will have their own financial assumptions, but this year most actuaries made significant changes to their assumptions – in particular using a lower discount rate. In many cases, the rise in deficit during the 2015/16 year has been reversed during 2016/17, bringing pension deficits back to something close to where they were two years ago.



LGPS liability to £ per pupil

This chart shows that there really is a mixed bag when it comes to LGPS deficits. The largest MATs carry colossal figures on their balance sheets, running into more than £30 million, but this total figure is across numerous academies. Reviewing the deficits on a per pupil basis shows that there is no obvious pattern. Whilst 12% of trusts have a deficit of over £2,500 per pupil, and most sit somewhere in the £1,000 - £2,000 range, there are trusts with a deficit of less than £500 per pupil.





This chart shows the overall average of £1,829 for 2016/17 compared to £2,288 in 2015/16, a reduction of around 20%.

MATs with academies located across different geographical areas can apply to move the LGPS arrangements for all their relevant staff into one fund.

LGPS contribution rates

Unlike the TPS, academies in different Local Authorities pay different levels of contribution rates. Academies began paying new rates from April 2017 and so have some certainty now until April 2020. Most academies found they were paying more or less the same post-April 2017, but there are exceptions. Some had small reductions, many had small increases of less than 1%, but a minority saw a much larger increase of more than 5%.

There can be a particular problem in MATs that are responsible for academies within different local authorities. A trust's appropriate LGPS fund is determined by its geographical location, but MATs with academies located across different geographical areas can apply to move the LGPS arrangements for all their relevant staff into one fund. This could mean regional MATs spread across several local authorities could find it advantageous to move away from some LGPS funds into a more favourable one. There is a formal process to go through, however, before this can be achieved, including obtaining approval by the Secretary of State.

Income

The key source of income for any academy is core grant funding, and the General Annual Grant (GAG) in particular. We continue to see academies develop other sources of income, and in some instances the funding these additional streams can generate can be significant.

The current challenge in many cases is how to cope with falling income. Where there is the demand in the local area some academies are looking to temporarily increase their usual intake which, with core funding linked to pupils, provides a boost to income. If income cannot be increased, the only alternative is to reduce costs.

MATs will stand the best possible chance of maximising their income. They may be able to provide catering to other local academies, or sell IT or other consultancy services. They may be able to establish a successful CPD training programme which generates additional revenue. MATs are also more likely to have some form of specialist sports equipment, perhaps a full sports centre, or a swimming pool, or a gymnasium, which can be used to generate income outside of school hours.

There remains uncertainty over the National Funding Formula (NFF), with constant opposition to the proposals since they were announced. The old saying that you can "never please all of the people all of the time" rings true here. Whilst everyone may be in agreement that the poorest funded schools need to receive more income per pupil, most of the schools currently receiving the higher income levels were never going to just accept their income being taken away to fund increases elsewhere. The only solution is to significantly increase the size of the overall pot, something the Government seems reluctant to do.

Before she left her role as Education Secretary, Justine Greening promised last year to ensure that from 2019/20 all secondary schools attract at least £4,800 per pupil. Secondary schools are set to receive at least £4,600 from 2018/19 before receiving the full amounts the following year.

Academies which are set to lose funding under the NFF will need to ensure they take prompt action to manage their budgets. Many of these academies are in Greater London or the other major conurbations.

	Top 5 most poorly funded Local Authorities in 2016/17	Dedicated School Grant £ per pupil
1.	Wokingham	£4,166
2.	Poole	£4,186
3.	West Sussex	£4,198
4.	York	£4,201
5.	Cheshire East	£4,205

	Top 5 best funded Local Authorities in 2016/17	Dedicated School Grant £ per pupil	Top 5 best funded Local Authorities in 2016/17 (outside London) (based on Dedicated School Grant)	Dedicated School Grant £ per pupil
1.	City of London	£8,587	Nottingham	£5,329
2.	Tower Hamlets	£6,982	Birmingham	£5,218
3.	Hackney	£6,857	Manchester	£5,158
4.	Lambeth	£6,486	Liverpool	£5,064
5.	Southwark	£6,462	Middlesborough	£4,918

Region	Dedicated School Grant £ per pupil	Region £ per pupil compared to average (excluding London)
Average	£4,636	
Average excluding London	£4,500	
London	£5,448	+21.07%
West Midlands	£4,645	+3.23%
North East	£4,616	+2.58%
North West	£4,584	+1.87%
Yorkshire and the Humber	£4,568	+1.51%
East Midlands	£4,442	-1.29%
East of England	£4,427	-1.62%
South West	£4,361	-3.09%
South East	£4,356	-3.20%

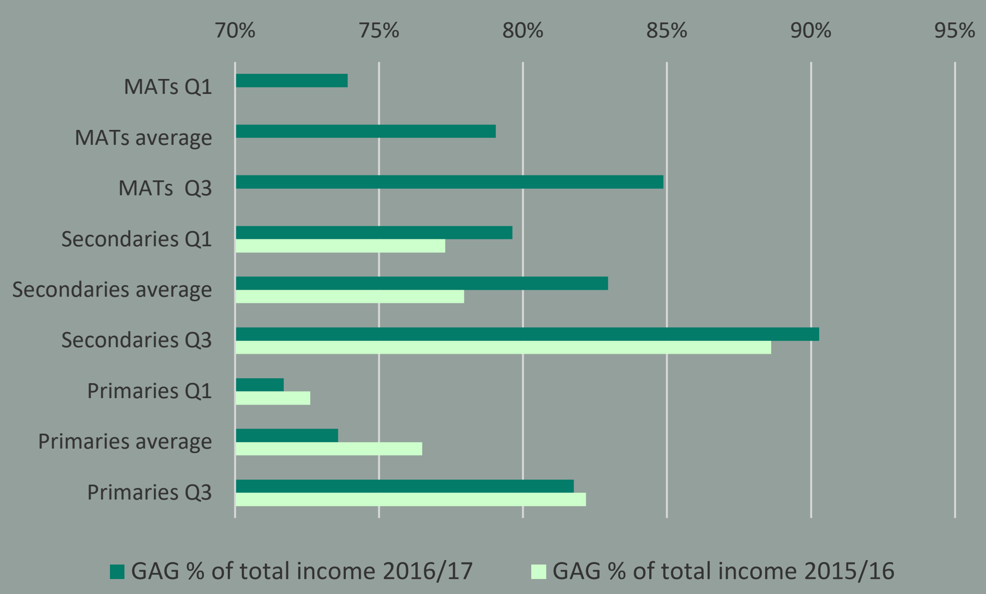
It is clear that, even when taking London-based Local Authorities out of the equation, there is quite a differential between the highest and lowest funded. The differential between the West Midlands and the South East is £289 per pupil which, for a 1,200 pupil secondary school, equates to £346,800. That pays for a significant number of teaching staff or educational supplies.

GAG

On average, GAG accounts for between 74% and 83% of total income, depending on the type of trust. Single primaries have the lowest average of 74%, down slightly from the year before. Secondaries are at the higher end of the scale and, in contrast to primaries, the percentage here has increased compared to 2015/16.

At first it may seem strange that secondary schools appear more reliant on GAG, when these are usually in a better position to generate additional income. This statistic arises because primary schools often have substantial non-GAG grant funding, such as Universal Infant Free School Meals, and some primaries have nurseries attached to their main school.

GAG income as % of total income (all academies)



Other income

It is becoming increasingly important that academies generate as much other income as possible, to supplement core grant funding. For some this may mean the difference between surviving as a financially viable school.

The most common form of other income is lettings of school buildings and sports facilities.

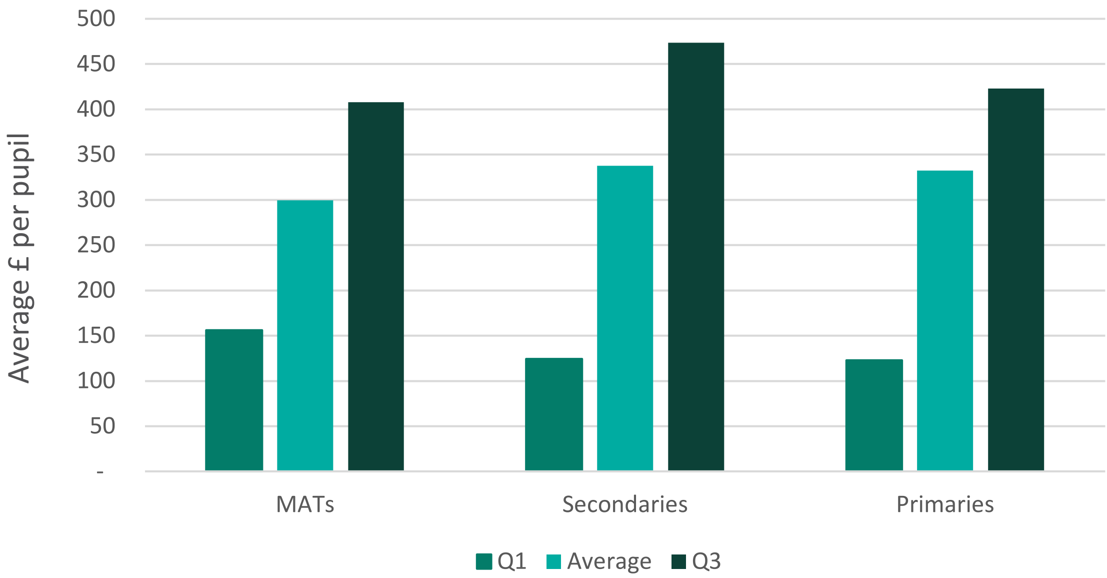
Many primary academies are branching out into before and after school provisions and holiday clubs. One large primary client is now generating over £250k of income from before and after school clubs, having achieved this within 18 months from a standing start.

Other income can lead to corporation tax and VAT issues, however, so it is vital that proper professional advice is taken at the outset, or if income begins to grow significantly. The before and after school club example is a good one. At first glance this income stream may appear to be ancillary to the main educational objects of the academy trust, but the fact that there is a clear profit motive (and the provision has no educational element) means this income will be treated as taxable business profits and a subsidiary company is required.

Whilst MATs and some secondary academies are generating large amounts of other income (although do bear in mind that because of the way some other income is presented in the accounts this can include some educational income) the chart below shows that, when analysed on a per pupil basis, there is actually little difference between the three types of trust.

There is, however, a large range between the trusts generating the most and those with little other income; for secondaries there is a variation of £350 per pupil between the lower (£124) and upper quartile (£474) figures. A few lucky schools right at the top end of the scale generated other income in excess of £700 per pupil.

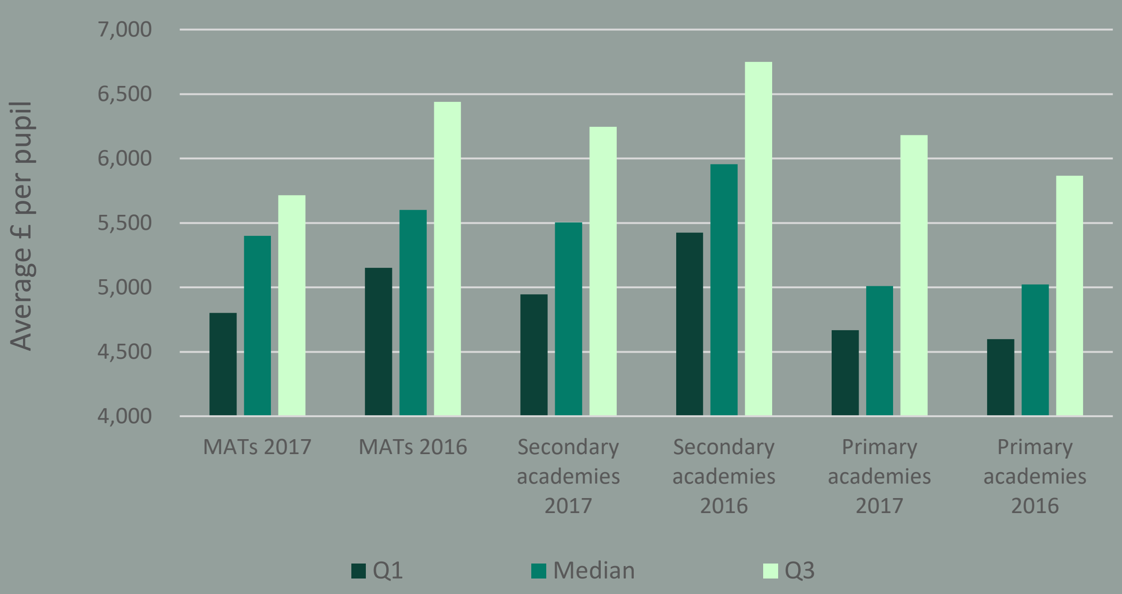
Other income per pupil (£)



Total income per pupil

We have already noted the disparity between per pupil core funding across different regions and Local Authorities. The chart below visualises the data from our sample for all recurring revenue income.

Recurring revenue income per pupil (£)



Trading subsidiaries

We are beginning to see more trusts set up or consider establishing trading subsidiaries. Trusts can carry out trading activities themselves if their charitable objects permit them to do so, but most trusts' articles will prohibit them from undertaking "permanent, substantial trading activities".

In some cases, it is possible to alter the charitable objects to cover a wider definition. Where this is not possible any substantial trade usually has to be hived off to a subsidiary.

Trusts can carry out some small scale trading without creating a tax problem. There is a small scale exemption up to a trading income of £50,000, but this limit can be reached easily, especially in a MAT.

Trustees must also assess the risk associated with trading activities. If there is any risk associated with the activities it may be preferable to keep them outside the main trust to avoid placing any trust assets at risk.

Trading subsidiaries do come with complications. There is the additional cost of setting up and running the extra company, such as year-end accounts and audit costs. Unless the subsidiary is immaterial in the context of the academy trust, group consolidated financial statements will need to be prepared by the trust too.

Careful planning may be required to ensure issues such as charging for use of the building, equipment, staff etc. are dealt with correctly.

Capital funding

Whilst some academies are fortunate to have light and spacious new buildings and equipment, many schools around the country are struggling with outdated facilities that are in need of refurbishment.

Academies continue to receive basic capital funding, the Devolved Capital, which comprises a £4,000 lump sum per school plus a per pupil element. This funding is the same as Local Authority or Voluntary Aided schools receive. This means a typical 1,000 pupil secondary school receives just over £20,000 per annum, which does not go very far.

2017/18	Per non-boarding Pupil	Lump sum per school
Nursery/Primary	£11.25	£4,000
Secondary	£16.88	£4,000
Post-16	£22.50	£4,000
Special/PRU	£33.75	£4,000

Unless trusts have substantial reserves to fall back on, any significant capital works need to be funded by additional grants. In 2016/17 the ESFA paid out total Condition Improvement Funding (CIF) of over £442 million to academies. Since CIF funding is an annual bidding round, and because it has the core priority to address significant condition need, applications that keep buildings safe and in good working order, particularly where they address health and safety issues, building compliance and poor building condition, are given priority.

There were over 3,800 applications for CIF in 2017/18, and only 1,435 of these were initially successful. Trusts whose applications are rejected can appeal, and it can sometimes be worth doing so; a further 75 projects were successful after appeal for 2017/18. Furthermore, the ESFA has subsequently made a further £40 million available to support 141 additional projects that missed out narrowly initially.

Constructing a successful CIF application is a time consuming affair. Many trusts now outsource at least part of this to a professional company, and this often increases the chances of a successful bid.

School Condition Allocation funding for larger MATs

MATs and some other groups of academy trusts with at least five academies and more than 3,000 pupils continue to receive a School Condition Allocation (SCA) to deploy strategically across their estate to address their priority maintenance needs.

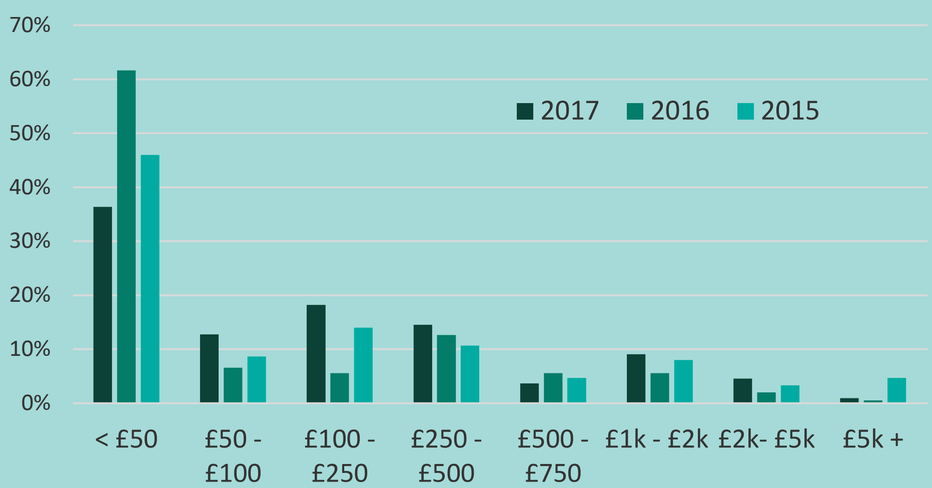
This funding is guaranteed, and avoids the need to make CIF applications. Trusts are able to plan their capital expenditure, knowing they will receive the money. Most trusts invite their constituent academies to ‘apply’ for the funding and then, at central trust level, a decision is made where to deploy the money according to needs.

	School Condition Allocations 2015-18		
	2015/16 Final	2016/17 Final	2017/18 Final
MATs and sponsors total SCA	£68,652,119	£97,815,649	£129,596,842

2017/18 SCA funding is based on the academies who were in the MAT or being sponsored at the beginning of September 2016, plus pipeline academies at the beginning of September 2016 expected to open as academies by 31 March 2017.

The calculations themselves are complex since SCAs take into account information the ESFA have collected about the condition of schools, and there are three different elements to SCA funding. One element is pupil-led, but funding also takes into account those trusts with disproportionately high needs.

Spread of capital funding per pupil



In each of the last three years, the majority of academies have received at most £50 of capital income per pupil. In 2016/17 36% received capital funding at this level, with a further 13% receiving between £50 and £100 per pupil. This is to be expected, given the way capital funding works, as explained above; the academies at the lower end of the spectrum will have received only their basic Devolved Capital funding, those receiving much more capital funding per pupil will have received CIF or higher needs SCA funding.

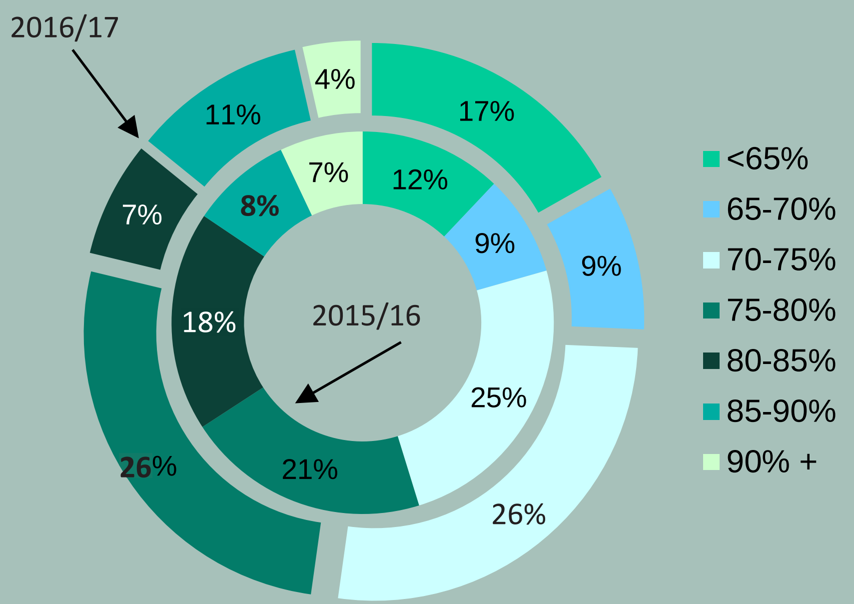
GAG expenditure and non-staff costs

Since GAG income is an academy trust's main source of income, it is inevitable that GAG costs are a similarly high proportion of total costs.

The chart below shows the variation in GAG costs as a percentage of total expenditure.

GAG costs (including staff costs) as % of total expenditure (all academies)

For over half of the academy trusts in our sample (52%) GAG costs represented somewhere between 70 and 80% of their total costs. GAG expenditure represented more than 90% of total costs in one in 25 academies, typically smaller primary schools. Where GAG costs are a much lower percentage this tends to be because the trusts are receiving high levels of other DfE or Local Authority grants.



Non-staff costs and efficiency

As noted in an earlier section, staff costs on average account for around 73% of all costs, meaning the rest of an academy trust's budget is relatively small. Premises costs such as general maintenance, insurance and utility costs make up a sizeable proportion of this budget. When cash and funding is tight some trusts may feel it is appropriate to put off less than essential maintenance work, but will this just store up potential problems for the future?

It remains important for trusts to ensure they are obtaining value for money on all procurement, and that they are being as efficient as possible. This is where a good School Business Manager or Finance Manager can come into their own. There are many different finance roles and titles in schools, so it is preferable to refer to the leading finance individual by the Chief Financial Officer title the ESFA use. Whatever the title, the role has never been easy because it encompasses so many elements. The financial aspect of the job has never been more important.

Finance teams should make use of the DfE resources for financial efficiency, which include financial healthcheck tools and a financial efficiency toolkit. The benchmarking data they publish each summer for the previous academic year is, whilst quite late in the day, also useful. External support is available too; the DfE maintain a supplier list detailing firms who are able to support schools to become more efficient and financially healthy.

The ESFA's 'Schools' financial efficiency: top 10 planning checks for governors', is also a fantastic resource for School Business Managers, focusing on the areas that should be reviewed in the annual budget planning cycle and when looking ahead at the three-to-five year position.

Fixed assets and capital expenditure

Fixed assets are the main item on the balance sheet of most trusts, yet for trustees they are usually seen as one of the least important.

The average secondary academy held fixed assets with a value of over £14m, with the average primary reporting nearly £4m. The fixed asset category does not seem important because most of this value is tied up with the estimate of the school land and buildings, and therefore has no impact on the day to day running of an academy. The reasons these valuations are important are more at Government level, but more about this later.

Accounting for church academies' buildings

In 2016/17 many church academies have had to implement a change in accounting policy to derecognise buildings that have previously been held on the balance sheet. There has been an ongoing issue with a disagreement between some of the faith bodies and the ESFA, but the 2016/17 Accounts Direction helped to bring some clarification.

Most non-church academies either hold the freehold title to their land and buildings, or else enter into long 125 year leases with their Local Authority. Church academies usually occupy the premises under a short term licence, and in these circumstances it is no longer felt appropriate for the buildings to be capitalised on the balance sheet. For academies that have previously included the buildings in their accounts, this meant the inclusion of prior year adjustments and extensive disclosures to explain the reasons. For single church academy trusts, or MATs that are predominantly comprised of church academies, the de-recognition left another problem – the pension liabilities usually outweighed the other assets leaving the trust with an overall net liability position. Again this resulted in the need for lengthy disclosures to explain why the net liability position – which would normally be an indicator that a company has severe financial difficulties and is unable to pay debts as they fall due – is not considered to be a problem. We are still waiting for one of our clients to be told by an uninformed stakeholder that they are financially insolvent!

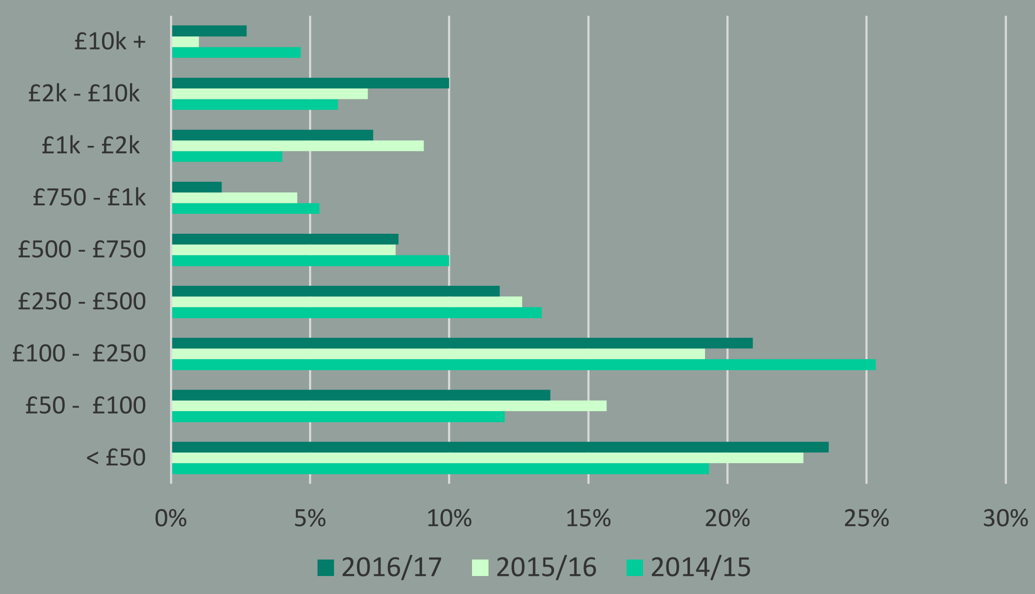
Capital spending

Trusts have various capitalisation policies, with some treating anything as low as over £500 as capital, and others only taking purchases over £10,000 to their balance sheet. This does make comparisons difficult.

Most academies find little difficulty in spending all the Devolved Capital funding they receive, although some will save this up and carry some capital funding into the next financial year.

Academies sometimes receive capital funding in addition to government grants. Sometimes they receive a donation that is restricted for use on capital expenditure, perhaps from a related charity such as a Parent Teacher Association, or from a charity linked to one of the trustees. There are also various grant giving bodies that can provide funding to charities, and academies should remember that, as exempt charities, most of this funding is available to them.

Capital expenditure per pupil (£)



Nearly one in four academies spent less than £50 per pupil on capital items during 2016/17, with a further one in seven spending between £50 and £100. The 3% that spent over £10,000 per pupil will be those academies that capitalise significant expenditure related to CIF-funded projects.

Academy Sector Annual Report and Accounts

The DfE accounts were qualified for a number of years with an ‘adverse’ opinion, partly on the grounds of insufficient evidence that the required accounting recognition criteria were met in respect of academy land and buildings assets. This led to the DfE securing agreement from Parliament to remove the academy sector from its consolidation boundary for the financial year 2016/17. A separate standalone Sector Annual Report & Accounts (SARA) for the academy sector was introduced for the academic year 2015/16.

The first SARA was published last year, and these were qualified. The SARA consolidates the results of all academy trusts across the country into one set of financial statements – a mammoth exercise given the number of trusts.

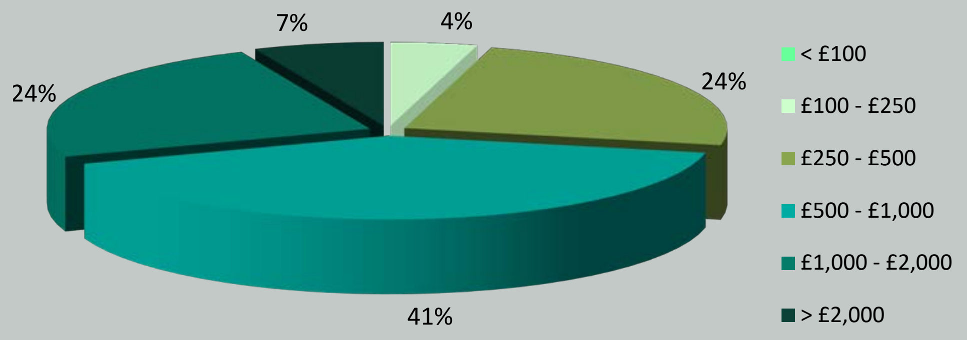
The report from the National Audit Office noted that although the DfE had “significantly improved” the timeliness and quality of its financial reporting and had made “good progress” in addressing issues relating to accounting for land and buildings, “significant weaknesses remain”. The DfE remained unable to provide “sufficient, appropriate evidence that the carrying value of the academy trust land and buildings it has recognised is a materially accurate reflection of the fair value of the underlying estate”.

The land and buildings collection tool (LBCT) introduced in 2017 was an attempt to improve the data the DfE receive. The modified audit report on the SARA does not take the results of the first LBCT, and the DfE will no doubt be hoping that this will go a long way to resolving this continuing issue. Until the National Audit Office are content with the reporting over academy land and buildings this issue will not go away and academies will be forced to provide regular data.

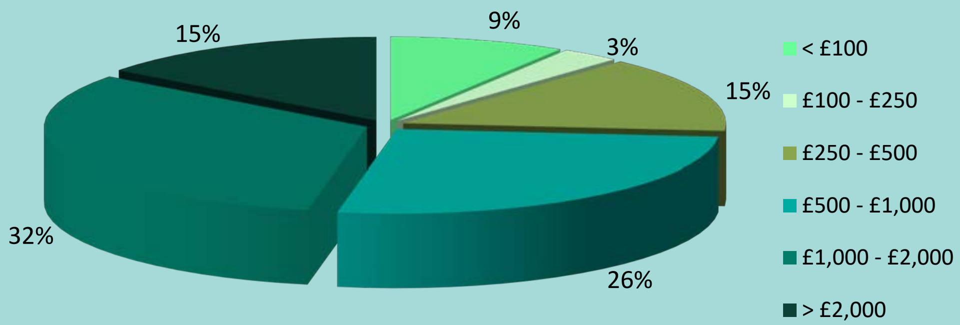
Cash and bank balances

Academy trusts continue to hold significant cash reserves. Of course some trusts with financial difficulties are not in this fortunate position, and many that have reserves have seen them depleted in recent years. Cash is not entirely linked to whether the trust is making a surplus or deficit, but the movement in cash from one year to the next is usually closely connected to the revenue result.

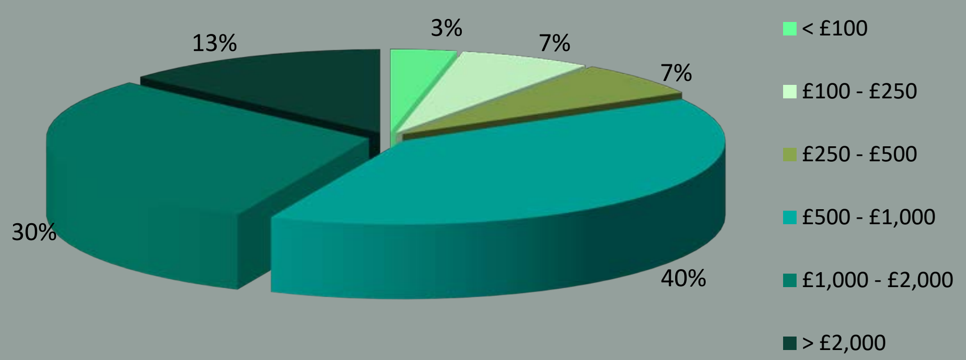
Range of cash balances held (per pupil) - MATs



Range of cash balances held (per pupil) - Secondaries



Range of cash balances held (per pupil) - Primaries



The level of actual cash should vary according to the size of the trust since it is advisable for trusts to carry reserves equivalent to between four and six weeks of operational expenditure, and this has to be held in cash at bank.

Better comparisons can be made when reviewing the cash held on a per pupil basis, and the results show that this does vary according to the type of trust:

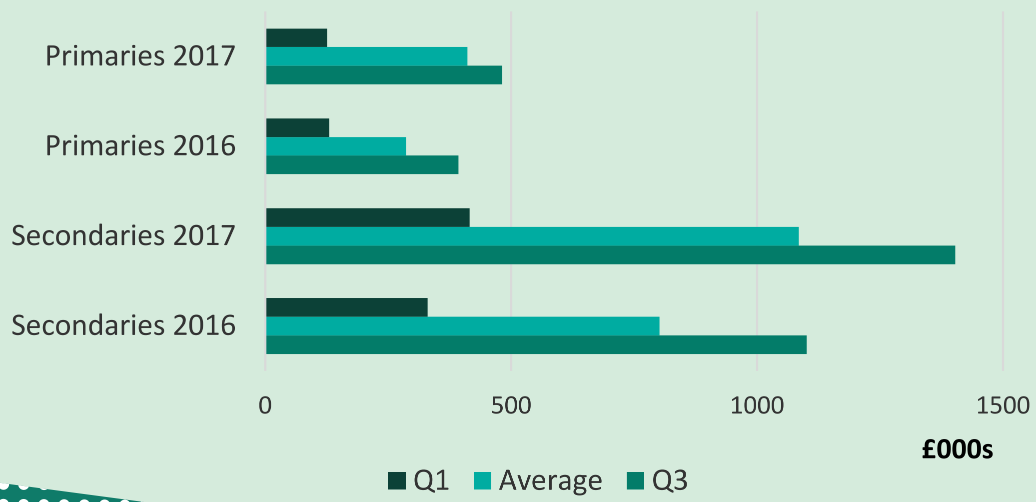
- **Primaries** – 43% of primary academies hold over £1,000 per pupil. 10% of primaries have less than £250 per pupil in cash.
- **Secondaries** – more secondaries have over both £1k and over £2k in cash compared to primaries, although there are a similar percentage (12%) with less than £250 per pupil.
- **MATs** – surprisingly MATs have, on average, less cash. Just 7% have more than £2k per pupil, and just 31% in total have over £1k. At the bottom end of the scale, however, none of the MATS in our sample had less than £100 per pupil.

In theory, MATs should be in a more financially stable position, but these results do not necessarily show this. This could be because most sizeable MATs have some constituent academies which are in financial difficulty, and indeed some central MAT departments are struggling. The other factor here is that those single academy trusts that have chosen to remain on their own are likely to be those which are in a sound financial position, often because they have had years of good financial management which has meant many converting to academy status with strong accumulated surpluses and cash, which they have subsequently maintained.

The importance of timing

The cash at bank figures are a snapshot in time, and so are influenced by exceptional cash flow transactions. It is common for academies that have received significant capital CIF funding to hold a proportion of this at 31 August, and this inflates the cash at bank per the balance sheet. Trustees should use the financial review section of their trustees' report to help explain nuances such as this thus improving the readability of the accounts.

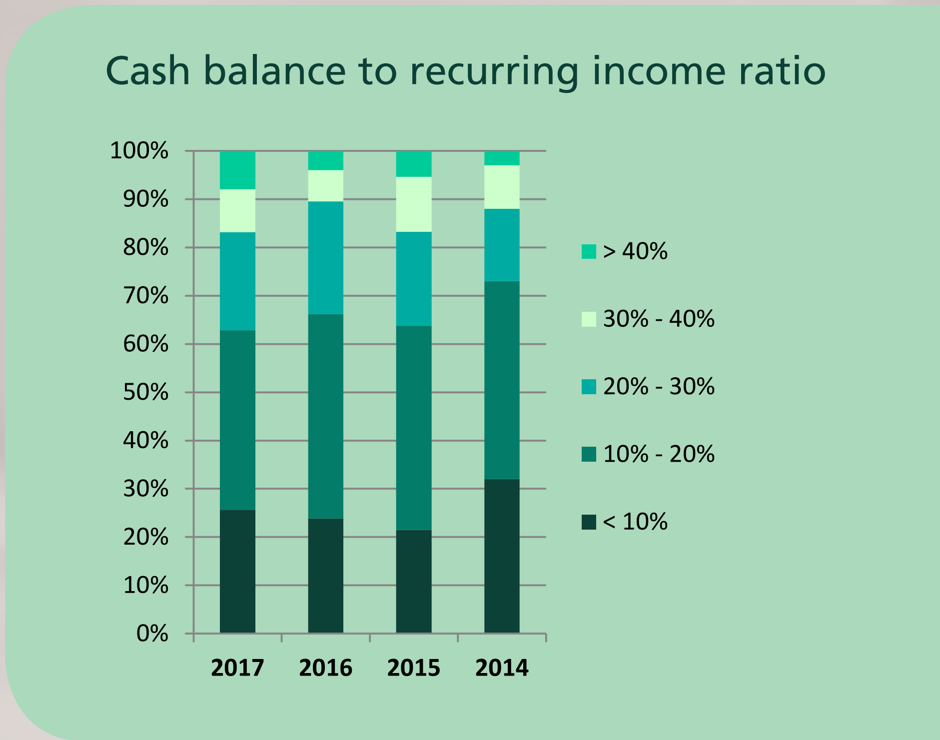
Cash balances held at 31 August 2017



This chart shows the average primary and secondary cash at bank balances, alongside the lower and upper quartiles. The average secondary held nearly £1.1 million at 31 August 2017, with the average primary holding over £400,000. Despite the financial pressures in the sector, both of these figures are actually an increase on the 2015/16 averages. This could be due to the timing factor mentioned above, or could be an anomaly due to the data sample and the size of these trusts.

Cash balances vs recurring levels of income

This is an alternative way of reviewing levels of cash. The graphic below shows the increase since 2015 in the number of trusts holding cash equivalent to less than 10% of their annual income. Only a small 8% hold cash equivalent to over 40% of their recurring income.



Cash flow difficulties and advance funding

Trusts should prepare regular cash flow statements as part of their management accounts, as well as cash forecasts for the coming year. Predicting the ebb and flow of cash in this way can help show whether there are likely to be any pinch points later in the year; identifying these early helps planning around them much easier.

If your financial concerns are more serious and you have doubts that your trust will have sufficient cash to meet its liabilities, then intervention is required.

Academies can approach the ESFA for advances of funding but, even if things are not this bad, talking to the ESFA at an early stage is imperative where you have concerns. The ESFA expect trusts to manage financial difficulties themselves, where possible, but if outside help becomes necessary they look far more favourably on academies which hold their hands up early.

The ESFA have the option of imposing a Financial Notice to Improve (FNtI) if they feel trustees have not managed the situation adequately, but the risk of this happening is lessened where trusts have been open and have involved the ESFA before the situation became too bad. As of January 2018, there were 39 academy trusts subject to a FNtI; the number of trusts that face such intervention is falling over time because trusts are learning to seek help earlier.

One of the benefits of a MAT is the pooling of cash; particularly where one centralised bank account is operated. This helps to iron out any short term cash flow pinches at individual academies. In a MAT where each academy operates their own bank account there is at least the option of one school “loaning” the money to another; although this situation needs to be managed carefully with the full agreement of both academies. If one trust academy, or the central trust, has substantial cash reserves it is understandable that the ESFA will look for the trust to manage any cash flow difficulties at other academies within the trust internally.

Surplus or deficit

It is not uncommon for a set of accounts to show a very large overall surplus when, in fact, taking out capital income and actuarial gains on pension schemes, the underlying performance is a deficit position.

In this section we look at whether academies have achieved a surplus or deficit.

Interpreting academy trust financial statements

Academy trust financial statements can be difficult to understand; even accountants struggle if they are not accustomed to working in the education sector.

The Statement of Financial Activities (SOFA) is often heavily influenced by large numbers that do not relate to day to day operational matters, and so the overall net deficit or surplus shown on the SOFA can be extremely misleading to a casual reader. It is not uncommon for a set of accounts to show a very large overall surplus when, in fact, taking out capital income and actuarial gains on pension schemes, the underlying performance is a deficit position.

When we talk about a surplus or deficit, for this to be meaningful it therefore needs to be the revenue result. This will exclude:

- any actuarial gains or losses. These appear on the face of the SOFA and are easy to identify;
- any other non-actuarial pension scheme movements. These are included on the SOFA within the costs of charitable activities, but are hidden within the restricted fund column and therefore not immediately obvious. The best place to see these costs is usually the pension reserve line within the statement of funds note;
- the restricted fixed asset fund. This fund accounts for any capital income, with the only expenditure allocated to this fund usually being depreciation charges related to capitalised assets. This fund typically either has a large in-year surplus (where the trust has received significant capital grant income) or a large deficit (where there is little income leaving just the depreciation charge). This fund can therefore generally be disregarded when it comes to reviewing the operational day-to-day result;
- new converters or MATs that have seen academies join or leave the trust also need to ignore the impact of assets/ liabilities transferred in or out of the trust.

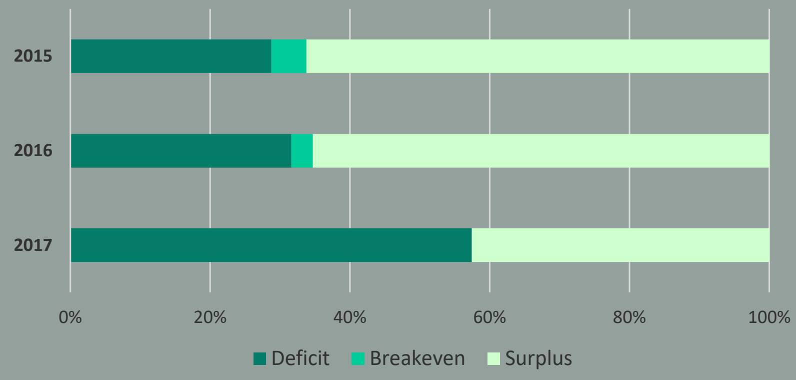
Operational funds comprise the main restricted GAG fund, together with further restricted funds for other DfE/ESFA grants (such as pupil premium) and Local Government Grants. Some trusts may have other restricted revenue funds, there will also be unrestricted funds.

Our review of whether a trust has achieved a surplus or deficit focuses purely on the GAG fund. We have chosen to concentrate here because not only does the great majority of income and expenditure pass through this fund, most other restricted funds tend to be more or less breakeven each year because of the way expenditure is often matched and allocated to such income.

The GAG results shown on the charts that follow take total GAG income per the statement of funds note, less total GAG expenditure. They do not take into account any transfers in or out of GAG. Transfers usually arise where:

- a GAG deficit is covered by a transfer from the unrestricted fund;
- capital items are funded from GAG and are represented by a transfer out of the GAG fund to the restricted fixed asset fund. We have not included such transfers because the choice to fund capital items from GAG was discretionary and does not relate to day-to-day operational matters.

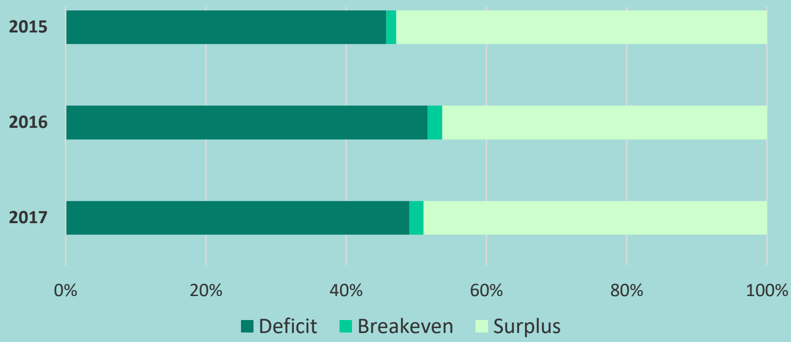
GAG result : primaries



The percentage of primary academies reporting a GAG deficit has increased again this year. 57% of the primaries in our sample suffered a deficit compared to 32% in 2016.

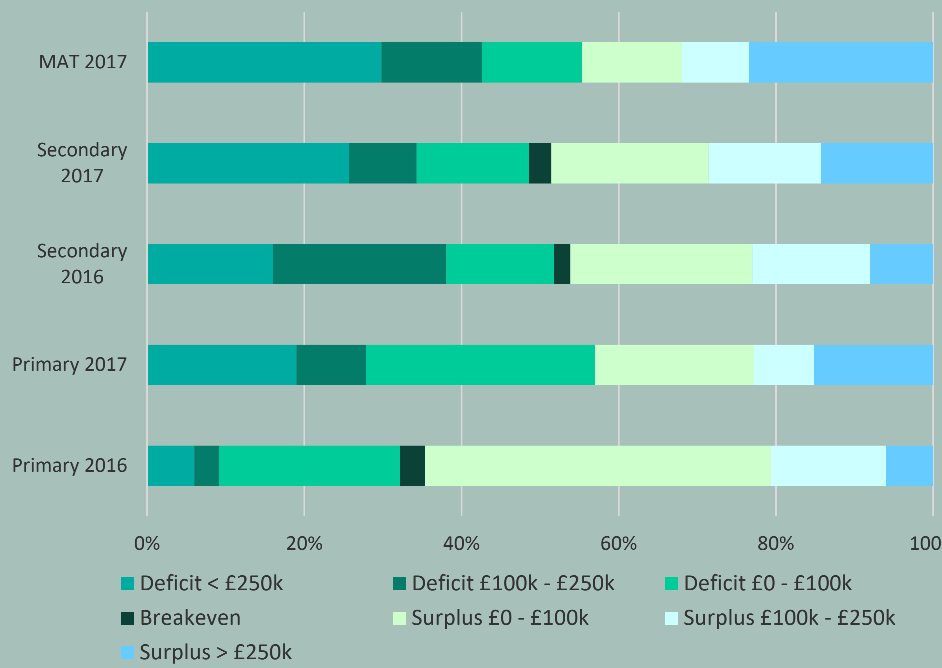
GAG result : secondaries

There has been less fluctuation in secondary academies, with the results for the past three years being very similar. Slightly fewer secondary academies suffered a deficit in 2017 than in 2016.



Range of GAG results

These charts break down the deficits and surpluses further to reveal the extent of these results, and also provide the MAT data.



Over half the MATs (56%) in our sample suffered a GAG deficit with 30% experiencing a deficit of more than £250k. This is higher than the percentage of secondary academies and primary academies experiencing deficits of this size. Although the MAT deficits are spread across a large number of schools in some cases, this is worrying, especially considering MATs are, in theory at least, supposed to bring efficiencies.

There remain trusts that have posted results showing a healthy financial performance. Across all trusts just under half on average have managed to achieve a surplus. Interestingly, when it comes to the MATs, whilst they were more likely to post large deficits, they are also the type of trust most likely to have a large surplus with 23% showing a GAG surplus of more than £250k. This suggests that some MATs are managed and structured very well and have a financially sustainable model whilst others, maybe those that are still settling down as trusts, have substantial progress to make.

Governance and audit findings

A high quality audit should add value, and provide insight that the trust can use to continually develop. Management letter points should be seen as an opportunity to improve.

For the past few years now the ESFA have required academy trusts to submit an Accounts Submission Form alongside their accounts and management letter.

This form is used to quickly draw out key information from the document submitted, enabling them to assess the risk areas at the point of submission. The questions include the number of management letter points raised, financial information such as net assets and, new in 2017, a number of questions aimed at obtaining a better understanding of the approaches trusts take to financial planning, monitoring, support and challenge.

The ESFA have commented that the initial results based on the submission form, for example the number of trusts reporting that their audit report has been modified, differ from the final results, so it seems that some trusts have been answering some of the questions incorrectly!

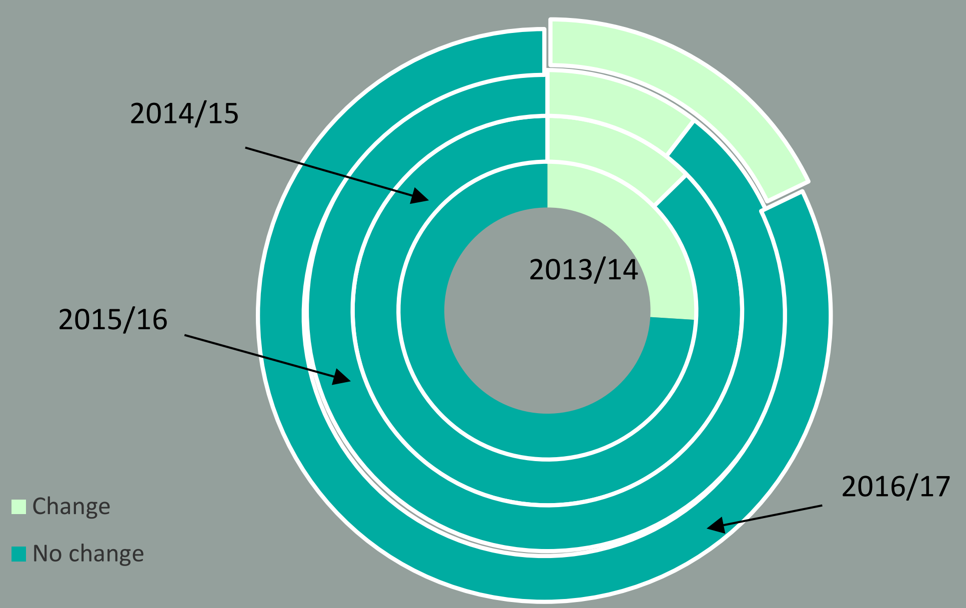
In our report we look at various governance areas, and compare how academies fared in areas such as changes in staff and management letter points.

Changes in staff

There is a fairly regular turnover of staff in academies, and this includes the CEO or Accounting Officer. This can be for a variety of reasons. With healthy pension packages waiting, these individuals tend to retire at a fairly young age, with many choosing to leave their posts in their mid-fifties. With the constant pressure to maintain educational standards there will always be forced changes, and CEOs/Accounting Officers heading up successful trusts can be subject to headhunting.

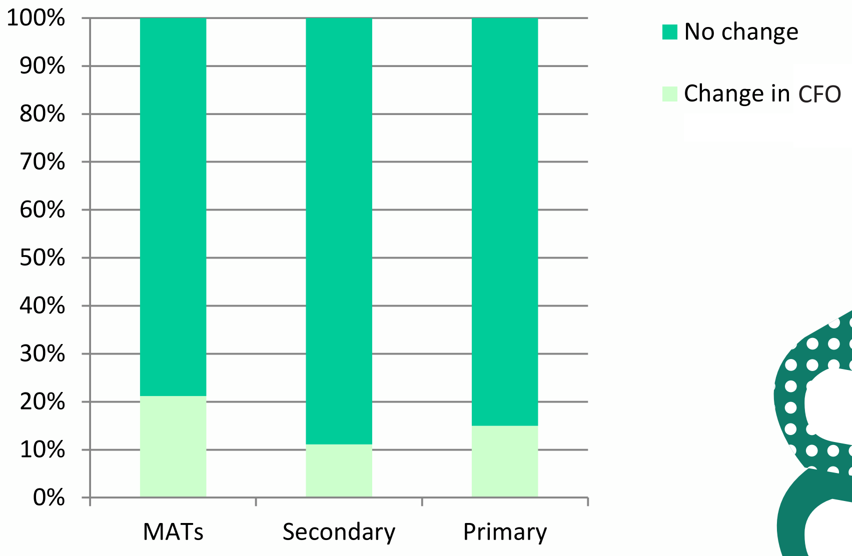
During 2016/17 18% of the trusts in our sample saw a change in the CEO/ Accounting Officer. This is an increase on the turnover we've seen for the past couple of years. Could this be due to increased pressures, or is this just a coincidence?

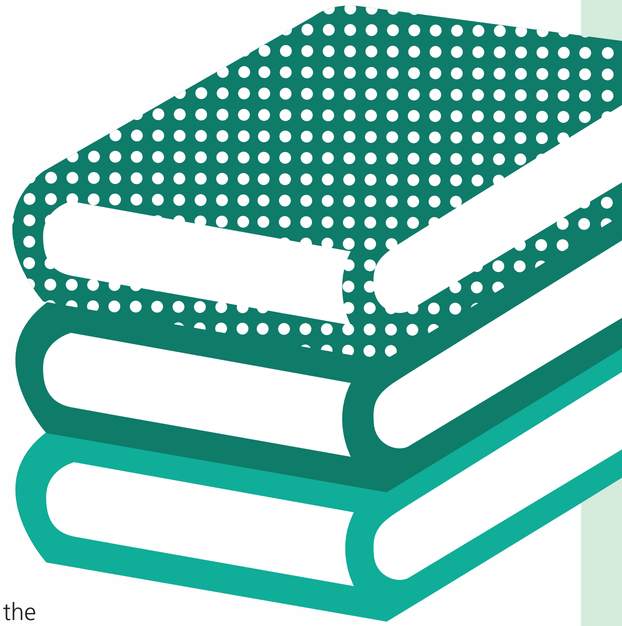
% of academies where CEO/AO has changed



Finance departments are not immune to change either. Over 20% of MATs saw a change in their Chief Financial Officer (CFO), and secondary and primary single academy trusts were not far behind this figure. Again there are reasons for this movement, some natural and others forced. In section five we commented that the role of CFO has never been more important, and possibly the stresses of the job, coupled with capability issues in some cases, may play a part in the turnover.

% of academies where CFO has changed





Audit management letter points

Academies are always keen to minimise the number of audit management letter points. This is understandable; they wish to be given a clean bill of health and to be told that they are doing everything right. Academies are, after all, accustomed to regular inspections from Ofsted, and the educational environment is entrenched with tests and examinations.

In reality, it is rare for any organisation to be doing everything right. A high quality audit should add value, and provide insight that the entity can use to continually develop. Where a trust receives a number of audit letter points these should not be viewed as a criticism, but an opportunity to improve.

Established trusts have now experienced several audits and hence they know what to expect. Understanding the audit process can help to reduce the number of management letter points, as can the development of a robust in-year programme of work, such as an internal audit service, to provide assurance across the financial year. We work with a number of trusts in this way, and usually find that trusts that outsource this function to a professional firm that understands the sector and requirements of the Academies Financial Handbook etc. really helps to keep a trust on track throughout the year, reducing the number of surprises come the year-end audit.

UHY are members of the ESFA's auditor forum, which brings many of the leading audit firms together several times a year to discuss issues in the sector. It is clear from data the ESFA release from time to time that there is a wide range in the number of management points. Some trusts managed to get the 100% clean bill of health that they strive for – although a small number of our clients have achieved this feat, we are surprised by the number across the country that do seem to do so and wonder whether, in some cases, this leads to a question mark over the quality of the audit. One challenge that auditors in the academy sector face is the extremely short time frame in which the audit must be completed ahead of the annual 31 December deadline. It is vital that audit firms do not allow this to, in any way, negatively impact on audit quality.

Audit letter management points can relate to a range of different issues. Some relate to the systems and controls in place and how these are operating, others are of a more technical nature, such as compliance with the Academies Financial Handbook or other legislation.

Naturally, we have only seen the detail for our own clients, but some of the issues we saw during the 2016/17 audits were:

- concerns over the financial situation and depleting reserves;
- weaknesses in fund accounting;
- failure to report changes in trustees etc. to Get Information about Schools or Companies House with 14 days;
- no 'at cost' statement provided to support connected party transaction;
- non-compliance with internal procurement processes;
- poor controls over invoicing;
- failure to disclose business interest register on the academy website;
- entering into a finance lease without gaining prior approval;
- transparency issues in relation to publishing on the website and ensuring material can be easily located;
- ensuring that finance policies are clear, unambiguous, approved by trustees and understood/applied correctly by management;
- lack of adequate internal control reviews or internal audit arrangements;
- poor quality of bank reconciliations procedures or errors;
- too few members of the trust;
- inadequate or infrequent trustee reviews of management accounts;
- recommendations on improved formats or depth of information included within management accounts;
- improvements required on the quality of fixed asset registers;
- inadequate payroll reviews and controls; and
- academy websites not including required information on policies and trustees.

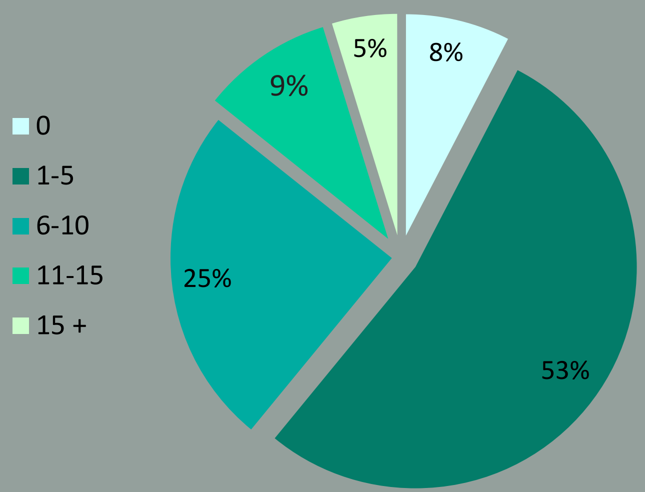
In 2016/17, 8% of our academy trusts' management letters contained no management letter points at all, an improvement on 3% for 2015/16. We would say this is because of our excellent handholding approach which has resulted in our clients becoming well trained over the years that they have been working with us and the trusts themselves striving to improve!

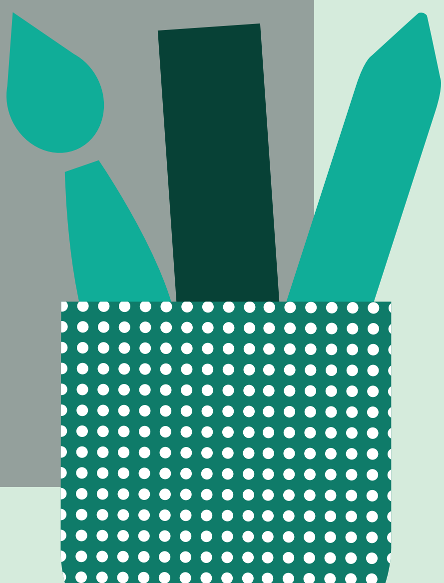
At the opposite end of the scale, 5% of trusts received a management letter containing over 15 management letter points, and a further 9% received 11-15 issues. These trusts were generally either new converters or larger MATs without centralised finance systems, where there was an increased chance of something going wrong at individual academies. The fact that over half of the trusts received just one to five management letter points should be of comfort to the sector and a sign that, despite some of the negative headlines we see, most trusts are getting things right.

Looking at the number of management letter points is one thing, but of course there is an important distinction to make between high risk or priority points and other less significant issues.

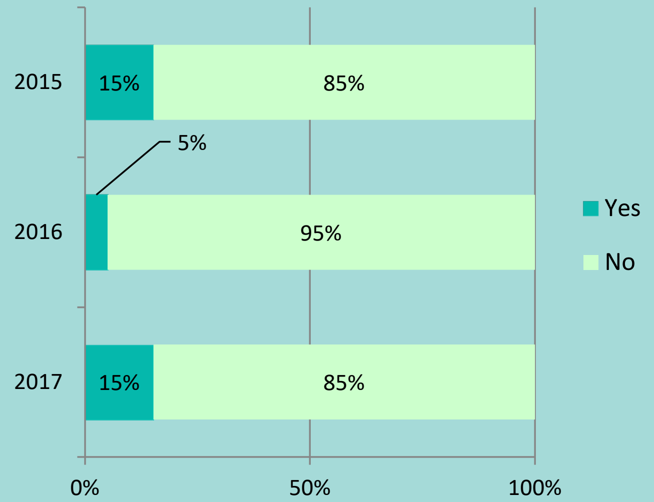
In 2016/17 we did see an increase in high risk points. Whereas in 2015/16 just 5% of the trusts with management letter points had at least one high risk issue, in 2016/17 the percentage had risen threefold to 15%. This is quite a marked increase. We are not entirely sure why, although part of the reason will be an increase in trusts where a heightened level of financial concern applies since this risk will often be flagged as high. Other high risk points include issues relating to non-compliance with 'must' requirements of the Academies Financial Handbook.

Number of audit management letter points 2016/17

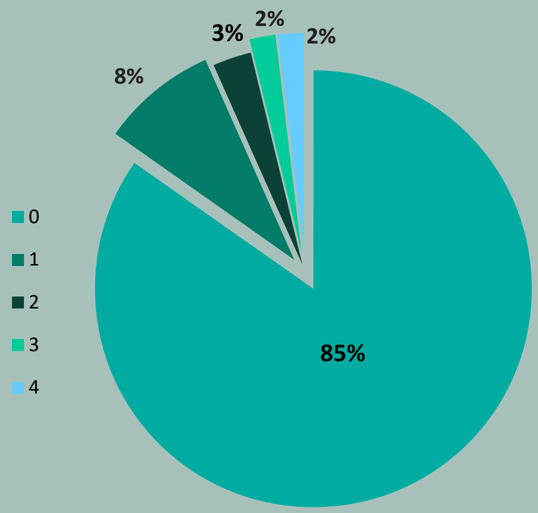




Academies with high risk/priority management letter points



Number of high risk or priority management letter points



It is clear that a trust that fails to comply in one area may be more at risk of breaching another requirement. 7% of trusts had more than one high risk management letter point, although none received more than four separate high risk points.

Related or connected party transactions

There remains an uneasy amount of interest in related or connected party transactions. Whilst it is only right there is full transparency over such transactions, there is often a misunderstanding of what is usually involved.

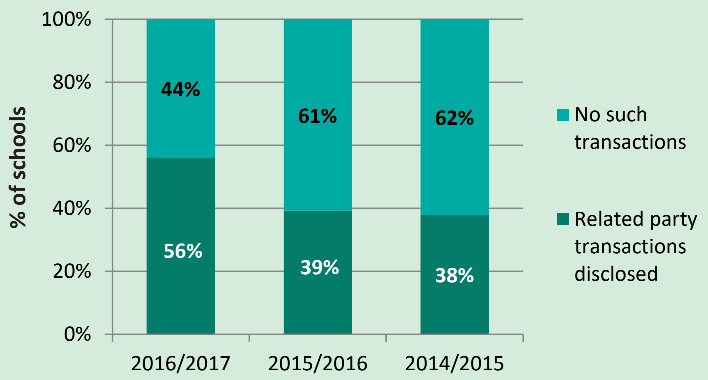
Related party transactions were discussed at the January 2018 parliamentary public sector accounts committee meeting, already mentioned earlier in this report. The committee noted that around 40% of trusts reported related party transactions in their last accounts. This does not, however, take into account that the great majority of these transactions are unlikely to be associated with commercial transactions. Many trusts engage in transactions with other education institutions, and sometimes with charities or other not-for-profit organisations that trustees are also involved with. These types of transactions distort the figures and make easy headlines for sections of the media who seem intent on attacking the academy sector. There can also be related party transactions which bring income into trusts.

This is not to say there are not problems over the control of related party transactions. There are strict rules in place, and any commercial transactions taking place should be carried out "at cost". Systems and controls should in theory avoid issues arising but with such a large number of trusts there are always going to be instances where something goes wrong. Where it does, the problem often lies with a weak governance structure and often the over-bearing presence of one individual, usually the CEO.

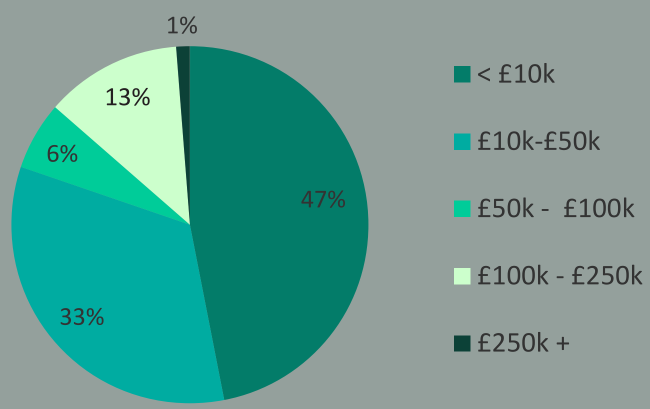
It is therefore vital that trustees hold their CEOs to account and challenge any activities or transactions that they are even slightly uncomfortable about. In 2017 a Schools Week report noted that 23 different trusts breached the connected party rules over 26 different transactions, resulting in one of the teaching unions calling for such payments to be banned. It is important to remember these irregular payments relate to less than 1% of all trusts; this does not make them right or mean they can be ignored, but it does give some context.

In recent years the results from our own benchmarking have supported the statistic that around 40% of trusts entered into some type of related party transaction. The percentage has actually increased in 2016/17, to 56%. There is no clear reason for this although it could be that, conscious of the level of scrutiny, trusts are being overly cautious and disclosing some transactions with parties that are only very loosely connected even where they are very low level and at arms-length. Disclosures introduced in 2015/16 also mean it is necessary to disclose where any close family member of a trustee works at the trust.

Academies with related or connected party transactions



Value of highest related party transaction



Few of our own clients engage in any form of commercial related party transactions; the great majority are of the type discussed earlier and with not-for-profit bodies.

The chart above (right) shows that, for the vast majority of the academies reporting related party transactions, the highest level transaction was less than £10k. The proportion in this lowest category has fallen from nearly two-thirds in the less than £10k band last year.

Just 1% (down from 2%) of trusts reported a related party transaction of over £250k, with a further 12% revealing a transaction of over £100k.

The highest level transactions disclosed were:

- costs paid to sponsors for rent and other property costs;
- grant income from a related trust to support building maintenance;
- remuneration of staff trustees;
- income from the local authority where a trustee is also a local councillor;
- donations from a related entity; and
- income from a connected teaching school alliance for course and CPD fees.

This in fact shows that most high value related party transactions relate to income that academy trusts receive from connected parties, and is therefore in no way linked to money being syphoned off from the sector, as many headlines would suggest.

Other related party transactions reported in academy trust accounts in 2016/17 included:

- legal advice where a trustee is a partner at the firm of solicitors;
- consultancy provided to another local school;
- project management services;
- educational results from the Diocese (a member);
- external teaching services; and
- recharges to schools joining the trust during or shortly after the year.

UHY's final thoughts

Do remember the words of warning earlier in our report – if you are worried about the financial health of your trust, please do not sweep your concerns to one side hoping they will go away.

We hope that you have found this year's benchmarking report interesting.

Once again we have included the average data sheet on pages 37-38 to help you compare your academy against others, and if you would like us to plot your key data onto graphs against the averages then we would be very happy to do so.

We are already more than half way through the 2017/18 financial and academic year. The year ahead will be busy for all those working in the sector, as finance staff working in trusts battle with tightening budgets. Do remember the words of warning earlier in our report – if you are worried about the financial health of your trust, please do not sweep your concerns to one side hoping they will go away. Talking with your professional advisers is always an excellent start, but bear in mind that the ESFA prefer to talk to trusts at an early stage. If you are in this situation, we would be happy to speak to you giving our advice and supporting you with your approach to the ESFA.

It is especially important to remember that boards of trustees must notify the ESFA within 14 days if they are formally proposing to set a cumulative deficit revenue budget for the current financial year, taking into account unspent funds from previous years. The Academies Financial Handbook does not go as far as to specifically require trusts to notify the ESFA if circumstances change mid-year, but it is always good practice to continually review budgets and if your trust's position has altered to the extent that you are fearful that reserves may be exhausted, then it would be advisable to contact the ESFA as soon as this becomes apparent.

We hope that later this year, when we come to sign the audit reports on financial statements to 31 August 2018, we do not find a large increase in the number of trusts where there is a going concern issue, but it would not surprise us to find that there is.

We hope that 2018 treats you well!

Where does your academy fit within the results?

	Your academy	MATs Average 2016/17	Secondary academies Average 2016/17	Primary academies Average 2016/17
Non financial data				
Number of teachers		Not included as highly dependent on number of academies in the MAT	62	18
Number of admin and support staff			49	37
Number of management staff			7	3
Number of pupils			1065	341
Pupil to teacher ratio		20	16	20
Income				
Total revenue income per pupil		5,612	6,251	5,642
Grant income per pupil		5,239	5,767	5,194
Grant income % of total income		93%	93%	92%
GAG income per pupil		4,311	5,005	4,774
GAG % of total revenue income		79%	83%	74%
Other income per pupil		300	338	333
Other income % of total income		5%	6%	7%
Capital grant funding per pupil		250	753	400
Capital grant funding % of total revenue income		5%	10%	6%
Expenditure				
Total expenditure per pupil		6,303	7,019	6,099
GAG expenditure per pupil		4,594	4,922	4,602
GAG % of total expenditure		73%	75%	69%
GAG result per pupil		Not included	65	172
Staff costs per pupil		4,653	4,777	6,626
Staff costs % of total expenditure		73%	73%	73%
Teaching & ed support staff costs per pupil		3,485	3,843	4,919
Teach & ed support staff % of total staff costs		76%	80%	78%
Support/Non-teaching staff costs per pupil		899	878	1,005
Non-teaching staff costs % of total staff costs		19%	17%	19%

	Your academy	MATs Average 2016/17	Secondary academies Average 2016/17	Primary academies Average 2016/17
Supply teacher costs per pupil		111	115	90
Supply teacher costs % of staff costs		5%	2%	3%
Light and heat costs per pupil		91	93	77
Light and heat % of total expenditure		1%	1%	1%
Buildings & grounds maintenance per pupil		118	126	155
Maintenance % of total expenditure		2%	2%	2%
Cleaning and refuse per pupil		48	63	77
Cleaning and refuse % of total expenditure		1%	1%	1%
Educational supplies and services per pupil		177	186	179
Educational supplies and services % of total		3%	3%	2%
Examination fees per pupil		33	86	5
Examination fees % of total costs		1%	1%	0%
Staff development per pupil		63	40	42
Staff development % of total costs		1%	1%	1%
Technology costs per pupil		60	60	63
Technology costs as % of income		1%	1%	1%
Balance sheet				
Net assets per pupil		10,773	13,639	8,606
LGPS deficit per pupil		1,943	1,644	1,831
Capital expenditure per pupil		1,503	1,602	446
Cash and bank balances held per pupil		850	1,253	890

Combining national expertise with a tailored local service

Our education teams within our UHY offices work with academies and free schools across the UK, including many large and growing MATs, supporting them through their growth and with forward planning.

Our sector experience

We work with numerous clients in the education sector, including academy schools, free schools and independent schools. We have years of experience in the sector and have a particular expertise with academy schools - our education teams within our UHY offices work with academies and free schools across the UK, including many large and growing MATs, supporting them through their growth and with forward planning. As such, we understand that independence from your LA is likely to require improved internal controls for your school's finances.

UHY are a Top 15* firm of accountants and auditors. Our academy client base includes old style sponsored academies, new converter academies, and MATs. As the expansion of the academies programme continues our number of clients in this rapidly changing sector has increased significantly.

Our experts enjoy the challenge of this exciting and rapidly changing sector. We keep ourselves up to date with all the ESFA's requirements so that we can keep our clients abreast of regulatory and other changes. We also prepare regular Academy Schools Updates on topical issues that affect academies and maintain a dedicated academies blog, which we aim to update weekly.

Our demonstration of our experience to date within the education sector, and specifically with academies, has led a number of established academies to leave their previous adviser to benefit from our breadth of specialist knowledge and support.

Dedicated academy services

Our services to academy schools and free schools include:

- external audit;
- information to be considered in the academy conversion process;
- governance reviews;
- Trustee and Accounting Officer training;
- special services to MATs including advice on structures, top slicing and accounting system set up;
- financial due diligence reporting on any new schools being considered for MAT purposes;
- year end statutory audit and Academy Return completion;
- preparation of your accounts in line with the ESFA Accounts Direction;
- Teachers Pension End of Year Certificate (EOYC) audits;
- advice in connection with the Academies Financial Handbook;
- internal audit and monitoring visits to provide assurance on systems and controls;
- VAT reviews and advice on the best method for academies to reclaim VAT;
- advice on the best structure for commercial trading activities; and
- payroll and employment tax issues.

Follow our dedicated academy schools blog

Our academy specialists post regular updates on our academy schools blog, advising on the latest issues affecting the sector and answering common questions, as well as providing key information on the latest regulatory requirements.

www.uhy-uk.com/academy-schools-blog

Your local UHY academy specialists

Sittingbourne
Allan Hickie
Head of academies
t: 01795 475 363
e: a.hickie@uhy-uk.com

Birmingham
Malcolm Winston
Partner
t: 0121 233 4799
e: m.winston@uhy-uk.com

Brighton
Charles Homan
Partner
t: 01273 726 445
e: c.homan@uhy-uk.com

Chester
Alex Makinson
Partner
t: 01244 320 532
e: a.makinson@uhy-chester.com

Letchworth/Royston
Shona Munday
Manager
t: 01462 687 333
e: s.munday@uhy-uk.com

London
Colin Wright
Partner
t: 020 7216 4600
e: c.wright@uhy-uk.com

Manchester
Stephen Grayson
Partner
t: 0161 236 6936
e: s.grayson@uhy-uk.com

Nottingham
Liz Searby
Partner
t: 0115 959 0900
e: l.searby@uhy-uk.com

Sheffield
Roland Givans
Partner
t: 0114 262 9280
e: r.givans@uhy-uk.com

Sunderland
Paul Newbold
Partner
t: 0191 567 8611
e: p.newbold@uhy-torgersens.com

York
Hayden Priest
Partner
t: 01904 557 570
e: h.priest@uhy-calvertsmith.com

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