UHY Hacker Young
Chartered Accountants

2019 Academies Benchmarking Report

For academic year 2017/18

This is our seventh 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

Helping you prosper

The headline statistics

Other key points

Increased class sizes with 52% of academies reporting a pupil-teacher ratio of over 26:1, up from 45% last year

The average primary school held £373k cash at bank, down from £411k last year

62% of primaries reported a GAG deficit, up from 49% last year and 32% in 2015/16

56% of secondaries suffered a GAG deficit - the highest over the past four years

Average primary holds reserves of **£177k**

Average secondary holds reserves of just over **£500k**

Small rise in supply teacher costs from an average £107 per pupil to £122 per pupil

Staff costs for primary academies rising from 73% to 75% of total costs

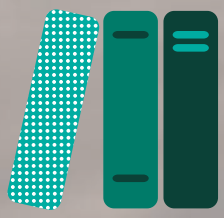
£338

Average MAT unrestricted reserves per pupil

Average Accounting Officer salary of

£130,000

12% of trusts made a severance payment of between £40,000 - £50,000



65% of trusts received an audit findings reports with between 1 to 5 issues

£426

Average amount MATs are making per pupil of self-generated (non-grant) funds

88% of trusts saw their LGPS deficit reduce during 2017/18

Fall in trusts reporting related party transactions 46% v 54% last year

55% of trusts making compensation or severance payments

Overall, 62% of MATS reported an in-year GAG deficit, up from 56% in 2016/17

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Foreword from UHY's Head of academies and education

Allan Hickie
Head of academies and education

Benchmarking your trust remains a key method of understanding where others are being efficient and where your trust can make improvements. We have included a page in this report where you can add your own trust's data against the averages to see how you compare.

Welcome to our seventh annual benchmarking report for academies. 2018 was a year in which academies faced up to further financial uncertainties and pressures, and one which has seen further consolidation in the sector as the number and size of MATs continues to increase.

Benchmarking your trust remains a key method of understanding where others are being efficient and where your trust can make improvements. I hope that our benchmarking report can be a useful tool that can be used as part of this process.

2018 was an interesting year for academies with a number of key issues arising which are discussed later in our report, including:

- Increased scrutiny over executive pay in the sector
- Teacher pay rises and the announcement of a teachers' pension employer contribution rate increase, and
- The announcement of new related party rules from April 2019.

Whilst the teacher pay and pension rate rises will be funded in the short term (to March 2020), the uncertainty over what will happen beyond this date has left a degree of nervousness. Budgets are already extremely tight, and the results of our report show that already more academy trusts are experiencing deficits and many are substantially eating into their historical reserves.

A summary of our report

This year our benchmarking report covers even more academies – over 800, up from 500+ last year. The sample once again includes a mixture of our own clients plus some other trusts to ensure we cover all areas of the country.

MATs, secondary academies and primary academies are reviewed and, in some areas, we have drilled down further into the MAT data to analyse different sizes of MAT.

As is now customary 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 per pupil results in key areas. If you would like a tailored report with a graphical representation of your results, we can help – do please get in touch and let us know.

Remember that benchmarking, whilst useful, does have its limitations.

Do look out for the DfE's own benchmarking when this becomes available later in 2019 – this can be extremely useful for trusts with unique characteristics or unusual circumstances since it is possible to select the comparison criteria and compare your own trust against others that are very similar, either local to you or nationally. For example, you can select trusts with similar SEN, performance or workforce characteristics.

I do hope that you find our report interesting and enjoy reading our analysis. We always find the exercise of pulling the data together and reviewing the results intriguing. 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

"This year there is a small rise in the number of SATs but only a very slight one. With some Local Authorities reluctant to give permission for new SATs these trends are almost certain to continue."

As noted in the introduction, the growth in both the number of MATs across the UK and the size of individual MATs has continued.

As of 1 September 2018 more than 40% of all trusts were MATs, although the numbers have not altered that significantly from the beginning of 2018.

Academies in trusts and size of trusts

Trust size	No. of academies	% of total academies	No. of trusts	% of trusts 01.09.18	No. of trusts 01.01.18	% of trusts 01.01.18	% of trusts 01.12.16
1	1,686	20.6%	1,686	59.6%	1,675	62.2%	69.8%
2	624	7.6%	312	11.0%	309	11.5%	10.5%
3-5	1,848	22.6%	491	17.3%	430	16.0%	12.7%
6-10	1,652	20.2%	219	7.7%	189	7.0%	5.0%
11-20	1,149	14.1%	84	3.0%	64	2.4%	1.3%
21-30	555	6.8%	22	0.8%	17	0.6%	0.4%
31-40	307	3.8%	9	0.3%	5	0.2%	0.1%
41+	356	4.4%	7	0.2%	5	0.2%	0.2%
Total	8,177	100%	2,830	100%	2,694	100.0%	100.0%
Total 01.01.18	6,996	100%	2,694	100%			

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

There has been a large rise in percentage terms of the number of 'super trusts' responsible for over 20 academies, with 38 trusts having reached that size; up 40% from 27 on 1 January 2018.

There have also been significant rises in the mid-sized trusts:

- 6-10 academies – up 16%
- 11-20 academies – up 31%

Last year we reported that the number of single academy trusts (SATs) had actually fallen because of the number transferring into MATs. This year there is a small rise in the number of SATs but only a very slight one. With some Local Authorities reluctant to give permission for new SATs these trends are almost certain to continue.

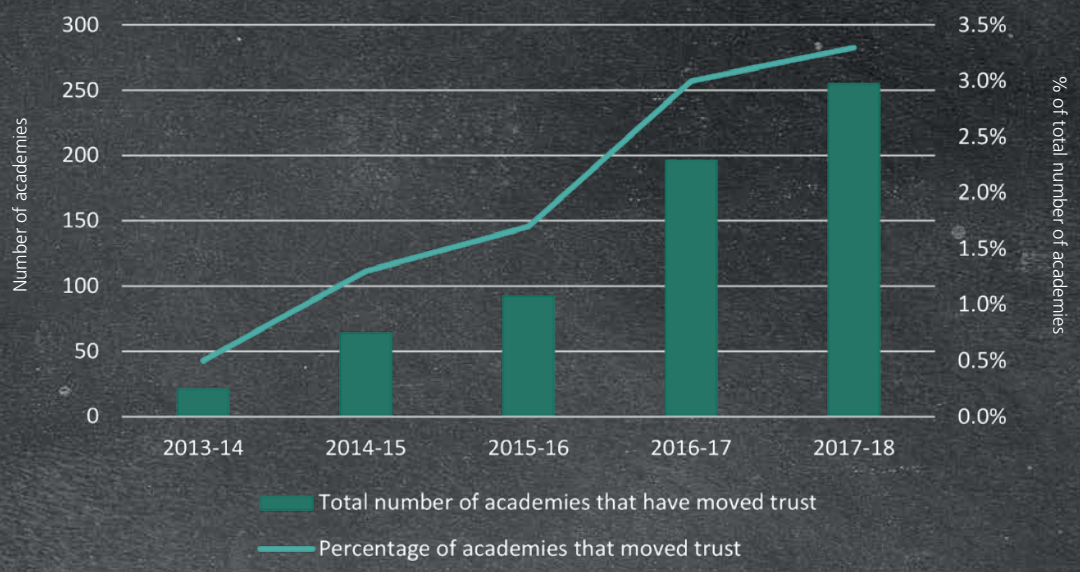
A number of our SAT clients are considering their options. Many are relatively stable financially and are able to perform academically, and would prefer to retain their standalone status. Regardless, many are nervous that one 'slip' could result in a forced transfer into a MAT that might not fit with the academy's culture and, for this reason, some SATs are exploring their options to determine whether there are any local MATs that might be a natural partner.

Some of our most challenging audits are with small but growing MATs. The transition from a SAT to a MAT, or from a MAT with a couple of academies to one responsible for five or six can be a difficult one. Systems need to mature and sometimes there need to be changes to the structure of the finance department – including personnel – as trusts move to the next stage in their development.

Academy transfers

The growth of MATs is partly fuelled by new converters joining MATs. Consolidation is the other key part of the equation. The DfE released a report in July 2018 revealing how the number of transfers between trusts has risen from 21 during 2013/14 to 255 for 2017/18. Across the past five years a total 628 academies have moved between trusts. Of these, 185 (29%) received grant funding for the transfer.

Number and proportion of academies that have moved trust between 2013/14 and 2017/18



Source: DfE Academy transfers and funding in England 19 July 2018

The amount of funding the DfE have had to throw at rebrokerage situations is one area that is often attacked by anti-academy protestors. Across the five years of the report, a total of nearly £23 million of grant funding has been provided for this purpose which calculates as an average of £123k per trust in receipt of this funding. It is easy to see why this is frowned upon but the additional funding will have been necessary to ensure a smooth transfer. It will cover costs such as leadership support, staff re-structuring, legal services relating to the transfer, communications and rebranding.

"The amount of funding the DfE have had to throw at rebrokerage situations is one area that is often attacked by anti-academy protestors."

Top slicing

Most MATs have at least one academy that they might refer to as 'troublesome'. There are often one or two academies which are individually in deficit or very low on revenue funds, and these academies require the support of the MAT. With a central pool of funds to dip into, MATs are able to manage these situations fairly easily; especially if they operate a central bank account which helps to iron out cash flow fluctuations. Other MATs find themselves with insufficient central funds and, in these circumstances, are left with little alternative than to internally 'borrow' funds from a more financially stable academy. This is far from ideal.

The method of top slicing continues to vary enormously. Below we give just some of the approaches we have seen, listed in order of frequency:

- % of income (variants include School Budget Share, School Budget Share plus direct recharges for specific contracts and % of GAG)
- Amount per pupil
- A flat rate (variants include a ratio split between academies, eg. Academy A 40%, Academy B 35%, Academy C 25%, different fees for all primary and all secondary academies)
- Variable % based on Ofsted rating of each academy
- Variable % based on internal risk assessment.

Whichever approach your MAT takes must work for both the trust and its academies. It has to be right for the overall trust to avoid scenarios we have seen where the central trust carries a deficit. Such situations can arise where the top slice is insufficient to cover costs, or where unexpected central costs occur which the trust feels it cannot immediately pass on.

When based on income the most common top slice rate is around the 4-6% of GAG level.

Remember, it is best practice to ensure the MAT has a Service Level Agreement in place which clearly sets out in writing what each academy will be paying and the services they will receive in return.

Staff costs, numbers and teaching staff to pupil ratios

Staff costs, by far and away the largest part of any school's budget, is the one area giving most academies concern.

The immediate reaction to the surprise announcement during 2018, that teacher pay scales would be increased by up to 3.5%, was one of mild panic. On the one hand the pay rise was welcome in the sector, which is already facing up to the challenges of recruiting and retaining top quality staff, but the realisation that this would have to be financed by already stretched budgets soon struck.

The new rate came into force on 1 September 2018 but of course the headline 3.5% rate did not apply to everyone, just for those on the unqualified teacher and main pay scale. More experienced classroom teachers on the upper pay scale increased by only 2%, and leadership pay ranges went up by 1.5%. Teaching assistants were unaffected. The Institute for Fiscal Studies estimated that only 40% of teachers in England would be eligible for the higher 3.5% pay rise.

The rise was still some way short of the 5% demanded by some teaching and leadership unions, so it seems likely there will be continued pressure for further increases.

Whilst academy trusts have the autonomy to set their own pay levels, in our experience most trusts follow the school teachers' pay and conditions document (STPCD) and stick closely to the pay scales.

We have seen some larger MATs negotiate their own pay awards, often slightly preferable to the STPCD, to help them attract and retain the very best staff. There was a real risk of backlash for any trusts which offered pay rises at less than the STPCD rates.

Funding the pay rises - 'robbing Peter to pay Paul'?

Schools were expecting to have to fund the 1% pay rise that would have come into force had the public sector pay not been lifted. Seemingly, in a nod to the financial pressures in the sector, the DfE decision to fund the remaining increase was welcome. Money will be available for at least the next two years via a teachers' pay grant worth a total of £508 million over the period.

It remains unclear exactly where the DfE are finding the money to fund the teachers' pay grant; there is no new money, meaning they have re-allocated internal budgets. If this means cuts to other funding then some trusts may lose out.

The teachers' pay grant has been promised for the DfE financial years 2018/19 and 2019/20. This only guarantees funding up to 31 March 2020 and the inevitable question on the lips of the sector is - what happens after this? If the funding does not continue beyond this date trusts at least have some time to get their finances into better order and to make any necessary restructuring changes. In the meantime, trusts that had budgeted for the expected 1% pay rise have at least seen their budgets benefit as a result of the unexpected short term funding.

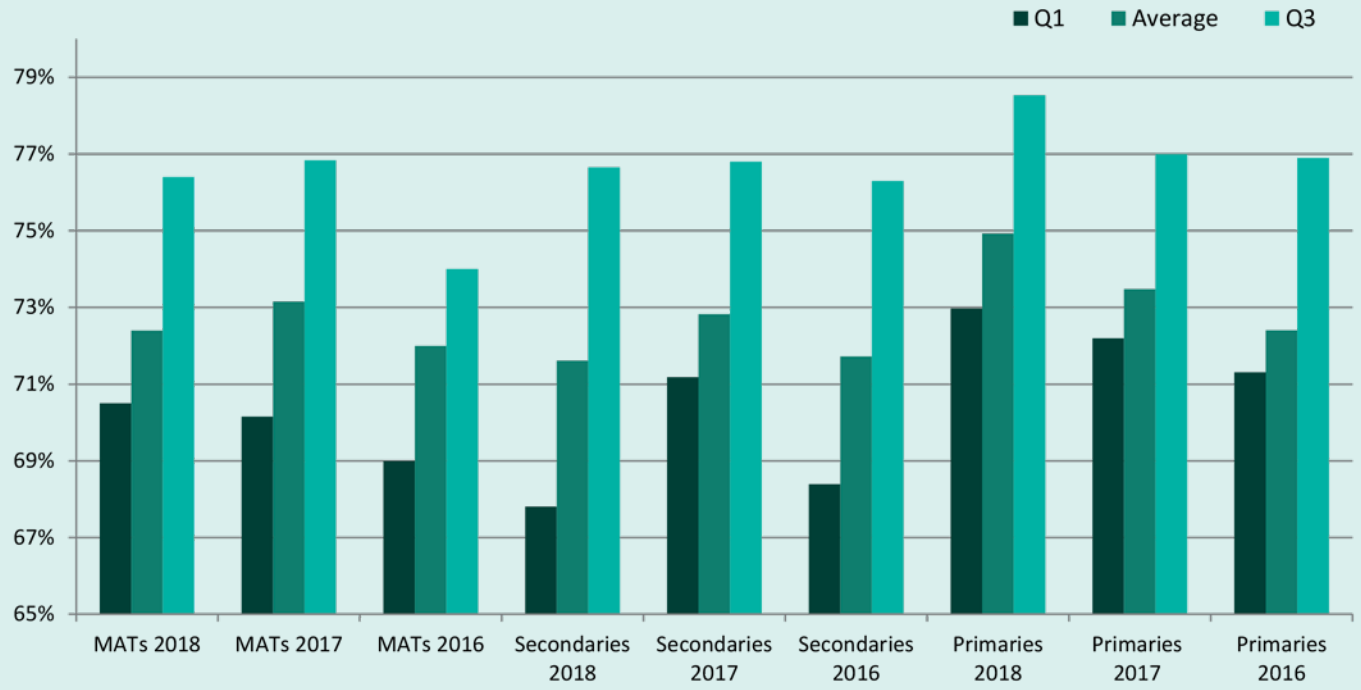
Pension rises

Employer pension contributions represent a large part of the overall staff budget. Presently, the Teachers' Pension employer contribution rate is 16.4%, but this is now expected to rocket to 23.6% from 1 September 2019. At the time of writing this report there is still no concrete news on this, the 23.6% is a rumour and suggested rate from some government publications. With less than six months to go this is frankly unacceptable and there must be a way to ensure that, in the future, Teachers' Pensions announce changes much earlier.

As with the teachers' pay grant, the DfE have promised to fund any rise in pension costs through to 31 March 2020, but this only covers costs for seven months and the same question regarding what happens from April 2020 remains.

The sustainability of both the Teachers' Pension and Local Government Pension Schemes remains a concern. These schemes are all in deficit, and as life expectancy rates soar the problem of funding pensions for an ever-ageing population will worsen.

Staff costs as % of total costs



There is a general consistency between the different types of academy, and also from year to year, with the average academy's staff costs accounting for 70–75% of the overall budget. The one area that has changed during 2017/18 is the rise for primary academies, up from 73% to 75%.

	Average staff costs as % of total costs			
	2017/18	2016/17	2015/16	2014/15
Primary academies	75%	73%	72%	72%
Secondary academies	72%	73%	72%	71%
MATS	72%	73%	72%	Not available since we did not split MATs as a separate category

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

In the current climate is it more important than ever that trusts pay close attention to their staff costs and understand where they sit (and why) against the averages.

Staff costs should be reviewed regularly and we would suggest that all trusts should include some measure of staff costs within the key performance indicators which the Academies Financial Handbook now requires to be monitored on a regular basis.

The cost of getting it wrong with staff can be immense. The cumulative impact of employing a member of staff on a salary greater than his or her actual ability can be huge over the life of their employment. Should annual pay rises be given automatically? Trusts need to develop systems to accurately measure performance to ensure that staff who deserve pay rises are remunerated accordingly.

How many academies can say they are operating as efficiently as they could when it comes to staff? We suspect most could continue to achieve the same educational standards with one or two fewer staff, and imagine the saving over a number of years.

Integrated Curriculum Financial Planning

Integrated Curriculum Financial Planning (ICFP) or curriculum led planning can be a key method of monitoring efficiency. The model is favoured by the DfE who have insisted that MATs applying for MAT Development Improvement Funding sign-up and procure an independent review of its financial efficiency. We have included ICFP in the staff costs section because the fundamental ratios relate to staff costs.

ICFP is a planned method which involves a 'clean slate' approach. The starting point is to determine the educational needs of all pupils at the academy and then ask how the academy can run this curriculum in a financially sustainable way.

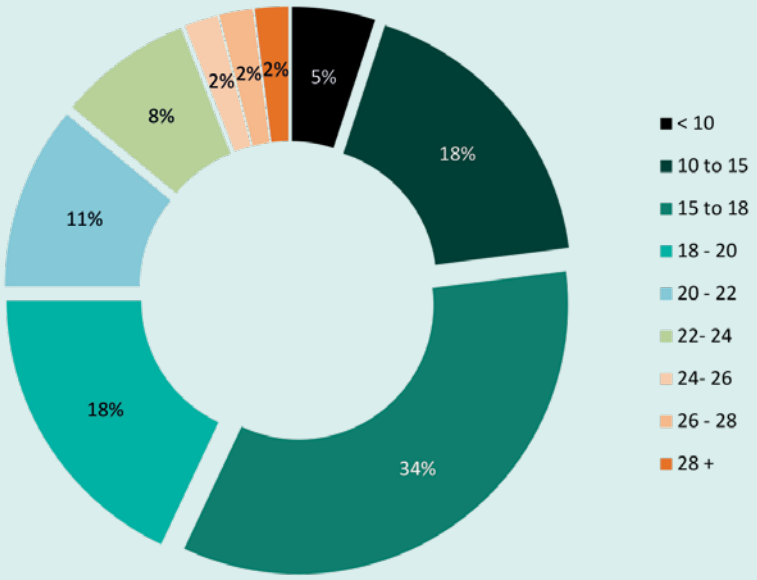
Key to ICFP are various ratios and statistics:

- Cost per lesson (total teaching staff cost divided by number of teaching periods)
- Pupil to teacher ratio (PTR)
- Contact ratio (average number of teaching periods divided by total number of periods)
- Curriculum headroom (a positive or negative statistic based on class size as a % of average class size)
- Average teacher cost.

The contact ratio is perhaps key and, as a result, the model works better for secondary schools than primary schools because of absence or low level of non-teaching periods in primaries.

ICFP can be conducted internally within a MAT to easily determine which of the trust's academies are performing 'better' in each area. This can identify academies, departments or year groups within an academy which are operating less efficiently. There may be reasons for this, but the ICFP data facilitates a better understanding for boards who can then challenge management teams.

Pupil to teaching staff ratio



An important part of efficiency can be the pupil to teaching staff ratio (PTR); as noted above this is one of the key components of ICFP.

This year, 52% of academies in our sample had a pupil to teacher ratio of over 26 pupils to 1 teacher, up from 45% last year.

Those reporting a PTR of over 28:1 rose from 25% to 34% suggesting academies have been forced, on average, to increase their class sizes.

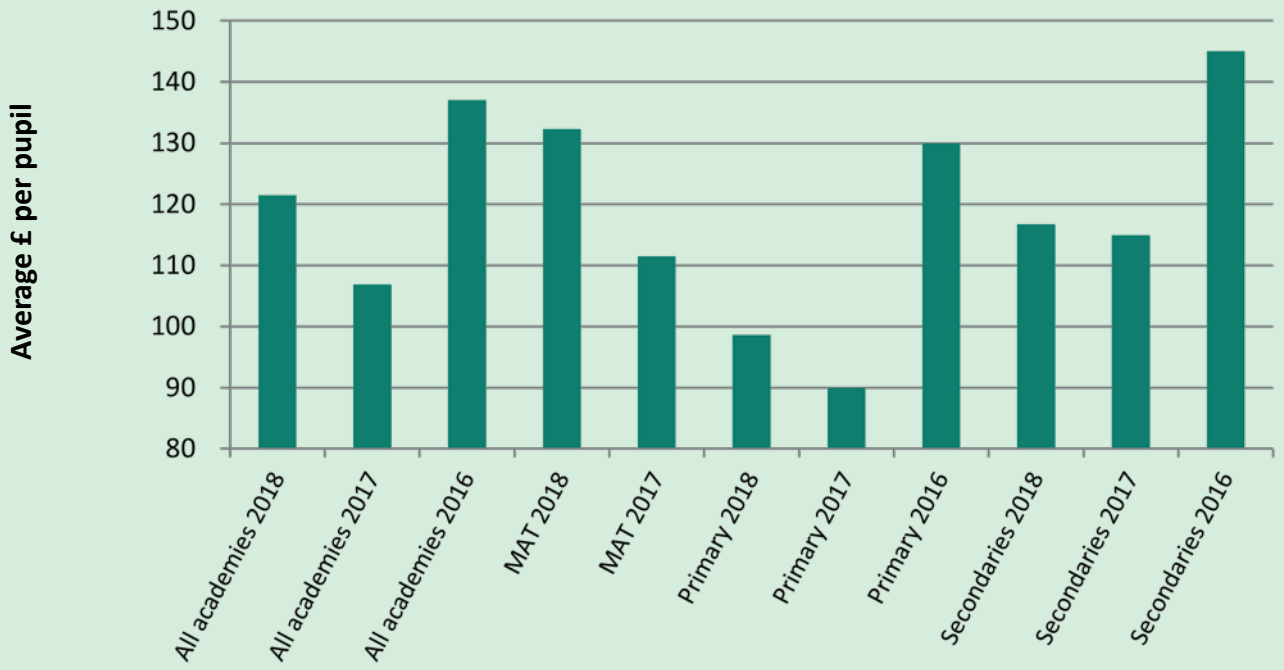
The academies at the lowest end of the scale are generally special needs academies for pupils with very different educational requirements.

Supply staff

The cost of supply and agency staff has long been a sore point in the education sector. During 2018 the DfE published a 'Deals for Schools' framework designed to help all schools achieve value for money in what can be a very expensive area. The deal uses a list of preferred agencies and can also help to set a standard practice for safeguarding checks and to reduce agency fees.

Across the sector there has been, on average, a small rise in supply teacher costs from £107 per pupil to £122 per pupil. All types of trust have seen an increase, with MATs seeing the most marked rise (up 19%).

Supply teacher costs to £ per pupil



The actual spend behind these per pupil numbers shows that the average primary academy has paid out £32k in supply costs and the average secondary £123k.

Senior leadership team remuneration

There has been a continued focus on senior leadership remuneration throughout the past couple of years. In December 2017 for SATs and February 2018 for MATs, the ESFA wrote to all trusts paying an executive salary of over £150,000 for their 2015/16 financial years, and issued separate letters to those trusts paying a salary of over £150,000 where the ESFA believe they are "at risk of experiencing financial difficulties". Further similar letters followed in April 2018 and July 2018. A list of all trusts receiving such letters was also published.

It is clear that the ESFA are attempting to strengthen expectations about the processes trusts adopt for setting executive pay. At the same time they know that most, indeed almost all, trusts are not paying their executive leader a disproportionate amount. The Academy Schools Sector Annual Report and Accounts for 2016/17, published in Autumn 2018, revealed that just 4% of trusts paid an individual in excess of £150,000.

	2016/17: Number of ATs paying at least one individual above this	Proporation of ATs in sector	2015/16: Number of ATs paying at least one individual above this	Proporation of ATs in sector
Payments of £150k or more	125	4.0%	121	4.1%
Payments of £150k or more	941	30.1%	873	29.3%

Source: DfE Academy Schools Sector Annual Report and Accounts for 2016/17 (page 14)

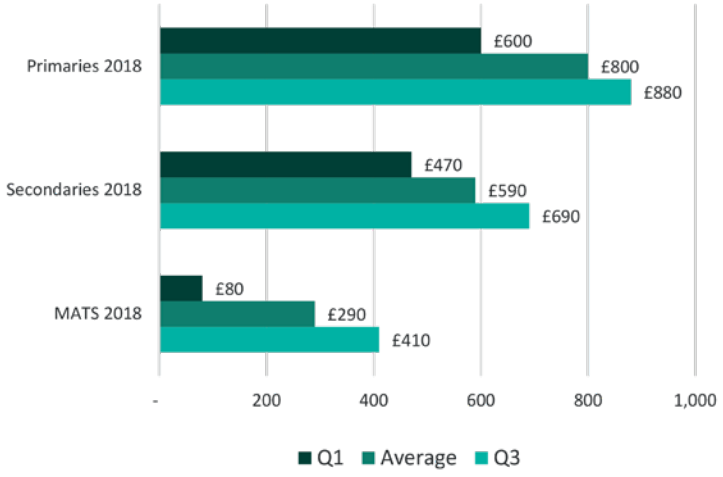
All trusts should ensure they have clear records justifying executive pay for their senior leadership teams, and for the very highest levels of remuneration in particular. Trusts that received the ESFA letters were required to respond and explain their reasons, and we understand that the ESFA were not content with the answers they received in a number of cases.

This meant that on 5 February 2019 Lord Agnew wrote further letters to 28 named academy trusts. The tailored letters, which make it very clear that executive pay must be proportional and defensible to the public sector market and should reflect value for money, refer to any previous letters of this nature sent to the trust and salary disclosures presented in their most recent 2017/18 accounts. Trusts receiving such letters had just two week to respond on a number of points.

It is worth noting that the National Governance Association have developed some new guidance aimed at assisting boards of academy trust in setting an appropriate framework for the pay of the executive leaders. The AFH 2018 makes it clear that "the board of trustees must ensure its decisions about levels of executive pay follow a robust evidence-based process and are reflective of the individual's roles and responsibilities".

Remember, the costs associated with the senior leadership should be assessed regularly to ensure value for money is delivered. In a link to ICFP, discussed earlier in this section, how much contact time does your SLT have with pupils?

Senior leadership remuneration per pupil



Academy trusts are required to disclose the remuneration of 'key management'. This poses an immediate problem, as there is no precise definition of key management. In a SAT it is fairly simple and key management will usually equate to the SLT.

It is less clear cut in a MAT, however, particularly a large one. 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."

In our experience, the approach taken here varies enormously for MATs. Some will only see the central management team as key management, others will class all Heads of School as within this group. In a small MAT of just a few academies it may even go beyond this.

It is expected that the per pupil figures are lower for secondary schools than primary schools; the relative size of the school outweighs the generally higher salaries in the secondaries. The MAT per pupil figures are lower still as a result of the relatively low number of management staff in the larger MATs compared to pupils.

Further analysis of the MAT data reveals the following:

MAT size	Mean average CEO/AO	Mean average SLT cost
2 - 5 schools	£401	£73
5 - 10 schools	£233	£57
10 - 20 schools	£196	£22
20 schools +	£77	£12
Mean average MAT	**£290**	**£51**

CEO/Accounting Officer salaries

Remuneration paid to the CEO/Accounting Officer attracts the most attention, and understandably so with some of the amounts involved.

The average (median) secondary AO receives 52% more than their primary counterpart, and the average MAT AO receives a further 35%. Of course, the salaries paid within MATs vary enormously and usually in correlation to the size of the trust. Analysis is, however, difficult and salaries can vary even between trusts that are of a similar size. This makes it easy for antagonist journalists to create attention grabbing headlines.

The AO and Chief Executive role is a highly demanding position and it is only right that those holding positions of such responsibility are rewarded accordingly. The crucial question in the face of increasing scrutiny is - what is an acceptable range? Most observers would agree it is reasonable that if the trust is maintaining excellent standards, or making marked improvements, then it is fair for this performance to be acknowledged in some form, however this does not mean performance based pay is the way to go.

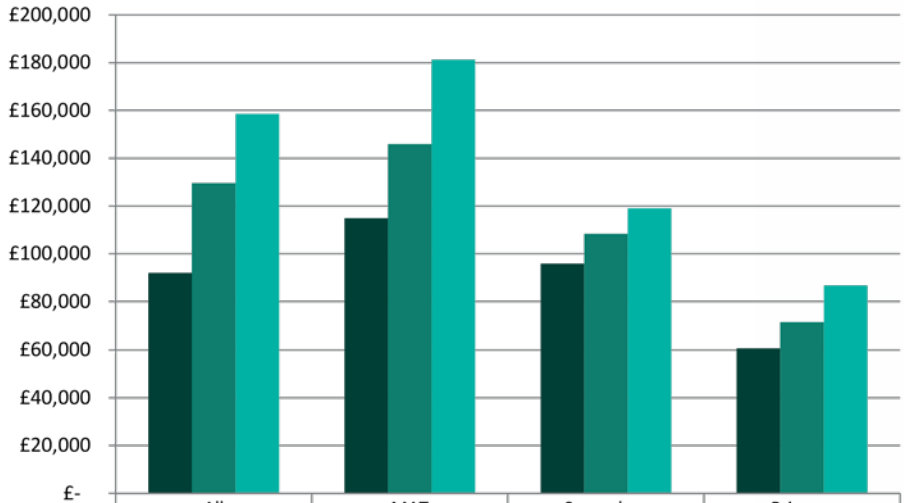
A particular challenge can be faced by relatively small MATs. We have seen that the average secondary AO is paid £108k and it is natural that if the trust is larger, with two or three schools, leaders would like to see the additional responsibility reflected in their remuneration. We have spoken to some AOs who have commented that if this does not happen there is no incentive for them to take such roles. Many are under pressure, sometimes because the supporting structure is not what it could be, and all too often we hear of summer holidays being cut short or similar calls affecting the work life balance.

The highest salary paid to an AO this year was c. £500,000, however, this works out at £18 per pupil. Is this any more provocative than £200,000 when this works out at £26 per pupil? What is clear is that the higher the salary, or the higher the per pupil salary, the harder it is and will increasingly become to justify.

CEO/Accounting Officer salaries

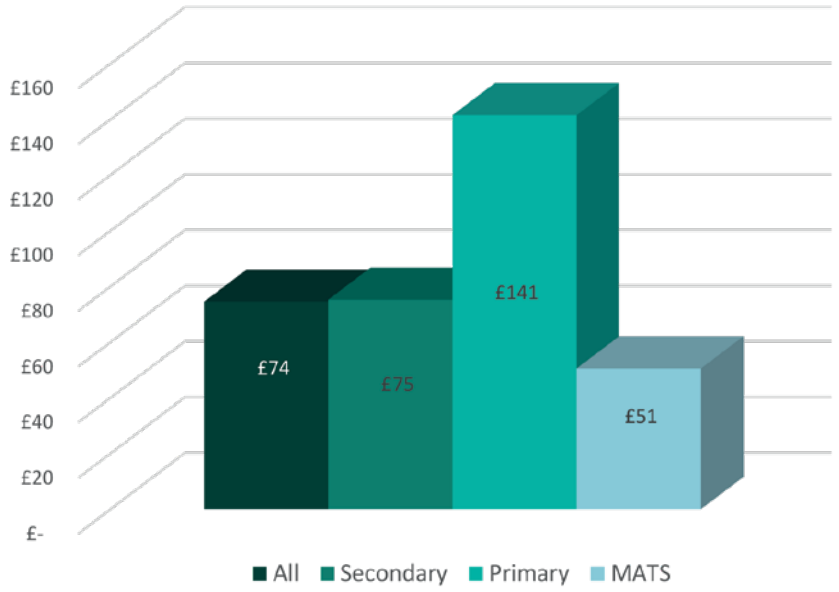
It is actually at the other end of the scale where there is potentially more of an issue. Many of the 28 academy trusts that received Lord Agnew's recent letter are actually SATs. One secondary SAT in London paid £260k to their CEO, and with a pupil capacity of around 1,400 this works out at £185 per pupil. Paying this level of salary for someone to run a single school is incredibly challenging to justify.

It remains vital that all trusts ensure they have systems in place to justify all executive pay, not just for remuneration over £150,000.



	All	MAT	Secondary	Primary
Q1	£92,000	£114,900	£95,912	£60,705
Average (median)	£129,623	£146,000	£108,387	£71,652
Q3	£158,577	£181,257	£119,044	£86,759

Average CEO/Accounting Officer salaries per pupil



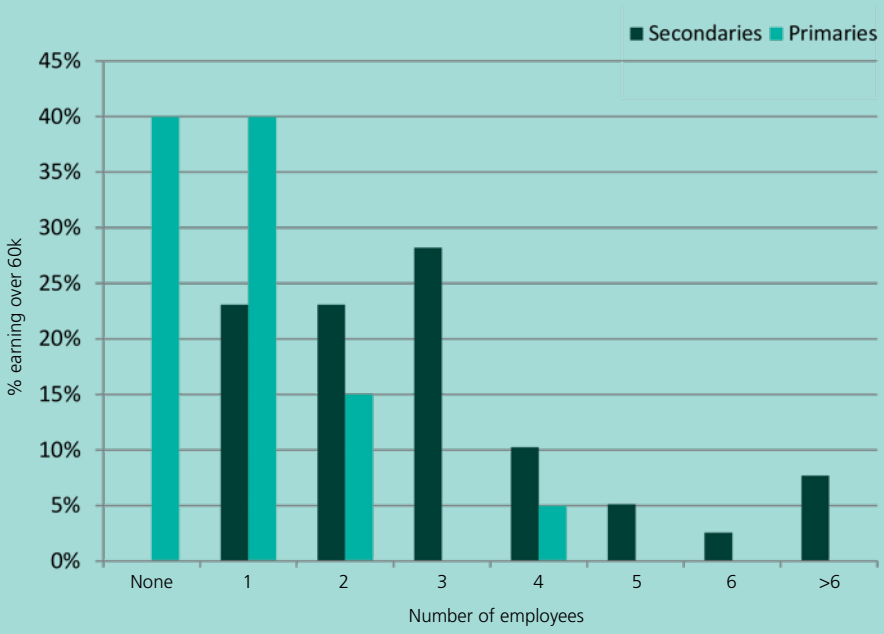
This chart shows the mean average AO remuneration per pupil. Although, as noted earlier, secondary academy AOs receive higher value salaries, on a per pupil basis the primary AOs actually receive more, on average.

The MAT average falls away mainly because in most MATs the higher monetary salary is spread across several schools and many more pupils.

Staff salaries

Academy trusts must disclose how many employees receive remuneration in excess of £60,000, published in bands of £10,000.

% of academies with employees earning over £60k



This chart reveals that, as you would expect, 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 54% (56% in 2016/17) of secondary schools employed three or more members of staff earning in excess of £60k.

In the primary sector 80% (77% in 2016/17) did not pay anyone, or just the Headteacher, more than £60k.

Compensation and severance payments

Restructuring costs and compensation or severance payments can be crippling.

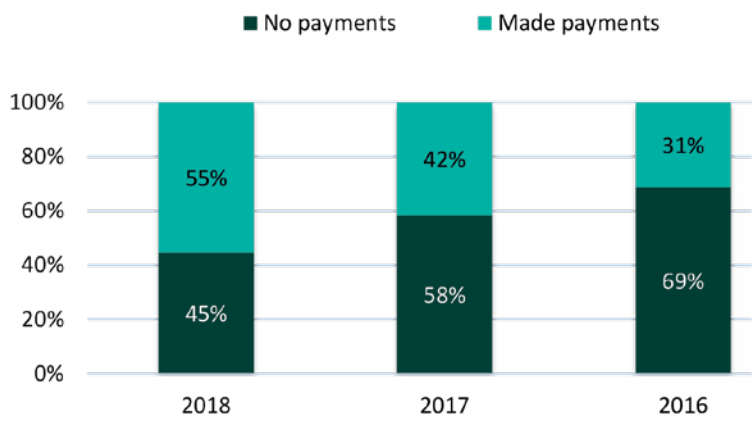
Many trusts have been forced into restructuring in response to their financial pressures. Others have found that, with employment law being what it is, tribunal claims can be triggered far too easily.

If faced with the need to cut costs trusts usually wait, where possible, for staff to leave of their own accord and then either not replace like for like or alternatively recruit a more junior member of staff on a lower salary. With continued financial pressures in the coming years it is sensible that whenever a member of staff leaves, the question of whether they need to be replaced is asked. There is obviously a fine balance between saving costs and maintaining standards; and it is easy to come down too far on one side of this line.

Trusts that find themselves with low reserves and deficits forecast in the coming years need to ensure they react early. No board of trustees will enjoy the process of discussing and starting redundancies but to delay what in some cases is evitable only exaggerates the problem and makes it harder to solve. Early action is vital.

In a worrying and costly trend the percentage of trusts that have made compensation or severance payments has increased again in 2017/18, actually for the third year in a row. During 2017/18 the majority of trusts (55%) made some form of compensation or severance payment.

Academies making compensation or severance payments

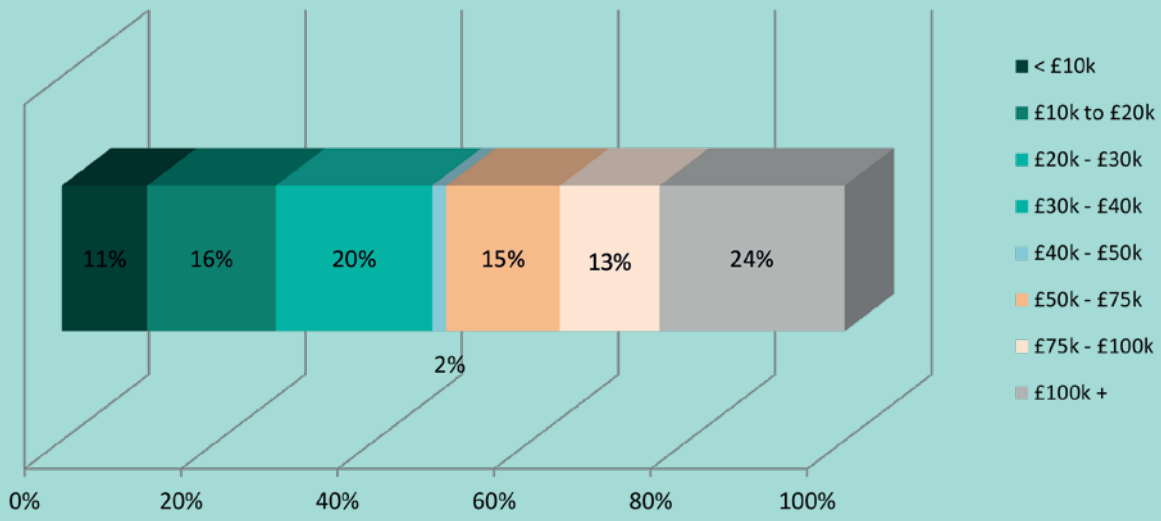


Range of severance payments

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."

Whilst the number of trusts making some form of payments is quite high, perhaps more crucial is the level of those payments.

Range of compensation payments



In the past we have seen quite a high number of trusts paying only a very low level. In 2016/17 21% of trusts making a payment made total settlements of less than £10,000, and 30% made total payments of less than £20,000. During 2017/18 there were far fewer, just 11% in the lowest band, and slightly fewer in the two lower bands combined.

Nearly one quarter of the trusts in our sample paid out over £100,000 in restructuring payments, compared to just 19% in 2016/17. This is partly due to the growth of trusts making it easier and more likely that the higher bands will be breached.

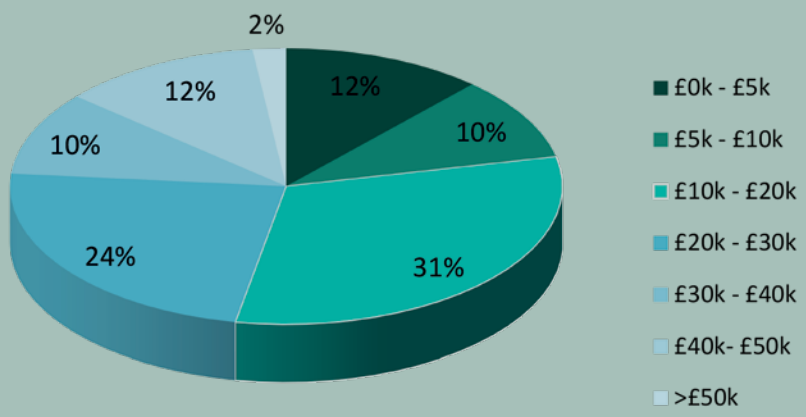
One MAT paid out £461,000 in severance payments, and this was combined with redundancy payments of £545,000. The same trust paid out a combined £654,000 during 2016/17 on restructuring which means a total of over £1.66m over two years.

Making several large individual payments can also be an area that can easily come under attack, especially if there is any suggestion that leaders have been 'paid for failure'.

The highest individual severance payments in 2017/18 were:

Primary	£25k
Secondary	£39k
MAT	£61k

Highest compensation payment



It remains rare to see payments in excess of the £50,000 threshold because anything above this level requires prior approval from the Secretary of State; 12% of trusts made a payment of between £40,000 and £50,000 – it is not for us to speculate here, of course, as to whether some were structured to sit just below the threshold above which they require external approval.

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.

Compared to a few years ago we are spending less time talking to our academy clients about pensions. To be more precise, we are spending less time talking about accounting for the Local Government Pension Scheme liabilities and what these mean.

As trusts mature, trustees are becoming more familiar with what the balance sheet liabilities mean or, just as importantly, do not mean. After the initial shock of such large liabilities appearing in trusts' first sets of financial statements, most trustees are now comfortable that this is an accounting deficit with no direct impact on the cash contribution levels their trust pays.

Discussions have moved on to the concerns over rising TPS employer rates, as discussed already in section 2. Any rise in employer contribution rates from September will be funded to 31 March 2020. The fear is what happens beyond this date. If the rise in rate is not funded beyond the short term the cost to the sector will be huge as shown in the table below:

Current TPS annual contributions	Indicative additional annual cost of rising TPS employer rate from 16.48% to 23.6% (nearest £000)
£50,000	£22,000
£100,000	£43,000
£200,000	£86,000
£300,000 (approximate average secondary)	£129,000
£400,000	£172,000
£500,000	£215,000

For large MATs the extra cost can be astronomical. Yes, total costs will be spread across lots of academies but the overall impact on the trust's budget is significant. One of the largest MATs in our sample paid nearly £14m in employer contributions during 2017/18. A rise in rate to 23.6% results in an additional cost of over £6m!

Local government pension schemes

Returning to LGPS deficits, most academy trusts saw the deficit carried on their balance sheet reduce during 2017/18, all other things being equal. These further reductions might also be part of the reason trustees are more relaxed about the deficits – large increases tend to trigger more discussion!

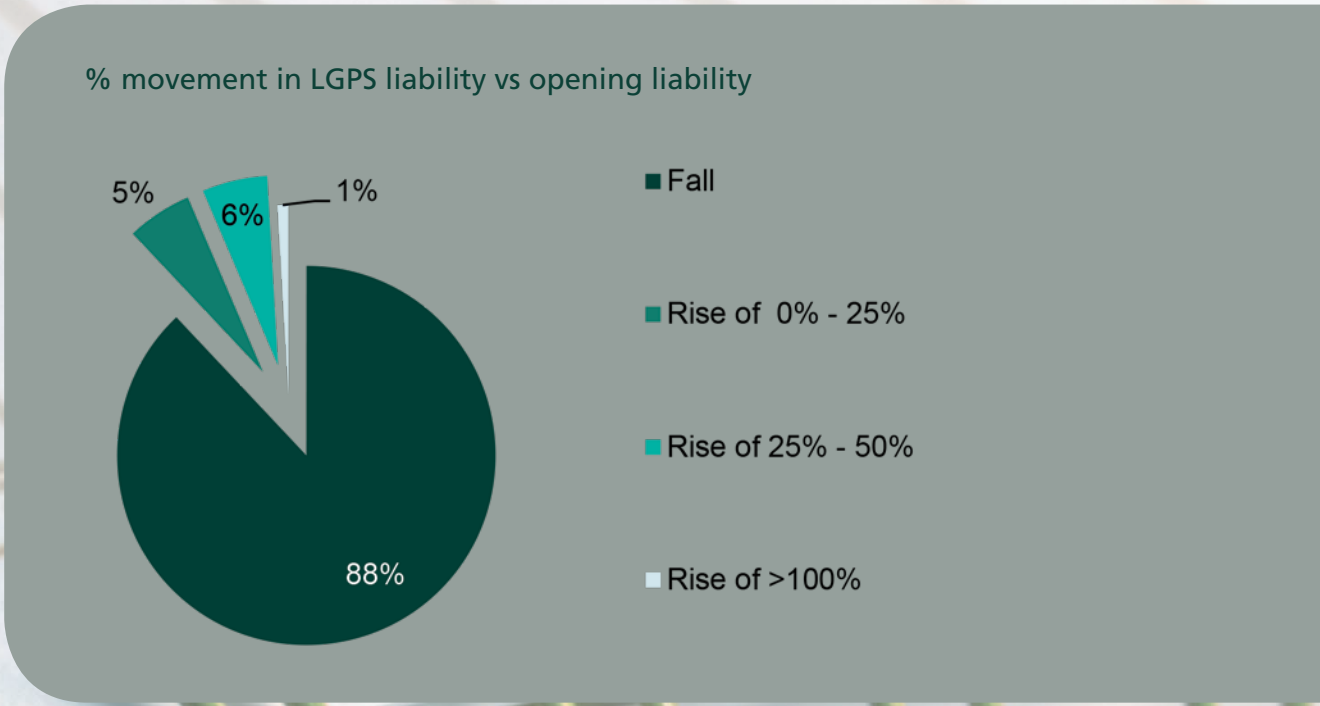
During 2016/17 nearly three quarters (73%) of trusts said their deficits fell. This year the percentage has risen further with nearly nine in ten trusts reporting a reduction in their total LGPS deficit. These positive changes arose because of a healthy stock market and helpful movements in the actuarial assumptions. Current LGPS rates apply until April 2020 and trusts will hope that the LGPS does not follow TPS with large increases.

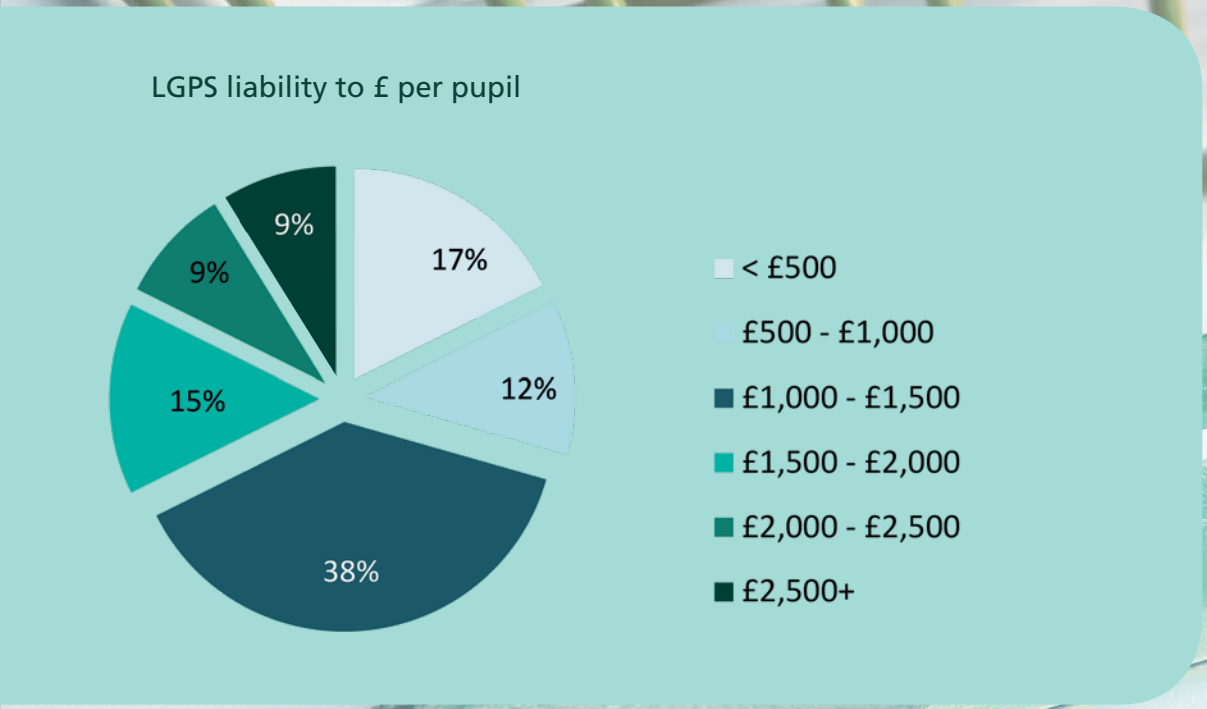
The general reductions means that nearly one in four trusts now carry an LGPS deficit of less than £500 per pupil (up from 14% in 2016/17). At the opposite end of the scale there are also fewer trusts with very high per pupil deficits.

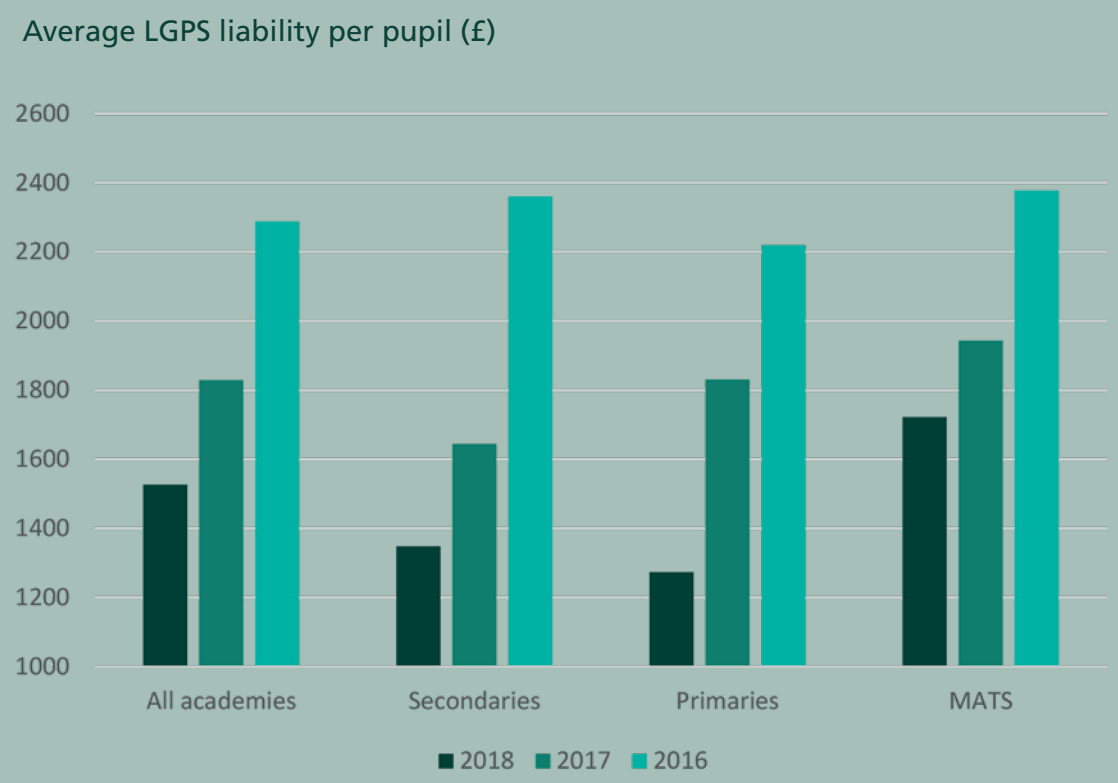
Of course unlike TPS rates, which are set nationally, LGPS rates vary between Local Authorities, and sometimes even within the same LA. Individual rates can vary enormously from approximately 10% to as high as 30%.

LGPS rates and the size of the deficit are influenced by a number of factors; some of these, such as actuarial assumptions, are external and academies have no influence over them, others are more specific such as:

- the size of the deficit allocated to the academy when it was created
- the membership profile of the academy staff (in particular the age profile, since the standard contribution rate is higher for older members)
- actions of the academy (for example pay awards).







LGPS contribution rates

MATs responsible for academies across a number of different local authorities will often find that the range of LGPS rates being paid varies. 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 certain LGPS funds into a more favourable one. There is a formal process to go through, however, before this can be achieved, including obtaining approval from the Secretary of State.

Issues on rebrokerage

A couple of further issues on pensions relate to rebrokerage. Where an academy joins a MAT part way through a financial year technically a closing FRS 102 LGPS valuation report is required as of the date of transfer. This is particularly important for the MAT to which the academy is transferred, or where an academy transfers from one MAT to another. The valuation report ensures that the correct closing LGPS deficit relating to the transferring academy is dealt with correctly on both trusts' balance sheets. Without the report, the auditors may be left with little choice other than to qualify their report due to the lack of assurance over the deficit.

We have seen one further specific issue affecting pensions. There was a period around April/May 2018 where, as a result of a push back on all liabilities transferring 'warts and all', lawyers were negotiating on a case by case basis over the transference of pension liabilities beyond the active members. The DfE eventually stepped-in during the summer to bring a halt to this and give a definitive answer as they did not want to be left with the liabilities should a MAT cease trading. Since the decision was not retrospective some trusts were left in state of limbo because the lawyers involved were not necessarily aware that it was necessary to negotiate the other pension liabilities (for deferred and pensionable members) alongside the commercial transfer agreement. This demonstrates how complex pensions can be and how important it is to take proper professional advice from a firm with experience in this area.

Income

Pupils mean income. All schools exist to provide education and to help develop the next generation into well rounded individuals. However, there is no escaping the numbers game. Each additional pupil means more income for the academy and an unexpected decline in pupil numbers, or a badly managed anticipated decline, can have a catastrophic impact on finances.

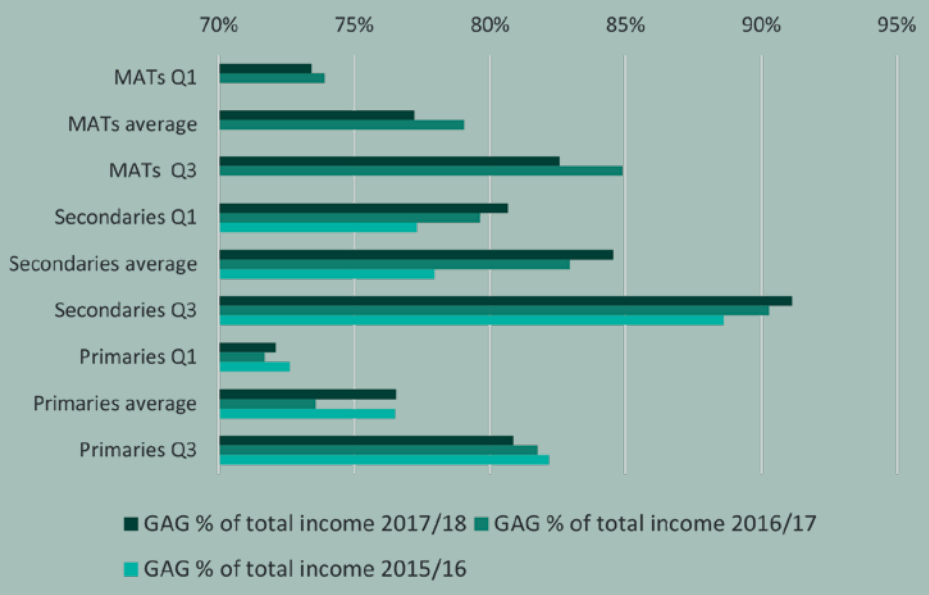
Over the past year we have seen a number of cases of 'pupil' war, with academies increasingly competing against each other for pupils in a combative way. Schools generally have their own catchment area and, where there is overlap, there is usually a 'league table' or pecking order which means there are schools preferred by parents and those that are less favoured.

We have seen some grammar academies in selective areas relax their admissions criteria to help boost numbers, although it remains to be seen whether this places pressure on educational results at a later date. There has also been a national debate about the pros and cons of allowing grammar schools to expand by building annexes.

Rising pupil numbers can be a challenge too. The lagged nature of core funding means that academies need to be careful to ensure they can meet the needs of additional pupils before the extra funding comes through. We have seen some MATs successfully negotiate with the ESFA to move to an actual funding basis in return for agreeing to take responsibility for a struggling academy which the ESFA are finding difficult to re-broker. Ensuring that school buildings are fit for purpose for a rising roll is a further challenge, but more about capital funding and expenditure later in this report.

The key source of funding for virtually all academies is the General Annual Grant (GAG) and with the National Funding Formula failing to deliver what a number of academies were hoping for, it is becoming increasingly important that academies maximise their other income as far as possible. This will be far easier for some academies than others, possibly due to the nature of their land and buildings or their geographical location, but with some hard work and creativity most academies should be able to generate some meaningful extra funds through their own activities.

GAG income as % of total income (all academies)



Across all the academies covered in our sample GAG accounts for, on average, around 79% of total income. Secondary academies report slightly higher percentages reliant on GAG than primaries; 85% versus 77%.

We have commented in previous reports that it is perhaps unexpected for secondary schools which can generate their own income to be more reliant on GAG than primaries. This is because self- generated income remains a relatively low proportion of total income, even for those that fare well in this area, and non-GAG grant income that primaries receive impacts on the results. A high number of primary academies also have nurseries attached to their main school.

Other income

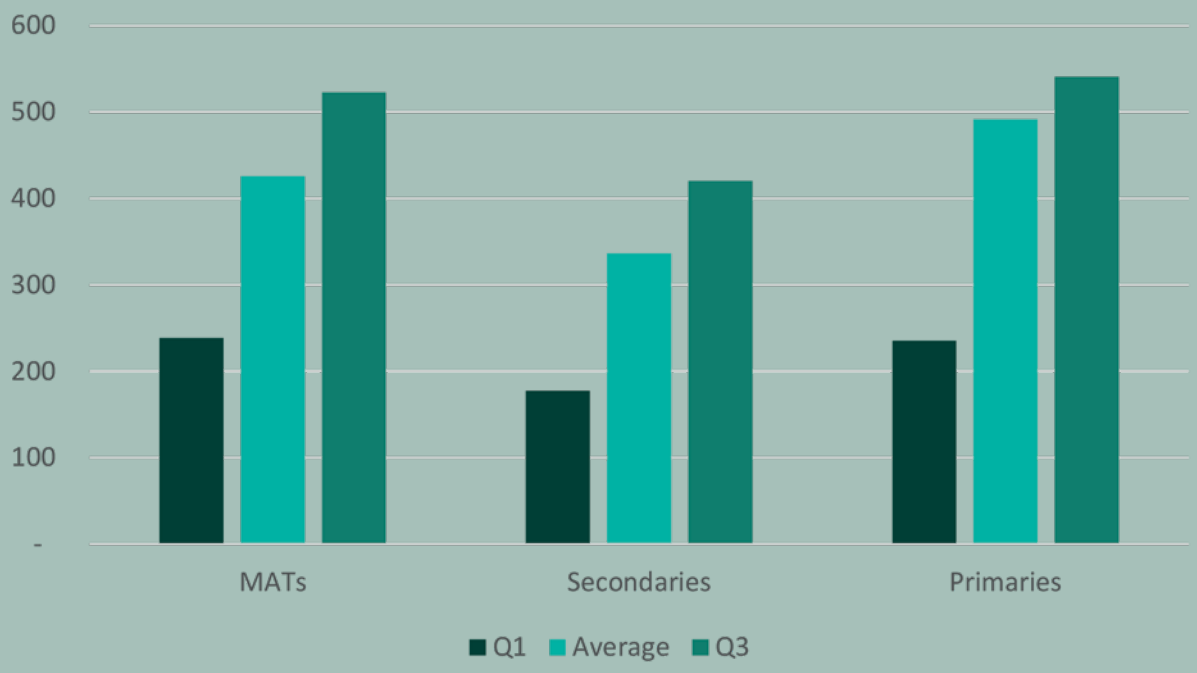
MATs are often best placed to maximise their self-generated income. Once the central MAT team have consolidated, and ensure their internal affairs are in order, there are often opportunities to sell services to other local academies. We act for trusts which provide catering, IT, consultancy and even payroll services to other academies. MATs are also more likely to generate specialist income, and to establish their own trading subsidiary company for this purpose.

The most common form of self-generated income remains the letting of facilities. Before and after school clubs increase in popularity at primary academies.

Any trust expanding their income, or seeking to generate income from new sources, should ensure they obtain professional advice to plan properly for VAT and corporation tax issues that can arise from this activity.

The other income figures in the table below do include all forms of other income and, as a result of varying styles of presenting information in the accounts, not all of this other income is truly self-generated, it can be linked to education. Nevertheless, a trust generating non-grant income of over £500 per pupil, as some are managing to do, gains a terrific boost to its finances. Taking secondary academies alone, the difference of £243 per pupil between those at Quartile 1 and Quartile 3 in the results means £243,000 additional income for a school with 1,000 pupils. This could be the difference between remaining in surplus or suffering a deficit and seeing funds erode.

Other income per pupil (£)



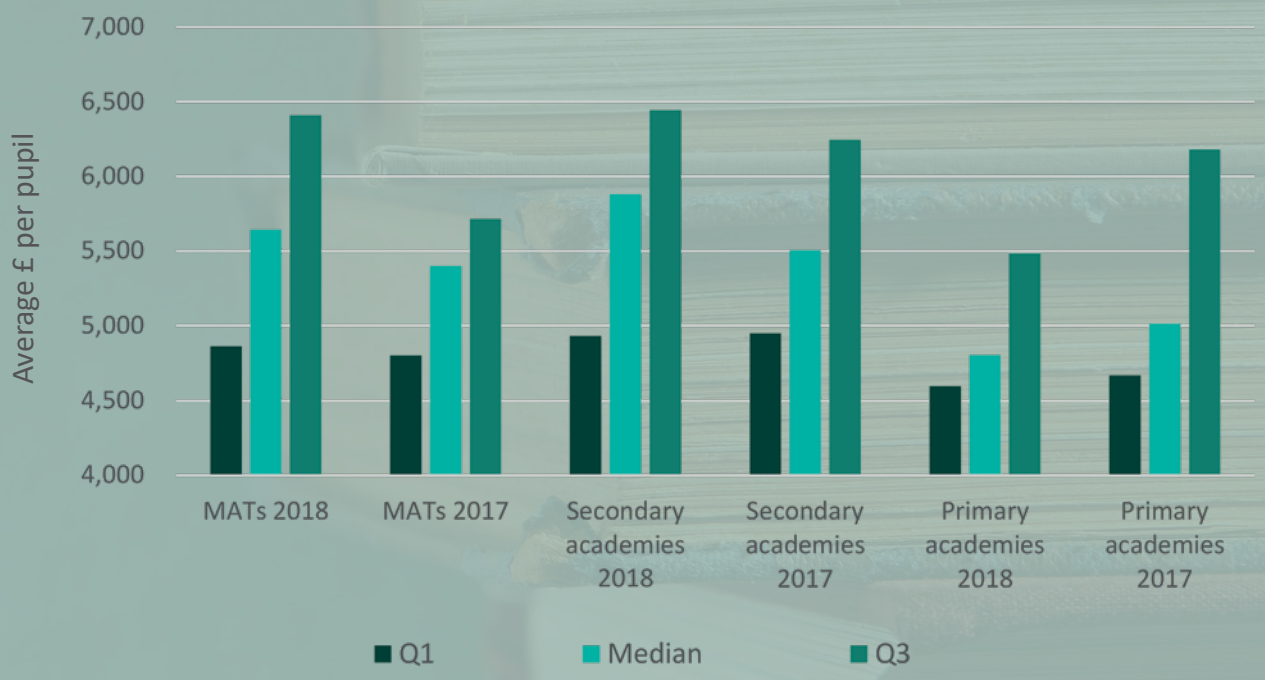
Some trusts are faring even better:

	Highest other income per pupil 2017/18
Primary academy	£1,500
Secondary academy	£834
MAT	£1,567

Total income per pupil

The chart below illustrates the data from our sample for all recurring revenue income.

Recurring revenue income per pupil (£)



Capital funding

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 equates to the sums that 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

At Budget 2018, the Government announced an extra £400 million capital funding for schools in England (all schools eligible for Devolved Capital Funding, not just academies).

£100m of revenue was generated from the Soft Drinks Industry Levy; this has been used for the Healthy Pupils Capital Fund, which is intended to improve access to facilities such as kitchens, dining facilities, changing rooms, playgrounds and sports facilities. This fund will operate solely for 2018/19.

And then there is the "little extras" funding. The Chancellor made a huge faux pas last Autumn by announcing this in the manner that he did. Whilst schools across the country were seeking more revenue funding, and assurances as to how their revenue budgets could be improved, any additional funding should have been welcome. The initial headlines spoke about £50,000 per secondary school and £10,000 per primary, but the actual funding was actually paid as a flat rate £3,000 plus a variable per-pupil amount weighted by the phase of the pupil. The headline figures are more or less what the 'average' primary or secondary might get but a four form primary academy with over 800 pupils receives almost £30,000 extra funding.

The amounts the ESFA have paid out, and the number of projects successfully funded through the Condition Improvement Fund, has risen steadily in recent years:

2017/18	Number of successful projects	Total CIF paid	Average project
CIF 2018/19	1,566	£514m	£328k
CIF 2017/18	1,435	£466m	£321k
CIF 2016/17	1,276	£442m	£346k

CIF 2018/19 was more than three times oversubscribed and, as a result, only applications that demonstrated a high project need and aligned with CIF priorities were successful. If your trust is going to go to the effort of applying then it is vital that you understand the chances of your particular project being successful and, if you are confident that it will, do consider the benefits of outsourcing the application to a professional firm familiar with the process and nuances of the system.

For 2018/19, of the total number of projects, 218 (14%) were listed by the ESFA as 'Health and Wellbeing Projects'.

The 2019/20 CIF closed in December and applicants are eagerly waiting to hear whether or not they have been successful, with the ESFA expected to confirm details in Spring 2019.

Remember, the ESFA can provide 'Urgent Capital Support' (UCS) to academies who do not have access to the formulaic School Condition Allocation (SCA) where funding assistance is required to address urgent building condition issues that put at risk either the safety of pupils and staff, or threatens the closure of the whole, or a significant part of the school. There must be a genuine and immediate need for urgent support that cannot wait until the next round.

SCA funding for larger MATs

MATs 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. Those academies with access to SCA cannot also apply to the CIF on a project by project basis.

We have commented in this report about the growth of MATs which naturally means more trusts will gain access to a guaranteed SCA pot. There is a lagged effect to the funding, however, meaning it can take a while for MATs who technically reach the necessary size to begin receiving SCA funding. The funding for 2019/20 ensures that MATs with at least five academies as of 1 September 2018, and those academies with more than 3,000 pupils in the January 2018 school census receive the SCA.

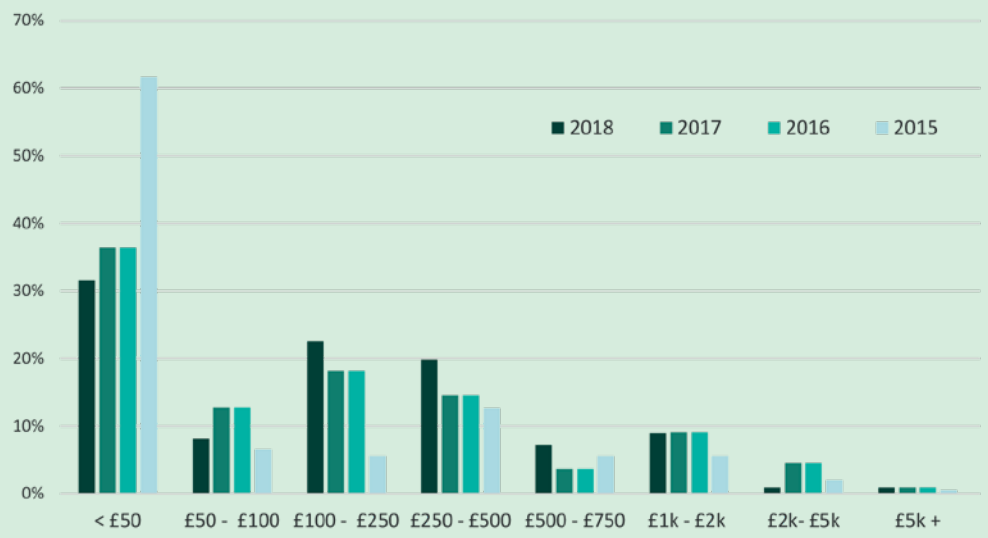
Most trusts invite their constituent academies to 'apply' for the funding and then, at central trust level, a decision is made where to deploy the money according to needs.

School Condition Allocations 2015-18				
	2015/16 Final	2016/17 Final	2017/18 Final	2018/19 Final
MATs and sponsors total SCA	£68,652,119	£97,815,649	£129,596,842	£182,438,346

For 2018/19 the number of MATs receiving SCA increased to 176 with an average allocation of just over £1 million. The very largest trusts naturally account for a big proportion of the total; twenty trusts received over £2m SCA but even excluding these the average allocation was £792k.

Since academies cannot access both the CIF and SCA it can be important for those SATs considering joining a MAT to carefully plan their timing to avoid a scenario where their CIF bid could become ineligible at the point they transfer to the MAT.

Spread of capital funding per pupil



On a per pupil basis the most common level of funding across all academies is the £0-50 level. This is unsurprising given the number of academies with SCA or CIF income that will have merely received their basic Devolved Capital money.

It is interesting to note the year on year rise in the percentage of trusts receiving between £100 and £250 and between £250 and £500 per pupil.

Fixed assets and capital expenditure

With the exception of those church academies which do not carry the value of their land and buildings on their balance sheets, fixed assets are usually the main item on the balance sheet. At the same time, trustees often overlook fixed assets as one of the least important because areas such as land and building valuations are subjective and have no bearing whatsoever on the day to day running of the academy.

The 2017/18 Accounts Direction attempted to clarify the treatment of church academies' buildings, but there remains inconsistency. The previous year had seen much confusion with a mixed approach, resulting in some continuing to show the value of land and buildings and other trusts opting to de-recognise these values.

In light of the new guidance, a number of trusts that left the land and buildings on their balance sheets during 2016/17 removed them in 2017/18. Other trusts continue to recognise them.

Further confusion arises around the accounting treatment for capital works carried out on the school buildings where these are not reflected as assets on the balance sheet. The Accounts Direction still allows two possible accounting treatments – either capitalise such costs to the balance sheet as improvements, or reflect the expense as a donation or grant to the church body.

Capital spending

As for the different approaches taken by church academies noted above, the range in capitalisation thresholds adopted by trusts makes comparisons difficult. Most trusts have a threshold of £1,000 or £2,000 for single asset purchases, with a higher limit for bulk or group purchases made on one order. Some smaller trusts set their threshold at £500 and larger trusts can go much higher.

Whilst academies do occasionally receive capital funding from other sources – the odd capital donation for example – capital funding principally comes via the ESFA. With finances tight, trusts that have not been successful in any CIF bids or which do not receive SCA, therefore have relatively little capital funding. If their need is greater than their Devolved Capital allowance the balance has to be funded from revenue reserves which are already coming under pressure.

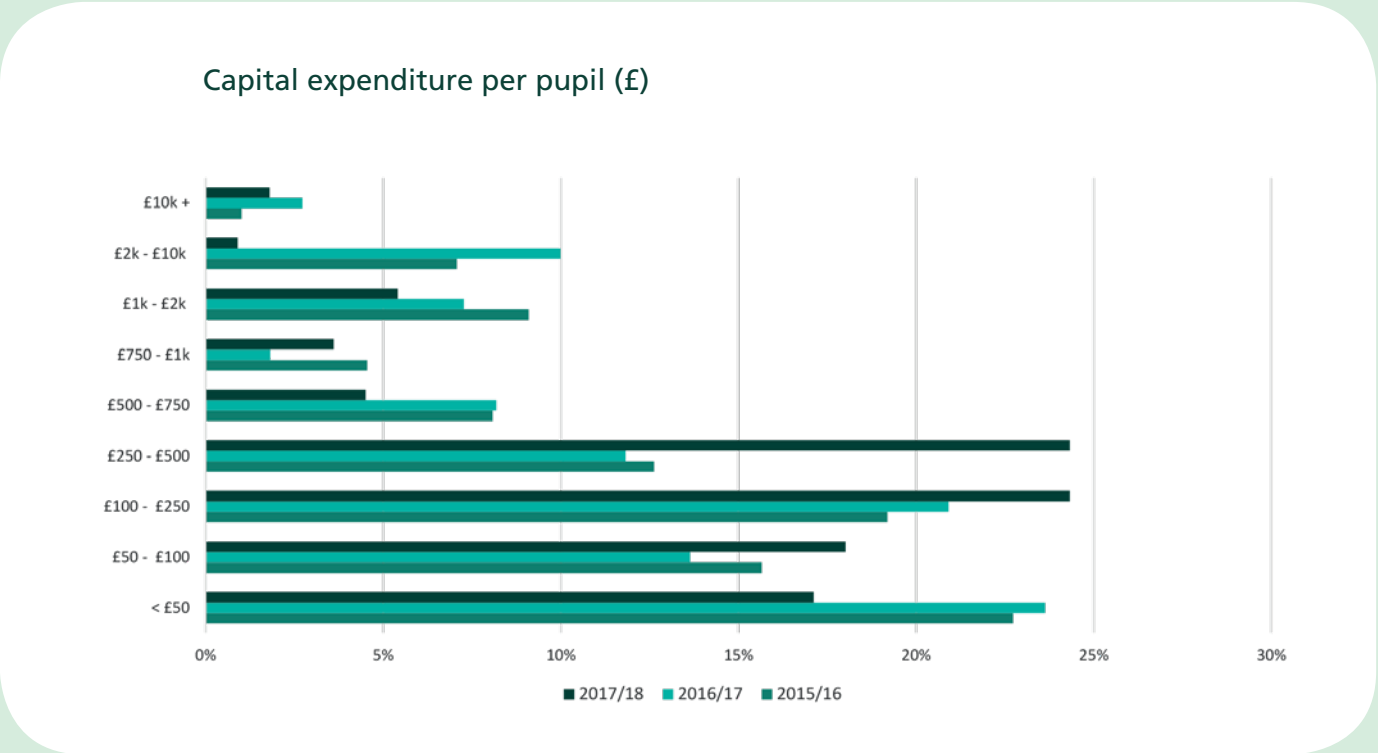
One issue we have seen recently is the different approaches to accounting for large CIF project expenditure. We believe the general expectation here is that significant CIF projects will always be capitalised; the grant funding is capital by nature of course. We have seen a number of accounts include CIF expenditure through the SOFA via the fixed asset fund on the basis, presumably, that the expenditure is of a maintenance nature. However, in virtually all cases we believe it would be difficult to justify this approach because there must surely be an enhancement and ongoing benefit to the works.

The AAD includes a suggested accounting policy that most trusts adopt:

"Where tangible fixed assets have been acquired with the aid of specific grants, either from the government or from the private sector, they are included in the balance sheet at cost and depreciated over their expected useful economic life."

And also defines tangible fixed assets as "those assets that have physical substance and are used to provide an economic benefit to the academy trust on a continuing basis (ie. for more than one reporting period)."

We believe that the ESFA's expectation is that significant CIF expenditure is capitalised and we expect further clarification in the AAD later this year.



Interestingly the capital spend per pupil has increased significantly during 2017/18. This will be partly as a result of an increased number of MATs receiving SCA funding, and more CIF, but perhaps also reflects the recognition that many of our schools are in urgent need of work and new equipment.

Last year nearly one in four academies spent less than £50 per pupil on capital items during 2016/17, but the percentage in this category fell to 17% for 2017/18. The next three categories all witnessed an increase, with the £100-250 and £250–500 bands both jumping to 24%.

Of course, all this capital funding is rarely sufficient to help with major building work and many academies are in need of substantial work to make the buildings fit for future generations. The Condition Data Collection (CDC) survey, which is due to complete in Autumn 2019, will provide an indication of the condition of state funded schools but it is well known that across the country the need is huge and the likely cost of bringing all schools up to the desired condition runs into billions of pounds. Currently, academies are often reliant on local government funding for major works; often in these cases the LA will manage the build or extension and then hand the completed building over to the academy trust on completion. In such instances it is necessary to account for the building as a donation in the SOFA, much the same as the balances reflected on conversion, however obtaining an accurate valuation from the LA can sometimes be challenging.

CIF project management fees

One area that we in which we believe trusts should ensure more control is the payment of project management fees to companies, often for CIF related work. Many companies seem to charge a flat rate percentage of the overall project, but we would question whether this is appropriate and provides value for money. A project that is twice as large as another may well require more work, but does it demand twice as much time and effort to justify a fee that is doubled?

It is too easy to overlook the project management fee because it forms part of the total project spend and is paid for by the CIF funding. The same value for money principles apply to the management fee as to any other form of procurement, so if the fee is above a trust's internal policy threshold the trust should ensure it complies and obtains the correct number of written quotes or formal tenders.

A Panorama programme aired during 2018 highlighted various concerns at a MAT relating to capital funding and works, and it seems likely that in response to this the ESFA will enforce stricter rules. This may take the form of the ESFA conducting additional works and checks themselves, or they may request specific grant certification forms to be completed by independent auditors. After all, similar certifications, Annex G's, separate from the main audit, are already required for other – and much smaller – funding.

Cash, bank balances and reserves

Collectively, academy trusts continue to hold significant cash reserves. The academy sector consolidated annual report and accounts (SARA) for 2016/17 revealed that trusts held £3.5 billion as cash at bank and in hand on 31 August 2017.

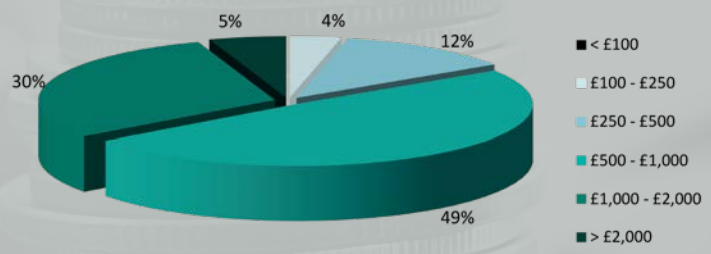
This can lead to accusations that trusts are hoarding money, but it is perfectly reasonable for trusts to be holding these sums. All trusts need a level of reserves to fall back on, which will mean cash in the bank and, although academies do not require working capital in the same sense that a commercial business does, they do need sufficient cash to help them withstand the natural ebbs and flows of cash flow throughout the year. Cast at bank balances are also boosted by any unspent capital grant money that trusts are holding, which can be significant for MATs receiving SCA or trusts with large CIF projects underway.

With financial pressures increasing it is inevitable that some trusts will find they are having to manage cash flow much more than previously. We have seen an increase in the number of trusts approaching the ESFA for advance funding during 2017/18 and this trend is unfortunately likely to continue.

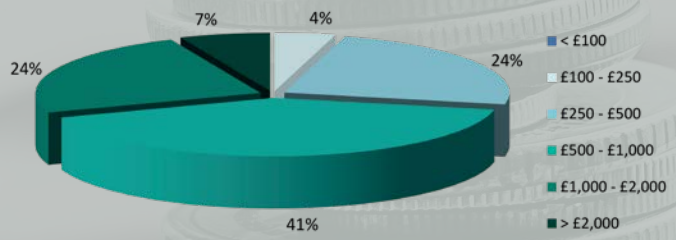
One of the benefits of a MAT is the pooling of cash into one central bank account. Not only does this minimise work for the finance department – just one bank reconciliation – but using one account across the trust helps to iron out any short-term cash flow squeezes at individual academies. In our experience, there remains a slight reluctance to adopt one overall account, probably because of the perceived reduction in autonomy. We are aware of several MATs which have had to agree an internal 'loan' from one of its academies to another to help cash flow difficulties. These situations need to be managed very carefully and it is preferable for both academies to sign an agreement setting out the repayment profile and any interest charges. New MATs need to be aware that the ESFA will always look at a MAT's overall financial strength when they consider any requests for additional or advance funding; if one academy gets into financial trouble the MAT will be expected to deal with this themselves if the rest of the trust is strong financially. This can lead to conflict, and academies within a MAT need to change their outlook since some can be reluctant to release 'their' funds for the benefit of others, even in the short term. We briefly mentioned GAG pooling in section 2 and, until more trusts adopt this model over top slicing, these sorts of issues are unlikely to go away.

It is important to keep on top of cash flow. The 2018 AFH requires trust to prepare a cash flow forecast as part of the monthly management accounting information and this needs to be as accurate as possible, especially if finances are tight. The timing of certain funding streams can be a challenge. This year one audit report drew attention to a fundamental uncertainty over going concern when it became apparent that, in cash terms, the trust was dependent on pupil premium funding and the 'quarterly in arrears' nature of the payment profile of this grant was causing difficulties despite the balance budget that had been set.

Range of cash balances held (per pupil) - MATs 2017/18

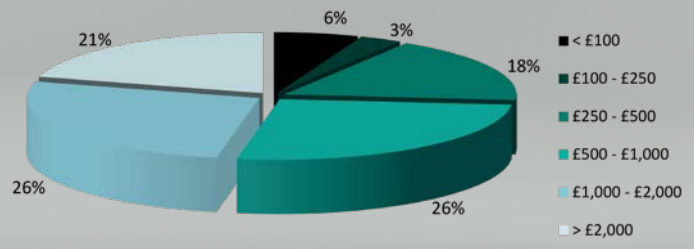


Range of cash balances held (per pupil) - MATs 2016/17

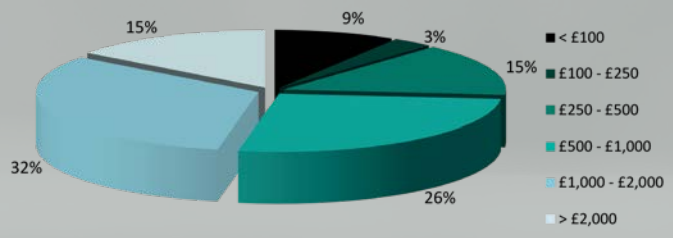


Almost half of all MATs in our sample held cash balances of between £500-1,000 per pupil. There were also more MATs in the £1,000-2,000 category this year.

Range of cash balances held (per pupil) - Secondaries 2017/18

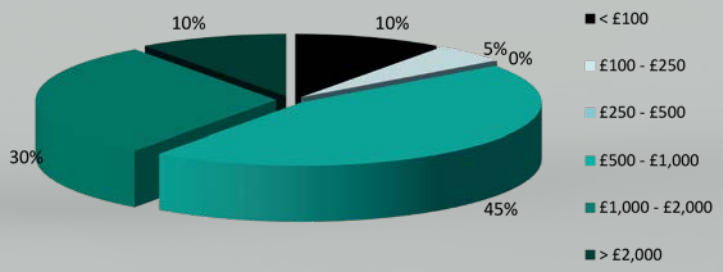


Range of cash balances held (per pupil) - Secondaries 2016/17

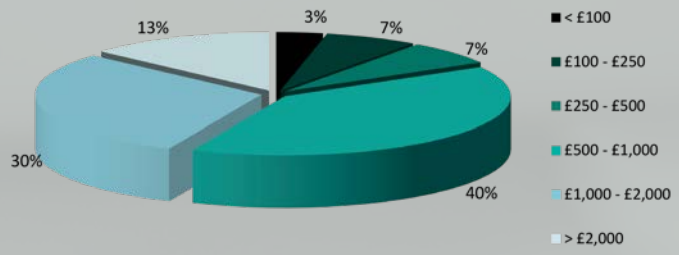


On a per pupil basis, secondary academies generally hold larger cash balances than MATs with 47% holding at least £1,000 per pupil. 6% are at the opposite end of the scale with less than £100 per pupil. This is very low and suggests cash flow and potential future going concern problems, although in some cases the low balances could be down to timing and large one off payments. Even more primary academies reported less than £100 per pupil of reserves with 10% of the sample falling in this band.

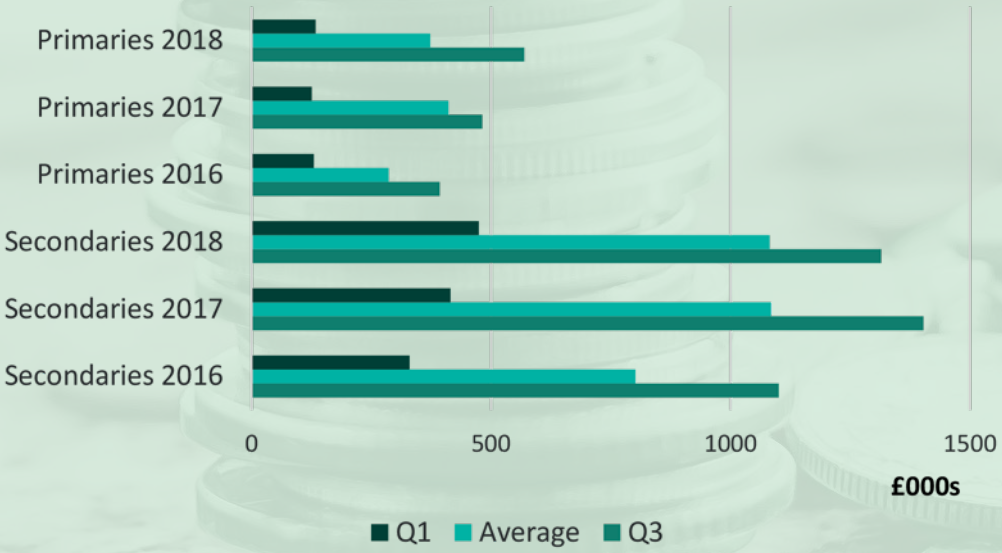
Range of cash balances held (per pupil) - Primaries 2017/18



Range of cash balances held (per pupil) - Primaries 2016/17



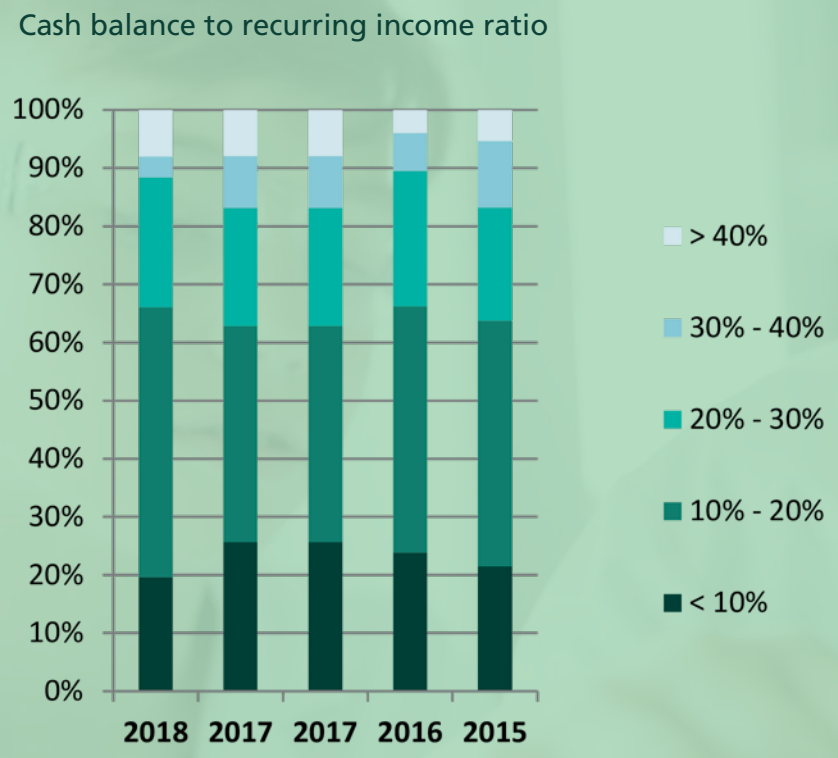
Cash balances held at 31 August 2018



This chart shows the average primary and secondary cash at bank balances, alongside the lower and upper quartiles. The average secondary once again held nearly £1.1 million at 31 August 2018. The average primary held around £373,000 which was down from £411,000 last year.

Cash balances vs recurring levels of income

This is an alternative and useful way of reviewing levels of cash. Until 2017/18 there had been a small but steady increase in the number of trusts reporting cash balances equivalent to less than 10% of recurring income, but this year the level in this lower band has fallen. The decline is actually back to before 2015 levels. Almost half of trusts are holding cash balances that equate to between 10-20% of their annual income.



Revenue reserves

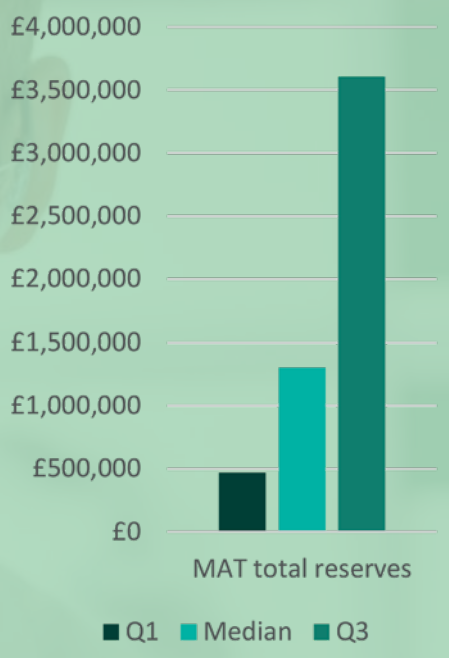
Cash and reserves do not equate to each other but they are intrinsically linked. We are often asked our opinion on the level of reserves an academy trust should hold. There is no right or wrong answer to this question, as this has to be looked at on an individual basis to meet the trust's own requirements. The general approach is to hold reserves equivalent to between four to six weeks of operational expenditure, and for this to be held as cash at bank.

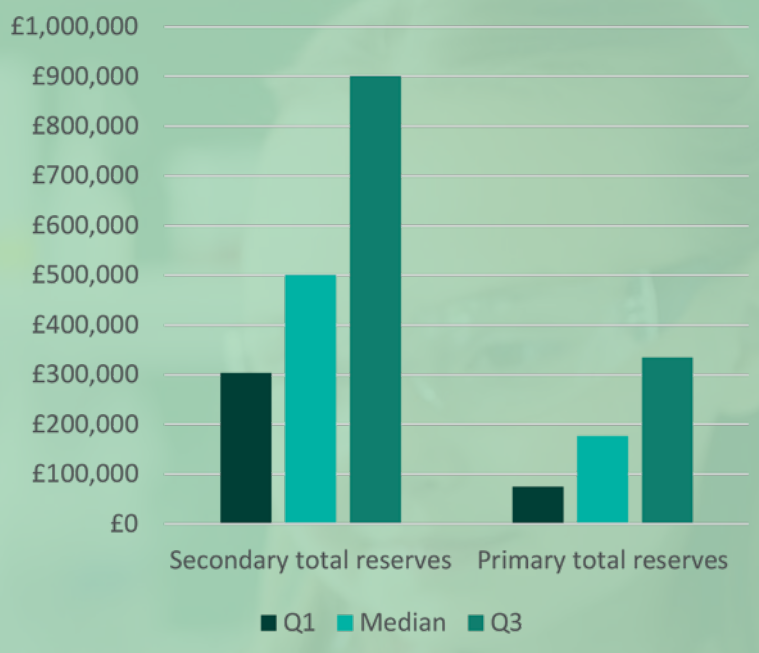
It is less clear cut for MATs, however, and the approach to reserves will depend on the MAT's structure. Looking at it simply, one might expect each academy within the MAT to hold its own reserves around the four to six weeks level, however, this does not take into account the benefits of a MAT. The collective support provided by the MAT provides academies with an opportunity to operate with a lower level of reserves with the confidence that the MAT has reserves which could be used in the event of an unexpected costly event. Naturally, this does not mean academies should be reckless and MATs should have clear guidelines and requirements for their constituent academies so that expectations over reserves are clear where managed locally. MATs with the luxury of a central pot have their own trust level reserves too which can be used to support individual academies but it remains vital that each academy is operating to a sustainable budget.

MATs are not always more financially stable than their single academy counterparts. This can often be the result of one or two 'problem' academies; it is not uncommon for MATS with more than five academies to have individual academies in deficit which then reduces the overall MAT reserves.

We are surprised quite how many single academy trusts remain; particularly single primary academy trusts. Those that have retained their standalone status have often been able to do so because they are in a strong, or at least stable, financial position and it is often those that are struggling financially which opt, or are forced, to join a MAT.

Total revenue income reserves at 31.8.2018



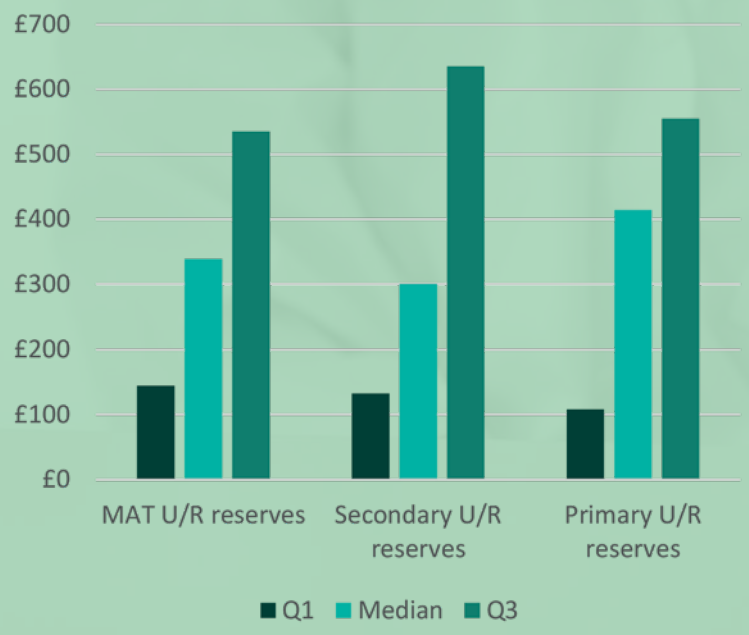


The charts above highlight the large variation in reserves, even between the upper and lower quartile points, particularly for secondary academies. The Q3 primary reserve point is only slightly above the Q1 secondary point, and the average (median) secondary holds more than twice the reserves of the average primary.

Of course these actual reserves figures do not take into account the size of the academies or trusts; particularly important for MATs.

Total unrestricted revenue income reserves per pupil at 31.8.2018

If we look at per pupil results, and solely for unrestricted 'free' reserves, then the results are perhaps clearer; primary academies actually have the highest median average at £414 per pupil, but MATs and secondaries are not far behind. There are more primaries towards the bottom end of the scale, however, and secondaries are the most likely to have per pupil reserves in the higher ranges with a Q3 result of £636 per pupil.



Surplus or deficit

"The surplus or deficit on revenue income funds is a very useful measure because this provides the true operating result of the trust."

In this section, we look at whether academies have achieved a surplus or deficit during 2017/18. In last year's report we explained how one of the difficulties is understanding or defining what is meant by surplus or deficit, since there are many interpretations; some more useful than others.

The Statement of Financial Activities (SOFA) reports a net movement in funds for the year but this includes non-operating figures such as pension movements and depreciation, indeed the entire restricted fixed asset fund accounting for capital income can be misleading.

The SOFA reports in columns showing results by different fund types: unrestricted, restricted, fixed asset (and sometimes endowment). The fixed asset fund often has a very large surplus or deficit; a large surplus can arise where a trust has significant capital income and a large deficit can arise where there is little capital income but the trust reflects the depreciation of capitalised assets, notably the school buildings, in this fund.

Trustees often require assistance interpreting what the SOFA means and how this links to the more meaningful operating result. This is something we spend a significant amount of time discussing at committee meetings we attend towards the end of the audit process, and we include reconciliations and summaries in more helpful formats in our audit findings reports.

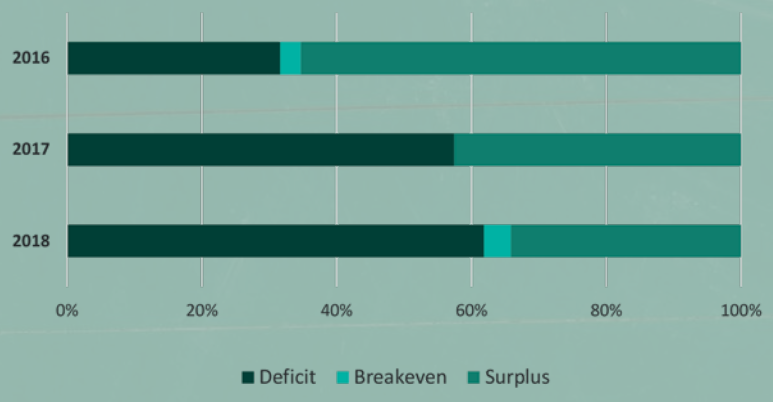
Of course, the greatest impact on the overall net movement in funds arises where there is a transfer in, or increasingly out, of an academy to or from the trust.

The surplus or deficit on revenue income funds is a very useful measure because this provides the true operating result of the trust. In this section we drill down further and focus on the core General Annual Grant (GAG) fund. We have chosen to do so because, taking the timing of expenditure out of the equation, trusts generally spend all of their other ESFA and other government grant funding. Some trusts generating lots of their own income may make a significant surplus on unrestricted funds but this remains relatively rare and, where this is the case, the unrestricted surplus could be propping up a deficit on GAG. This could be acceptable if the unrestricted income is sustainable from year to year, but in our view the GAG result is key because it should be possible to run an academy, indeed a trust, whilst balancing expenditure of GAG.

The GAG results shown on the charts below 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.

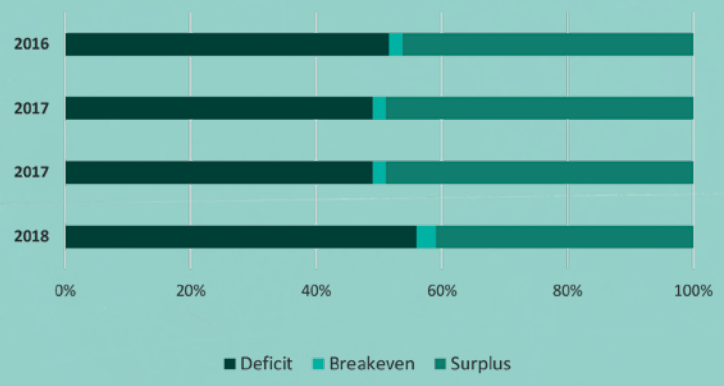
GAG result : primaries



The financial pressures on primary schools are immediately obvious - 62% of primaries reporting a GAG deficit, up from 49% last year and 32% in 2015/16.

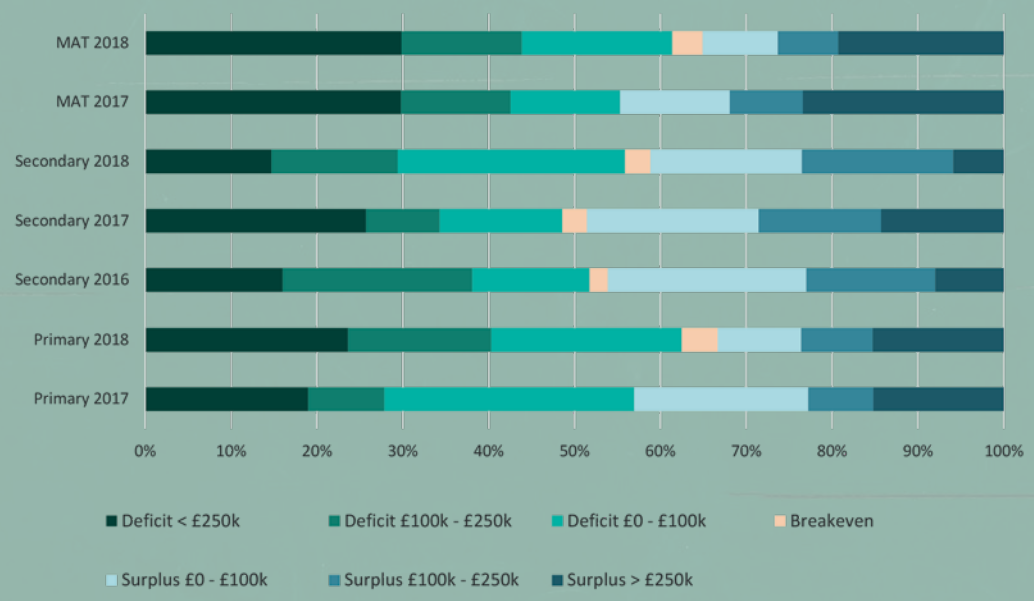
GAG result : secondaries

There has also been a rise in the number of secondary academies reporting a deficit; overall half were in deficit and the 56% reported for 2017/18 is the highest recorded over the past four years.



Range of GAG results

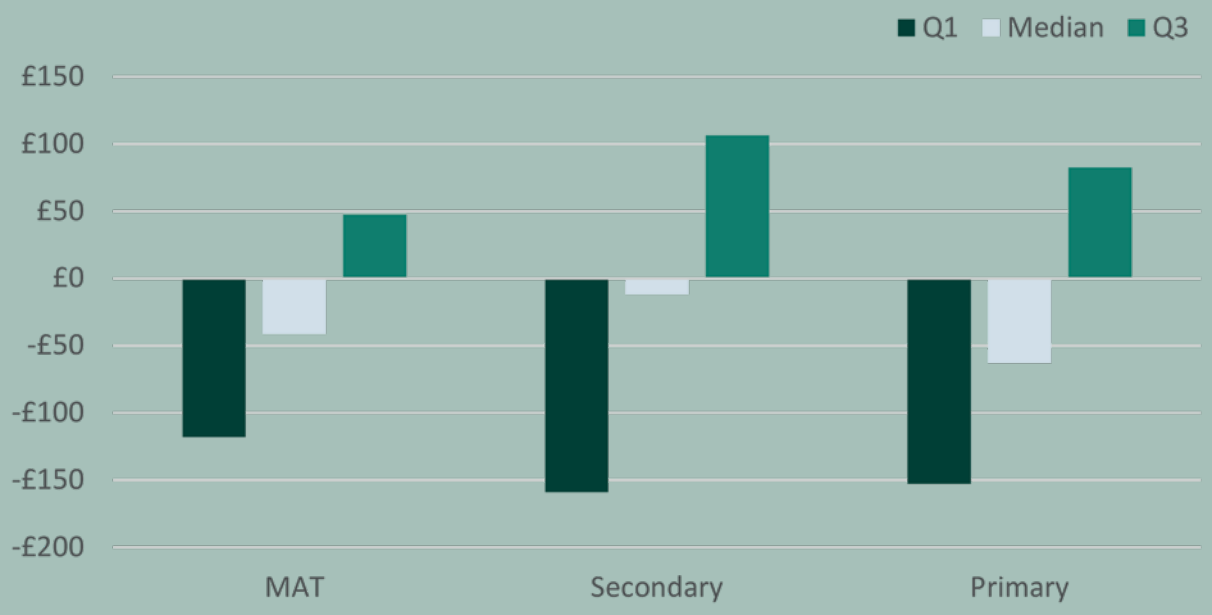
This chart breaks down the deficits and surpluses further to reveal the extent of these results, and also provides the MAT data. Overall, more than half of the MATs reviewed (62%) reported an in-year deficit, up from 56% in 2016/17. The size of the deficits was at least consistent, with the increase coming in the lowest band for academies that have slipped from surplus in 2016/17 into deficit for 2017/18.



It is reasonable to expect that MATs are likely to have either large deficits or a large surplus because the overall result consists of numerous individual results.

For secondaries there was comfort in a smaller percentage of trusts reporting very large deficits of over £250k. The chart below shows the Q1, median average and Q3 results for each type of academy and highlights, in a different way, how it was more likely that an academy would post a GAG deficit than a GAG surplus for 2017/18.

Per pupil GAG result



Of course an in-year deficit is not necessarily a large problem, particularly if it was expected. It is more of an issue if the budgeting process has failed somewhere along the line and trustees were not expecting a deficit, as this highlights a failure in the trust's systems that needs to be rectified.

Trusts may experience an in-year deficit knowing that they have reserves to fall back on, and with the knowledge that their income levels are rising in future years. Or perhaps one-off costs have been incurred, maybe related to restructuring, which will reduce operating costs in future years enabling the trust to balance budgets in the years ahead.

Serious problems arise where continual deficits or a one-off large deficit erode reserves to such an extent that the trust is left too thin. In the very worst scenarios, trusts find themselves in an overall cumulative deficit position. A number of the trusts covered by our report are in this position; five secondary academies, two primaries and three MATs. A number have already agreed advance funding from the ESFA and are wholly reliant on this to be able to continue as going concerns.

The SARA report, published last year, revealed that there were 185 trusts in cumulative deficit during the previous year, representing 5.9% of all trusts. In percentage terms this was broadly similar to 5.6% of trusts that were in deficit in 2016/17. It will be interesting to see the overall number and percentage of trusts in deficit for 2017/18 when the new SARA report is released later in the year as, based on our own findings, it seems highly likely that both figures will have risen. Of course, it should be remembered that the current financial difficulties are faced by maintained schools as well as academies.

The SARA report also noted that the auditor's report included an emphasis of matter in the paragraph referring to a material uncertainty over the trust's ability to continue as a going concern for 89 trustees in 2016/17, equating to 3% of the total number of trusts. It is interesting that the percentage was the same in 2015/16, but we expect to see an increase in 2017/18.

Governance and audit findings

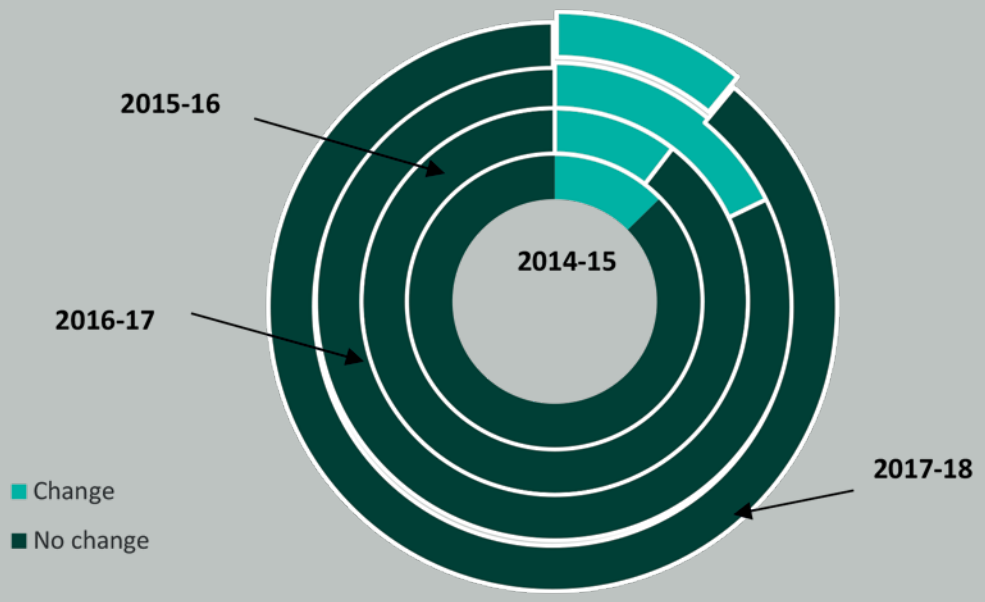
Within our annual benchmarking reports we review various non-financial areas, including governance, as well as taking a look at the results of our analysis of the audit findings reports of our clients, to add further depth to our findings.

Changes in staff

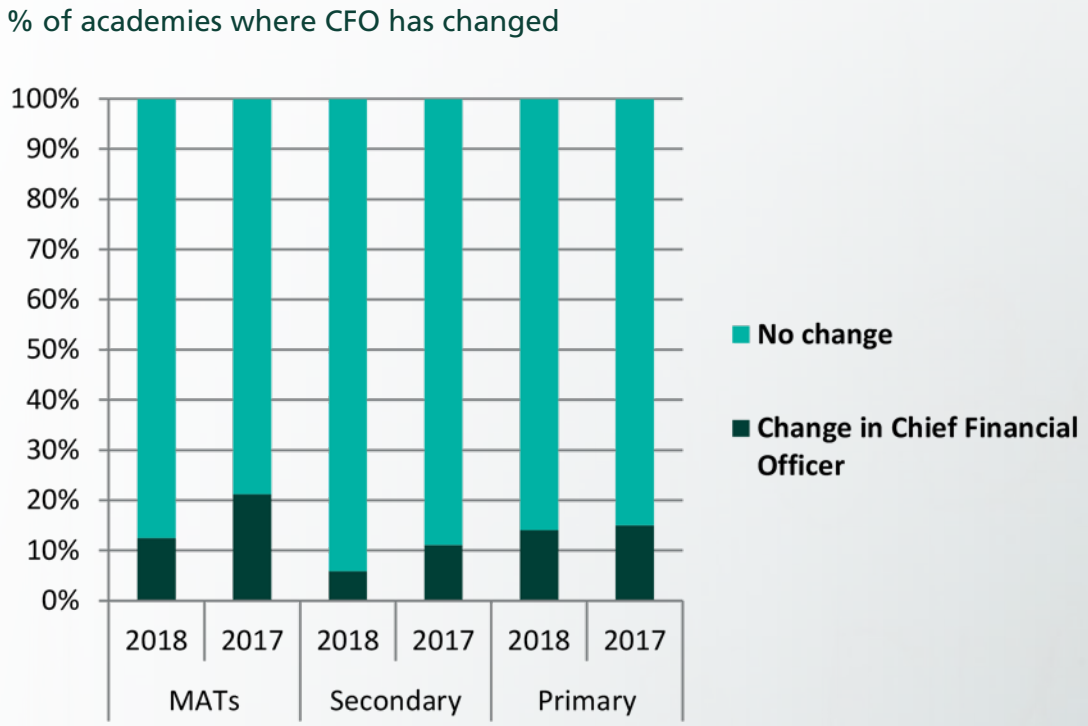
In 2016/17 nearly one in five trusts experienced a change in their executive leader or Accounting Officer, and for various reasons. We considered whether or not this could be a consequence of rising pressures within the sector. It is therefore pleasing to see that fewer trusts have seen change during 2017/18, with the percentage falling back to 11% - more akin to 2015/16 and 2014/15.

Changes can occur for a variety of reasons. In our experience, there are a large number of trusts with an Accounting Officer near to or approaching retirement age (could this be a problem in years to come if this results in a shortage of skilled and experienced executive leaders?), and others leave one position to move to another, sometimes where they have been headhunted, some just for the change. There are also the Accounting Officers who are removed from their position because the trust is not operating effectively.

% of academies where CEO/AO has changed



2017/18 also saw a fall in the number of changes in all types of trusts experiencing a change in the lead Chief Financial Officer. There seems to be a shortage of good, experienced CFOs available and, whenever one of our clients is recruiting them, they seem to find it difficult to identify candidates with the necessary skills. The role combines a balance of finance and other abilities, although the mix varies enormously between different types and sizes of trust.



In a growing MAT, the CFO needs to be very experienced with financial matters but at the same time have the necessary personal skills to interact with the board of trustees at a senior strategic level. In contrast, a CFO in a single academy trust, particularly a primary school, often takes on a more mixed role and the individual will need to be comfortable operating in a number of different areas including many they probably do not even contemplate when they take the job!

Audit findings report points

For 2017/18 the ESFA altered their terminology to refer to the audit findings reports instead of management letters. We did note, with a wry smile, that the ESFA guidance on submitting accounts still referred to and required a naming format referring to 'man let'!

Trusts are keen to ensure the audit passes by smoothly and understandably prefer their audit findings reports to be as clean as possible. Finance staff in particular can sometimes be especially keen because they feel this is part of the job and that trustees may look on them unfavourably if too many issues arise. There is some justified truth in this, but it also depends on the nature of the points. Experienced finance staff and trustees have learnt that the audit process is not just about 'slapping wrists' but also an opportunity to highlight areas where the trust can improve and hopefully be more efficient.

Auditors being auditors like to find something. It is therefore rare for an audit findings report to be completely clean, although thankfully the instances of significant issues arising are rare. Most trusts operate with excellent systems and controls and within the AFH requirements. Problems sometime stem from a change in staff, a change in system or a lack of understanding over legislative changes, such as new AFH 'must' requirements. We strongly recommend that key finance staff and boards of trustees regularly review the AFH Annex C list of 'must' requirements regularly to remain acquainted with them. We are sure that some trusts will be caught out by the new related party rules coming into force in April 2019. Keep an eye out for our update of the changes, which we circulate to our clients and contacts.

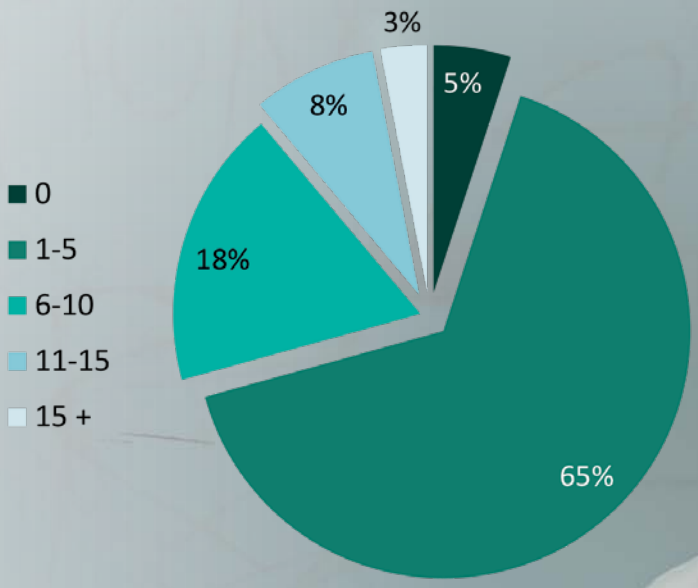
The year-end audit findings report is sent to the ESFA alongside the accounts, and it is for this reason that trusts can be nervous of the content. A robust internal audit service remains a key component of ensuring that controls and systems are operating effectively throughout the year. We are seeing more trusts, particularly MATs, procure more involved internal audit services covering in depth reviews of specific themes or topics, and not just financial areas. Ensuring compliance with the new GDPR was a key issue for all trusts in 2018 and many trusts employed outside help to provide assurance that they were abiding by the rules and their internal policies.

Audit findings report points can relate to a range of different issues, but the same range of issues tend to arise each year. 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 AFH or other legislation.

Naturally, we have only seen the detail for our own clients, but the range of issues we saw during 2017/18 audits included:

- concerns over the financial situation and depleting reserves
- weaknesses in fund accounting
- failure to report changes in trustees and other roles to the Get Information about Schools register 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
- weaknesses in the budgeting processing resulting in year end outturn being very different to Budget Forecast Return
- failure to disclose the business interest register on the trust website
- failure to disclose other necessary information on the website, for example the last three years' accounts or sufficient detail over attendance records
- entering into a finance lease without gaining prior approval
- bank reconciliations not being completed properly, routinely or reviewed
- poor use of the purchase ledger with payments posted but missing invoices
- failure to complete a Financial Management & Governance Self-Assessment (FMGS)
- not reviewing and updating the risk register
- inappropriate numbers and mix of members and trustees
- new central trust employees not being properly set up on LGPS pension schemes

Number of audit management letter points 2017/18



In 2017/18, 5% of all trusts received an audit findings reports with no issues at all (a slight reduction from the 8% in 2016/17).

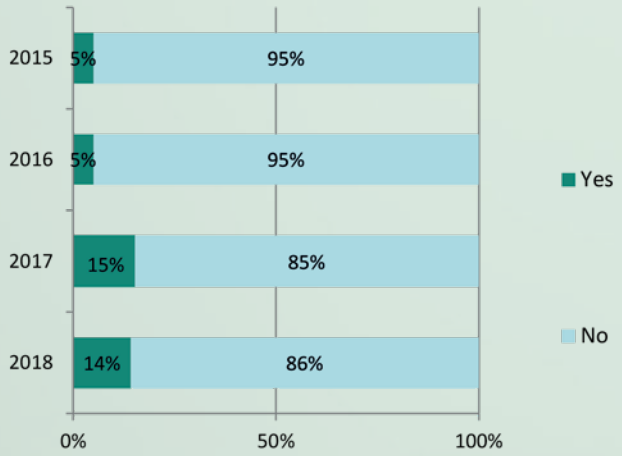
At the opposite end of the scale, 3% of trusts received an audit findings report containing more than 15 management letter points, again a reduction from the 5% last time.

The middle ground has therefore been squeezed, and almost two thirds of trusts' reports raised between one and five issues and recommendations (up from 53%). Looking at the results objectively this feels about right; the great majority of trusts are getting most things right but, at the same time, most could tighten up in a few areas or make a few improvements which would result in an even stronger position.

The ESFA requires auditors to grade any issues brought to trustees' attention in the audit findings report as low, medium or high priority or risk. There are sometimes issues arising which relate specifically to the trust but which are more of an advisory nature and which do not necessarily require action.

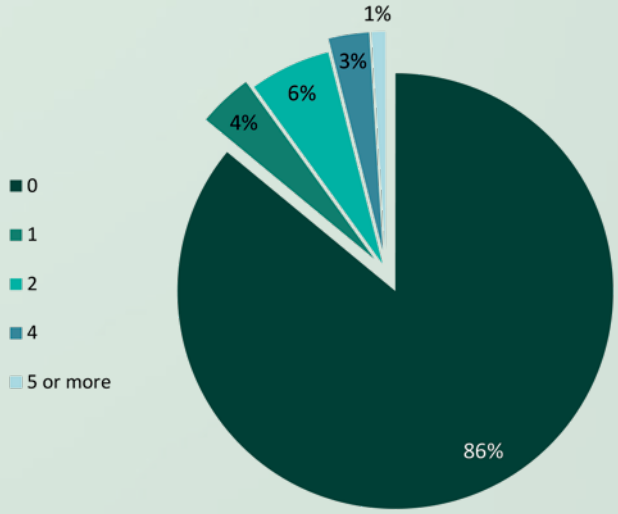
Trusts may prefer to receive fewer issues in their report but even a relatively high number should not be of concern as long as the issues raised are not significant. Similar to the figure for 2016/17, 14% of trusts received a report listing at least one significant issue, highlighting that it is not that uncommon.

Academies with high risk/priority management letter points



We saw relatively few high risk issues within our client audits this year but, where we did, they included areas such as where there are serious financial concerns, large deficiencies in the budgeting process, significant failure to comply with procurement policies and major problems with bank reconciliations.

Number of high risk or priority management letter points



With a number of trusts receiving more than one high risk point it is clear that where a trust fails to comply in one area is it likely to be at risk of breaching another requirement. 10% of trusts (7% in 2016/17) had more than one high risk management letter point.

Related party transactions

Related party transactions continue to make the headlines, despite the fact that only a relatively small number of academy trusts enter into them. The new rules changes will come into force from 1 April 2019. At this point, trusts will be required to pre-notify the ESFA of any new related party transaction and obtain prior approval for any transaction exceeding £20,000, whether individually or collectively. It is, therefore, more crucial than ever that academy trust finance staff and trustees understand the rules.

Whilst Lord Agnew himself acknowledges in the Academy 2017 SARA that there remains more to be done in ensuring that the sector is deploying appropriate controls over its expenditure, particularly in the areas of executive pay and related party transactions, it is important to remember that most trusts are fully compliant with the rules and, in our experience, would not even consider entering into a transaction which might attract negative attention.

Indeed, the SARA revealed that despite the number of trusts increasing between 2015/16 and 2016/17 the number of related party transactions disclosed in trust accounts actually reduced by over 22%.

We commented in last year's benchmarking report that, whilst a high number of trusts report related party transactions in their accounts, a substantial proportion of these relate to transactions with other educational institutions or charities and a relatively small percentage relate to commercial transactions.

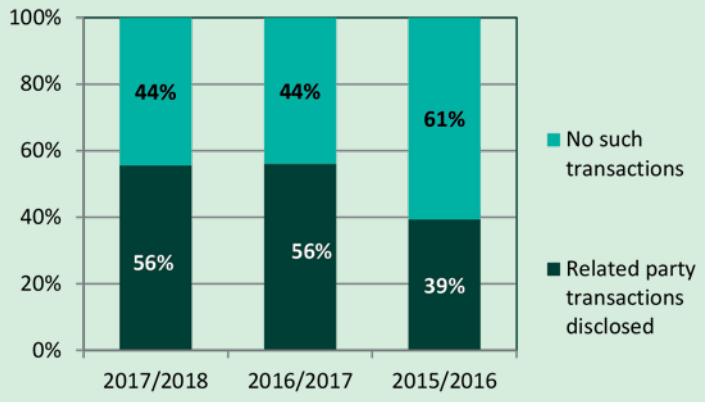
As we finalise our report, we await further guidance and clarity from the ESFA regarding how the new related party rules will actually work in practice. This is eagerly anticipated in the hope that those affected have time to react, however, it should be noted that only new contracts entered into after 1 April 2019 will be affected, and the rules will not apply to employment related contracts.

All trusts need a robust system in place for identifying related party transactions. The introduction of the new rules provides an excellent opportunity for trustees to familiarise themselves with the requirements and ensure ongoing compliance.

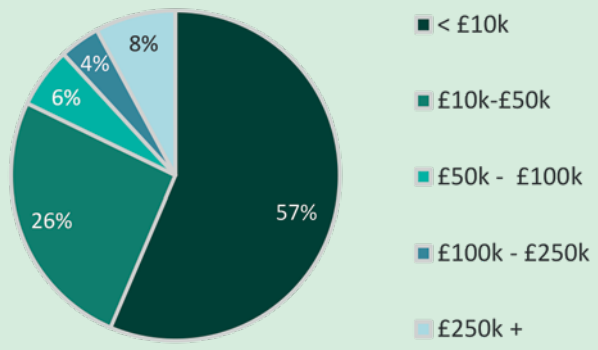
In recent years, the results from our own benchmarking have supported the statistic that around 40% of trusts entered into some type of related party transaction. The percentage actually increased in 2016/17, to 56%. There was no clear reason for this although it could have been that, conscious of the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

The percentage of trusts in our sample entering into related party transactions fell slightly this year from 56% to 46%.

Academies with related or connected party transactions



Value of highest related party transaction



Although this means that, for the second year in succession, around half of trusts have disclosed at least one related party transaction, this is not necessarily a bad thing. The transparency we have in the sector already is welcome and means that where transactions are occurring interested parties are aware of them.

If there is a problem in the legislation it is the ambiguity over which relatives are caught by the 'close family' rules, but it is almost impossible to be too prescriptive and capture all scenarios. There is also potential for someone to enter into transactions with a company linked to a friend, rather than a family member. Is there a risk here? Could an individual in a position of authority at an academy trust receive a payment for 'engineering' a contract to go to such a company? The solution here is a strong system of internal controls and challenge from the trustees. It is simply not possible to eradicate all risk and if an individual, or especially two or more individuals working in collusion, wish to deliberately manipulate the system it can be hard to stop this.

The chart below shows that, for the vast majority of academies reporting related party transactions, the highest level transaction was less than £10k. At 52%, the proportion in this lowest category has increased from 47% last year. Somewhat surprisingly, the number of trusts reporting higher value related party transactions in excess of £250,000 has increased, and around one in 11 trusts were at this level. Closer inspection, however, shows that these very largest transactions included:

- donations from a related entity (for example one of the very largest transactions was a donation of over £2m from a member)
- costs paid to sponsors for rent and other property costs
- support services
- remuneration of staff trustees
- income from the local authority where a trustee is also a local councillor
- payments from local authority schools for support and consultancy in advance of joining the trust more formally
- income from a connected teaching school alliance for course and CPD fees.

These examples reiterate how easy it is to misinterpret the number of related party transactions, or even the size of them, and make an attention grabbing headline. All of the above transactions are perfectly acceptable and do not relate in any way to the stripping of funds from the sector for commercial gain. As we have already indicated, this transparency can only be welcomed given that nowhere near the same level of detail is published related to local authority maintained schools.

Other related party transactions reported in academy trust accounts in 2017/18 included:

- legal advice where a trustee is a partner at the firm of solicitors
- transactions with subsidiary companies
- project management services
- educational support from the Diocese (a member)
- external teaching services
- 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 41 and 42 to enable you to compare your academy against others. If you would like us to plot your key data onto graphs against the averages then we would be delighted to do so.

As we said last year, please do heed our advice. If you are worried about the financial health of your trust, do not sweep your concerns to one side hoping they will go away. Talking with your professional advisers is always an excellent start but we would also recommend that you talk to the ESFA at an early stage too. They have specialist 'intervention' teams who are experienced in working with academy trusts in financial difficulty and who will be able to provide help.

With the rise in trusts experiencing an in-year GAG deficit during 2017/18, and a number of the trusts we have reviewed reporting a cumulative deficit position on revenue funds as at 31 August 2018, taking into account unspent funds from previous years, it is inevitable more trusts will be setting cumulative deficits in the Spring and Summer. Trusts in this position must notify the ESFA within 14 days.

Good luck with all the challenges that will come your way in the remainder of 2019 and do remember to keep abreast of the finer details of the new related party rules which come into effect from 1 April 2019.

We hope that 2019 treats you well!

Where does your academy fit within the results?

	Your academy	MATs Average 2017/18	Secondary academies Average 2017/18	Primary academies Average 2017/18
Non financial data				
Number of teachers		Not included as highly dependent on number of academies in the MAT	66	17
Number of admin and support staff			55	34
Number of management staff			7	3
Number of pupils			1063	335
Pupil to teacher ratio		18	16	19
Income				
Total revenue income per pupil		5,633	5,783	5,042
% of total income		100%	100%	100%
Grant income per pupil		5,249	5,519	4,668
Grant income % of total income		93%	94%	92%
GAG income per pupil		4,385	4,958	3,840
GAG % of total revenue income		77%	85%	77%
Other income per pupil		426	337	492
Other income % of total income		8%	6%	10%
Capital grant funding per pupil		199	53	113
Capital grant funding % of total revenue income		3%	1%	2%
Expenditure				
Total expenditure per pupil		6,270	6,515	5,385
GAG expenditure per pupil		4,422	4,999	3,896
GAG % of total expenditure		70%	80%	73%
GAG result		Not included	12,651	12,690
GAG result per pupil		42	12	63
Staff costs per pupil		4,489	4,588	4,022
Staff costs % of total expenditure		72%	72%	75%
Teaching & ed support staff costs per pupil		3,454	3,725	3,181
Teach & ed support staff % of total staff costs		77%	81%	79%

	Your academy	MATs Average 2017/18	Secondary academies Average 2017/18	Primary academies Average 2017/18
Support/Non-teaching staff costs per pupil		1,086	815	790
Non-teaching staff costs % of total staff costs		24%	18%	19%
Supply teacher costs per pupil		132	117	99
Supply teacher costs % of staff costs		3%	2%	3%
Light and heat costs per pupil		66	81	61
Light and heat % of total expenditure		1%	1%	1%
Buildings & grounds maintenance per pupil		135	98	101
Maintenance % of total expenditure		2%	1%	2%
Cleaning and refuse per pupil		47	61	53
Cleaning and refuse % of total expenditure		1%	1%	1%
Educational supplies and services per pupil		171	276	184
Educational supplies and services % of total		3%	5%	3%
Examination fees per pupil		30	95	1
Examination fees % of total costs		0%	1%	0%
Staff development per pupil		28	23	28
Staff development % of total costs		0%	0%	1%
Technology costs per pupil		69	90	56
Technology costs as % of income		1%	1%	1%
Balance sheet				
Total reserves held		1,303,909	501,631	176,932
Total reserves held per pupil		467	596	616
Unrestricted reserves held		769,853	428,000	86,255
Unrestricted reserves held per pupil		338	301	414
LGPS deficit per pupil		1,722	1,334	1,273
Capital expenditure per pupil		591	298	2,219
Cash and bank balances held per pupil		841	1,360	865

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

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