UHY Hacker Young
Chartered Accountants

2020 Academies Benchmark Report

For academic year 2018/19

Our 8th annual benchmarking report, developed to summarise the current academy sector trends and to allow you to benchmark your school against others.

Foreword from UHY's academies chair

Welcome to our eighth annual benchmarking report for academies.

Our report was due to go into design just as the Covid-19 pandemic shook the world, and this has delayed the final publishing date until now. With most pupils currently not in school, school leaders across the country have had to rapidly adjust and find suitable programmes of study that can be completed at home. On the finance front the ESFA have cancelled the BFRO and extended the deadline for the three year BFR that was due in July. Hopefully some sense of normality will return soon.

Our academy blog page on the UHY website contains some helpful material for academies during these difficult times, from advice on furloughing of staff, to maintaining effective controls and good governance. Do take a look at these resources if you have not already done so.

Putting Covid-19 to one side, the financial outlook for the sector already remained uncertain, despite the promise of increased funding. Many academies will have suffered a drop in private self-generated income during the crisis, and this will have increased the pressure further. Caution is without doubt still required.

Benchmarking your trust continues to be a key method of comparing your results against others but, in our experience, is something too often overlooked or misunderstood.

The DfE's own benchmarking information improves year on year but I hope that UHY's benchmarking report can provide further insightful information to help trusts become more efficient.

2019 saw the introduction of tighter regulation over related parties, the payment of new grants and rising staff and pension costs. Academy budgets remain constrained. One positive from the financial difficulties some trusts have faced in recent years is that trustees and finance staff have been forced into operating more efficiently; learning practices that will serve them well in the future.

Maintaining and improving governance remains a key aim for the sector. Larger multi-academy trusts (MATs) are complex organisations across multiple sites and both managing and delivering oversight of these entities requires a combination of the right blend of skills and time. It is not easy maintaining strategic oversight of several schools and holding to account executive leaders, often positioned within complicated management structures.

I recently saw an article talking about research conducted by the National Governance Association (NGA) which highlighted the chair of a MAT spends on average 50 days per year carrying out their governance duties. This requires a huge commitment and the sector is indebted to the excellent work of chairs around the country.

The NGA research revealed that 78% of the MAT chairs were retired or self-employed. It is clear individuals in full time employment, and at the age whether they have significant family responsibilities, feel unable to commit the time the chair role demands. Chairs need support, and trusts need to ensure they adequately plan for the future and succession.

A summary of our report

This year our benchmarking report has expanded further and covers over 1,300 academies, up from 800 last year. The sample 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.

An invaluable benchmarking page has once again been included at the end with 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.**

As mentioned, the DfE's own benchmarking has improved and in February they included details of their 'View my financial insights' tool, which uses data submitted by trusts in their 2018/19 accounts return and compares performance with statistically similar schools across nine different categories. I strongly recommend that you take advantage of this excellent tool.

I do hope that you find our report interesting and enjoy reading our analysis. 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
Head of Academies and Education
UHY Kent

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Headline statistics

With our report spanning a wide range of financial issues across the sector, our research highlighted a number of stand-out statistics, and interesting comparisons with last year's benchmark - a range of which we wanted to share with you here.

Primaries and MATs saw a fall in per pupil unrestricted funds held.

A fall overall in the number of trusts reporting a deficit on GAG funds.

9%

of trusts made a non-contractual severance payment in excess of £50,000.

£45

The average MAT GAG result was a surplus of £45 per pupil.

9%

Both secondary and primary academies saw a 9% decline in cash at bank balances.

69%

of trusts LGPS liabilities rose by between 25%-50%.

36%

of primary academies did not pay any staff more than £60,000.

12%

of trusts received at least one high risk or high priority audit recommendation.

45%

As of 1 January 2020 more than 45% of trusts were MATs.

£770

The average primary paid key management remuneration of £770 per pupil.

55%

of trusts made some form of restructuring payment.

3%

of trusts received an audit findings report with no issues or recommendations.

Across the whole sector there was a decline in supply teacher costs to average £110 per pupil.

45%

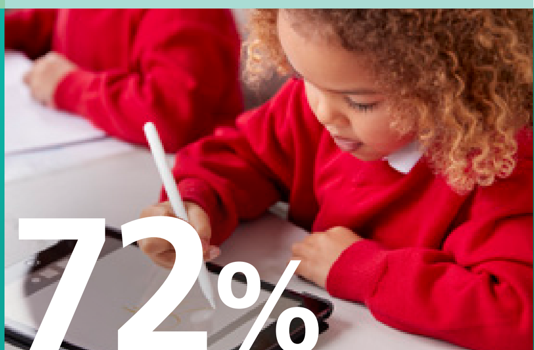
of trusts reported entering into a related party transaction during 2018/19.

The average secondary held unrestricted funds of £323k per pupil, up from £301k last year.

60%

of trusts did not enter into a related party transaction above £10,000.

Average Accounting Officer salary of £114k across all trusts is down from £130k last year.



72%

The average primary had staff costs at 72% of total costs.

£388

The average MAT has generated £388 per pupil of other (non-grant) income.

£

The average AO salary in a single primary academy was £72,522.

£620

The average secondary paid key management remuneration of £620 per pupil.

99%

of trusts reported a rise in their LGPS liability.

Summary of the sector

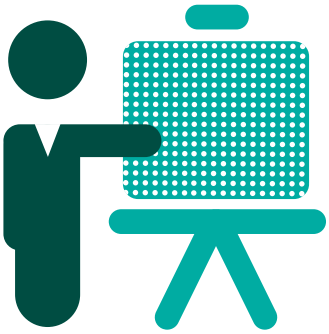
As noted in the introduction, the growth in both the number of MATs across the UK and the size of individual MATs has continued.

As of 1 January 2020 45% of 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	Academies	% Academies	Trusts	% Trusts 1.1.2020	% Trusts 1.9.2019	% Trusts 1.1.2018	% Trusts 1.12.17
1	1,502	16.6%	1,502	55.5%	59.6%	62.2%	69.8%
2	546	6.0%	273	10.1%	11.0%	11.5%	10.5%
3-5	1,909	21.1%	502	18.6%	17.3%	16.0%	12.7%
6-10	1,965	21.7%	265	9.8%	7.7%	7.0%	5.0%
11-20	1,622	17.9%	116	4.3%	3.0%	2.4%	1.3%
21-30	665	7.4%	27	1.0%	0.8%	0.6%	0.4%
31-40	453	5.0%	13	0.5%	0.3%	0.2%	0.1%
41+	379	4.2%	7	0.3%	0.2%	0.2%	0.2%
Total	9,041	100%	2,705	100%	100%	100.0%	100.0%
Total 1.9.2018	8,177	100%	2,830	100%			

Source: DfE Open Academies



The rise in the number of 'super trusts' – those responsible for over 20 academies – continues. From 27 in January 2018, to 38 in September 2018, at the turn of the year the number of these very largest trusts had reached 47.

As the number of single academies declines virtually every other category continues to show a year on year increase.

Once again the overall number of trusts has reduced as we continue to see consolidation, not only with single academy trusts (SATs) joining MATs but also mergers between smaller MATs.

Any period of expansion, especially rapid expansion, can be challenging for a MAT and when two trusts merge there are issues to face such as bringing different cultures and work practices together. As trusts grow, the level of sophistication can increase, and our larger MAT clients are giving serious consideration to pooling as a feasible alternative to the more traditional top slice method.

GAG pooling v top slicing

Whilst top slicing continues, by far and away, as the most popular route of financing a MAT's central trust function, and there remains a degree of reluctance for trusts to adopt formal pooling, interest in pooling is growing.

It nevertheless remains difficult, or at least the perception is it will be difficult, to persuade academies to join trusts adopting pooling because the feeling is this will mean relinquishing control over their funds.

Pooling a specific element of funds, such as unrestricted funds, also continues to be more popular. The availability of a central pool of funds can be particularly useful when an academy within the MAT finds itself in financial difficulty. If the trust operates one central bank account it is even easier to iron out any cash flow difficulties arising at individual academies.

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 (most commonly of GAG but variants include, School Budget Share and ESG). When based on income, the most common top slice rate remains around the 4-6% of GAG level
- 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)
- flat % income plus recharge for specific costs
- variable % based on internal risk assessment.

Whichever approach your MAT takes it is vital it not only works for the trust itself but also the individual academies.

Working for the trust means that the central costs but, also ideally, the trust is able to build an element of centrally retained reserves. Individual academies will naturally be keen to ensure they receive services from the central trust that represent value for money for the top slice they are paying.

We still regularly see MATs that do not have a formal Service Level Agreement in place setting out in writing what each academy will be paying and the services they will receive in return. Such an agreement is at the very least good practice, and the importance of a written agreement in any dispute situation cannot be emphasised enough. Trusts and their academies may feel they are comfortable operating without a Service Level Agreement, however it is not uncommon for disputes to arise and academies to feel aggrieved that they have been treated unfairly.

Staff costs, numbers and teaching staff to pupil ratios

Staff costs are always of great interest since they represent the largest part of any academy's budget.

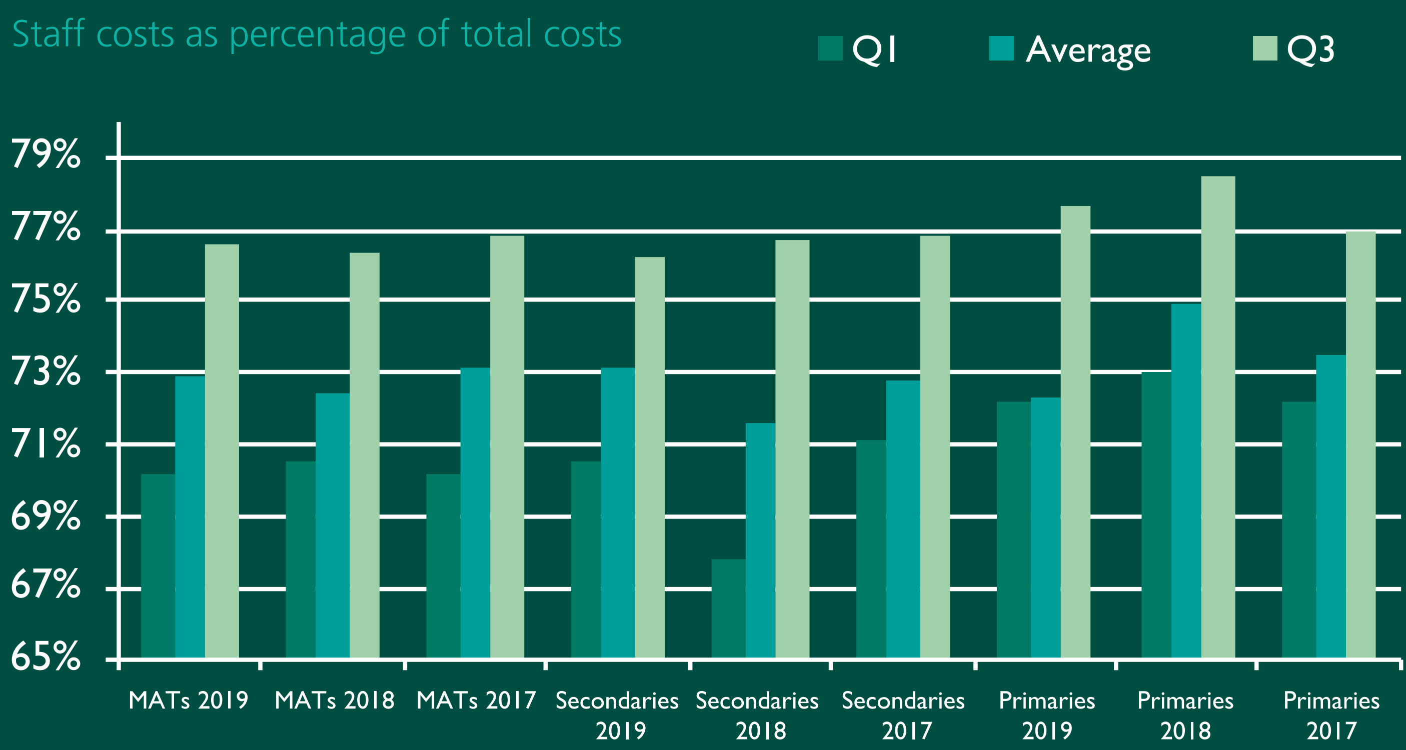
Increased teacher pay rates and rising pension contribution rates in recent years have contributed to even higher staff costs. The Government at least listened to concerns that schools across the country would be unable to afford these increases by introducing the Teachers' Pay Grant; this was worth £187 million in 2018/19 and will be worth a further £321 million during 2019/20. The question remains how much longer the Government will continue with this additional grant and, even if it does continue, whether the money will be found by indirectly reducing other forms of funding.

In our experience, almost all academy trusts have followed the new pay rates, despite the autonomy to set their own pay levels. The competition between trusts for recruiting and retained skilled and experienced teachers means deviating, to make what would amount to relatively small savings, is just too big a risk. Indeed we continue to see trusts explore innovative ways of increasing their attractiveness to staff.

The announcement of plans to increase new qualified teachers' salaries to a minimum of £30k by 2022/23 is another concern. Whilst it is welcome from the point of view of attracting new entrants to the profession, the rise will have major implications on budgets. The knock on impact on other salaries, which will need to rise in response to higher starting salaries, will be the most significant cost and is very hard to quantify.

When we talk about staff costs it is inevitable that pensions enter the discussions, particularly when there have been movements in the employer contribution rate. The Teachers' Pension employer contribution rate rocketed from 16.4% to 23.6% on 1 September 2019 - representing an enormous 43.9% rise. For a salaried teacher at £40k, an additional contribution of nearly £2,900 per annum is required by the employer.

This impacts on 2019/20 rather than the year covered by our benchmarking report and, of course, the teachers' pension employer contribution grant (TPECG) has been introduced to cover the additional costs. Again the question remains of how sustainable this grant remains longer term, even with suggestions funding will be available until 2023.



There is a general consistency between the different types of trust, and also from year to year, with the average staff costs accounting for 70–75% of the overall budget.

	Average staff costs as % of total costs			
	2018/19	2017/18	2016/17	2015/16
Primary academies	72%	75%	73%	72%
Secondary academies	73%	72%	73%	72%
MATs	73%	72%	73%	72%

It is vital that trusts continue to manage and monitor the largest part of their budgets, and that value for money is achieved. All trusts should know where they sit against the averages and understand why they sit in the position they are in.

Trustees should review key performance indicators (KPIs) regularly throughout the year and explain these within the annual report. We would expect some measure of staff costs to be considered as a KPI during these reviews.

All employers recognise the cost of getting it wrong when it comes to staff. There can be significant financial costs but, perhaps just as importantly, the management time and, for academy trusts the impact on the education of the pupils, can be greater still.

Trusts are becoming cuter when it comes to annual pay reviews and, increasingly, trusts are linking pay rises to performance instead of routinely handing out automatic pay rises. This can be challenging, and can run the risk of unsettling staff, but the long term cost of employing under-performing staff is greater still. Of course, this is one area where management can make a huge difference by supporting staff, providing adequate training and developing all staff so that they become better equipped for their role.

The DfE published an updated guide to 'Implementing your school's approach to pay' in March 2019. This document contains non-statutory advice to help schools and governance boards deliver the appraisal process and make robust and informed decisions on teachers' and leadership pay. We recommend that all Chairs, Accounting Officers and any members of pay or remuneration committees read this invaluable document.

Integrated Curriculum Financial Planning

Integrated Curriculum Financial Planning (ICFP), or curriculum led planning, remains high on the DfE's agenda. They continue to see ICFP as a key method of monitoring efficiency and grant funding, such as the MAT Development Improvement Fund and Trust Capacity Fund, require trusts to sign-up and demonstrate they are committed to using an ICFP model.

ICFP is particularly relevant to staff costs. The starting point is to determine the educational needs of all pupils at an 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 percentage of average class size)
- Average teacher cost.
- The contact ratio is perhaps the most important of these. The ICFP model therefore works better for secondary schools where non-teaching periods are more prevalent, but we have seen some primary academies successfully adopt variants of ICFP.

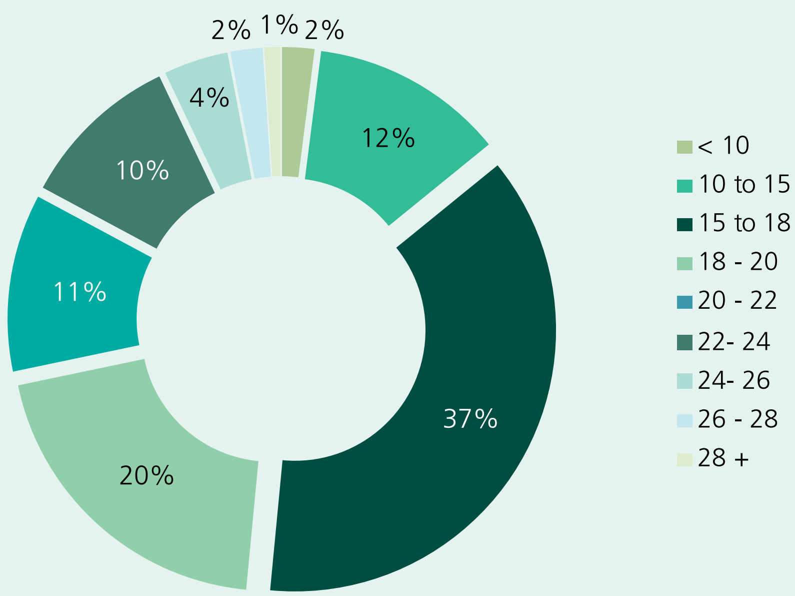
Pupil to teacher ratio

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, 57% (2019: 52%) of academies in our sample had a pupil to teacher ratio (PTR) in one of two most common ranges, meaning the majority of academies have a PTR of between 15 to 20.

The academies at the lowest end of the scale are generally special needs academies for pupils with very different educational needs. At the opposite end of the spectrum, 1% of academies had a PTR of over 28.

Pupil to teaching staff ratio



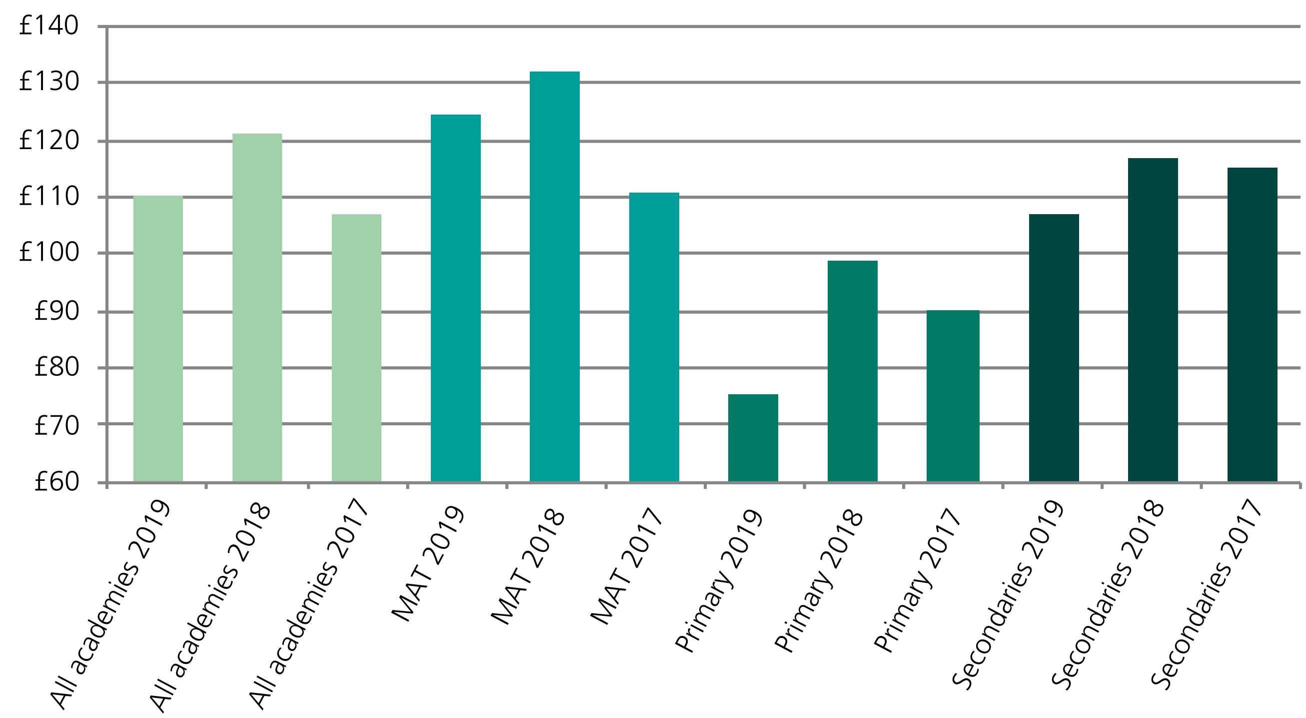
Supply staff

The cost of supply and agency staff remains high for many academy trusts. Primary academies are often particularly hit; we have seen many primaries suffer with several members of staff taking maternity leave at the same time. It can be especially challenging in a smaller school if a number of teachers are off at the same time.

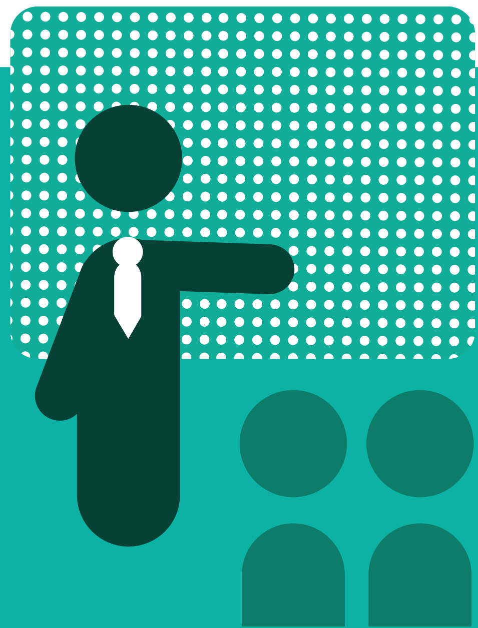
The DfE introduced a 'Deals for Schools' framework in 2018 with the aim of helping all schools achieve value for money when procuring supply staff. The deal uses a list of preferred agencies and can also help to set a standard practice for safeguarding checks and to reduce agency fees.

Across the sector there has been, on average, a small decline in supply teacher costs from £121 per pupil to £110 per pupil. The reduction is across all types of trust, and this year the most marked change is for primary academies which have seen supply costs fall on average from £99 to £75 per pupil.

Supply teacher costs to £ per pupil



The actual spend behind these per pupil numbers shows that the average primary academy has paid out £23k (2019: £32k) in supply costs and the average secondary £109k (2019: £123k).



Key management remuneration

When it comes to demonstrating value for money, the remuneration paid to key management personnel (KMP) leadership, and in particular headteachers, chief executives and accounting officers, is understandably the focus. While academy trusts are free to set their own salaries for staff, high pay in the academies sector has been a divisive issue that has been a topic of media scrutiny, and boards need to be conscious that their use of public money must represent the best value for money.

It was back in 2017 that the ESFA first wrote to some trusts about the levels of salaries paid to their highest earners, and these letters have continued regularly since then. In February 2019, a total of 28 trusts received letters from Lord Agnew and these letters included details of financial and educational performance and an approximate cost per pupil of the chief executive's salary. Trusts were asked to update Lord Agnew, as a matter of urgency, as to how they propose to address the issue of high pay. We expect similar letters will be sent out in the coming weeks based on 2018/19 disclosures.

ESFA issued guidance in July 2019 about setting executive salaries which provides some useful information to support trusts in making decisions about pay and further enable boards to be confident about, and accountable for, these decisions. The guidance sets out key factors that should be used by academy trust boards when setting or reviewing executive salaries, so they are set at fair, reasonable and justified levels.

When the guidance was issued Lord Agnew was quoted as saying:

"Over the past 18 months we have cracked down on excessive executive pay. However, our focus is not only on challenging trusts where we identify disproportionately high salaries, but in providing support to trusts to enable them to make robust, evidence-based decisions about pay. We expect trusts to make the most of this guidance to ensure that their salary levels are publicly justifiable and provide the best value for money for their institution."

Boards should adhere to the following key principles whilst reviewing salaries:

- they can be justified and are in the best interests of the trust
- they reflect the individual's responsibilities
- they demonstrate value for money

The academy schools sector consolidated annual report and accounts (SARA) for the year ended 31 August 2018 was published in July 2019 and this revealed a rise in the percentage of trusts making payments above £100k and £150k, so it is clear why the ESFA have continued to focus on this area. One imagines that the ESFA hope the 2019 SARA – due to be released later in 2020 – will show these percentages begin to fall. The 2018 SARA acknowledged that 'any change as a result of the actions taken will take some time to be reflected'.

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	2017/18: Number of ATs paying at least one individual above this	Proportion of ATs in sector	2016/17: Number of ATs paying at least one individual above this	Proportion of ATs in sector	2015/16: Number of ATs paying at least one individual above this	Proportion of ATs in sector
Payments of £150k or more	146	4.8%	125	4.0%	121	4.1%
Payments of between £100k - £150k	988	32.4%	941	30.1%	873	29.3%

Source: DfE Academy Schools Sector Annual Report and Accounts for 2017/18

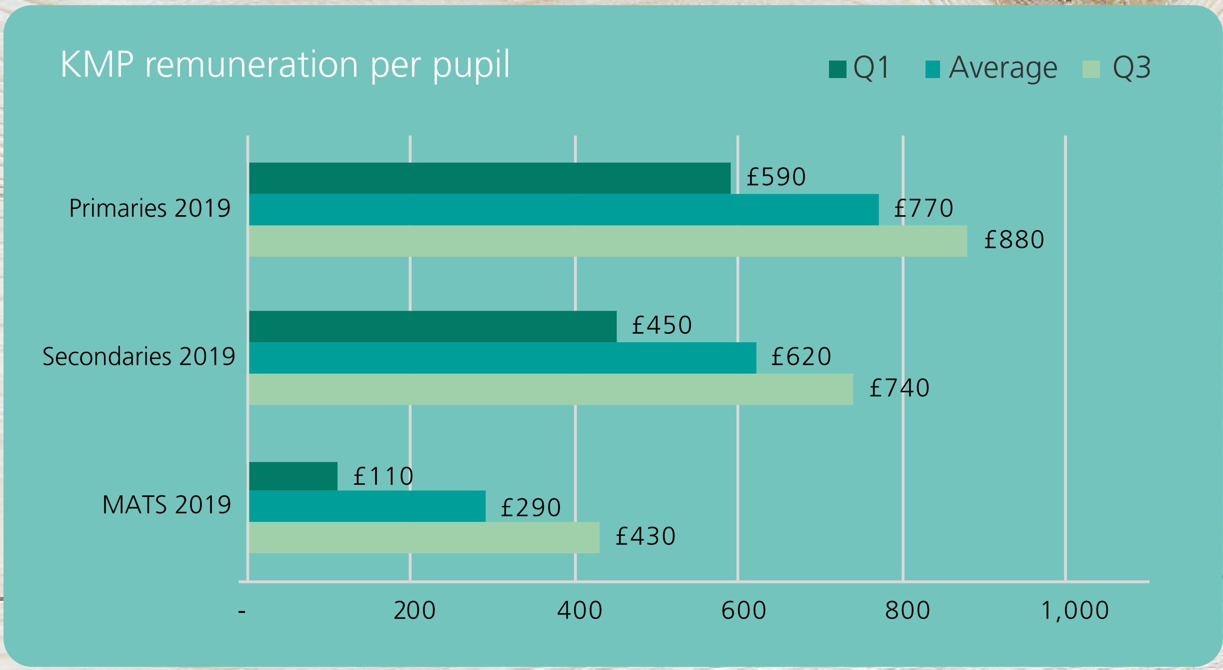
Academy trusts are required to disclose the remuneration of 'key management' so it is easy to evaluate the total level of pay to management.

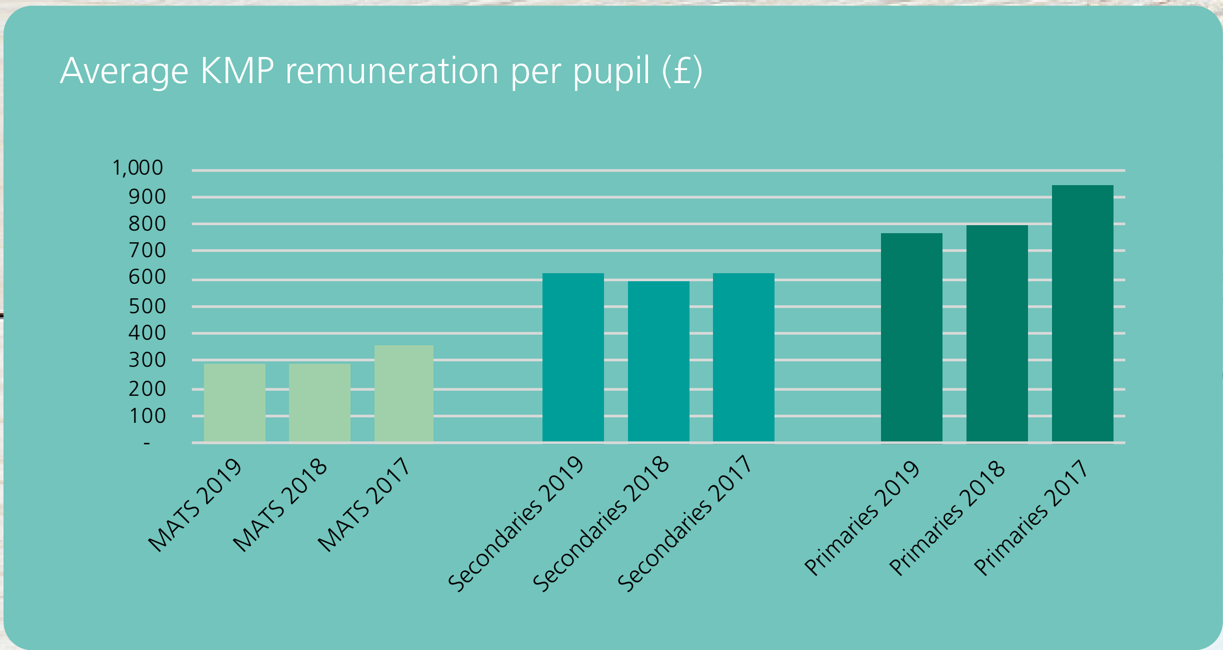
In a single academy trust the senior leadership team (SLT) will generally be classed as key management, but even then it is not straightforward because any staff trustees who are not part of the SLT would also be included within key management remuneration.

Determining who is classed as key management in a MAT is even harder, since there is no precise definition.

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."





The charts above shows the huge disparity in per pupil figures across all types of trust. If we look just at the average figures and compare year on year it is interesting to note a consistent small decline from 2017 to 2019 for primary academies, and for MATs there is also a downward trend. Per pupil KMP remuneration has remained remarkably consistent across the past three years for secondaries.

The relative size of the school impacts on the figures here and explains why the primary averages are generally higher. MAT per pupil figures are the lowest 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 KMP cost per pupil 2019	Mean average KMP cost per pupil 2018	Mean average CEO/AO cost per pupil 2019	Mean average CEO/AO cost per pupil 2018
2-5 schools	£423	£401	£85	£73
6-10 schools	£324	£233	£51	£57
11-20 schools	£181	£196	£19	£22
20 schools +	£74	£77	£9	£12
Mean average	£290	£290	£54	£51

CEO/Accounting Officer salaries

As evidenced by the ESFA remuneration letters, payments to the very highest paid individual attracts the most attention. This individual may be titled as the Chief Executive, Accounting officer, or Headteacher but, ultimately, it is the executive leader of the trust responsible for leading the organisation.

It is natural that remuneration packages reflect the responsibility and risk, and as a result there is often correlation with the size and complexity of the academy trust.

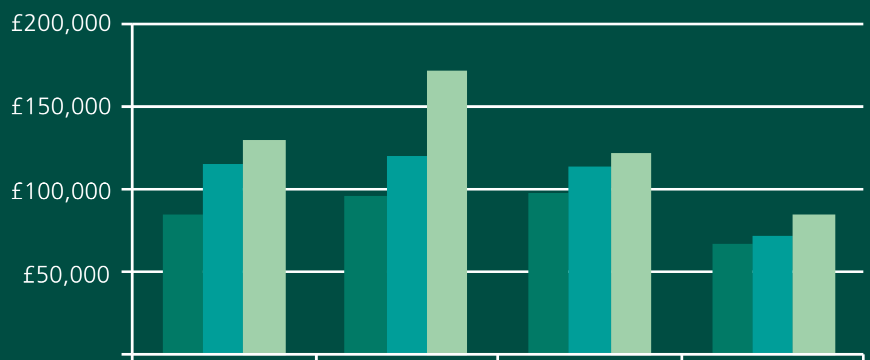
In most cases, the CEO of a large MAT will get paid more than the CEO of a small MAT with just two or three academies, and since most secondary academies are considerably larger than primary academies it also follows that average remuneration for secondary leaders is higher than in primary academies.

Many of the trusts which have received ESFA letters voicing concerns about levels of high remuneration are those which do not follow these trends and which, to most impartial observers, would appear to be overpaying.

There is a relatively small band of remuneration levels for both secondary and primary headteachers. Half of all secondary headteachers were paid between £97,000 (quartile 1) and £120,959 (quartile 3) whilst 50% of primary headteachers received remuneration of between £66,733 and £84,180.

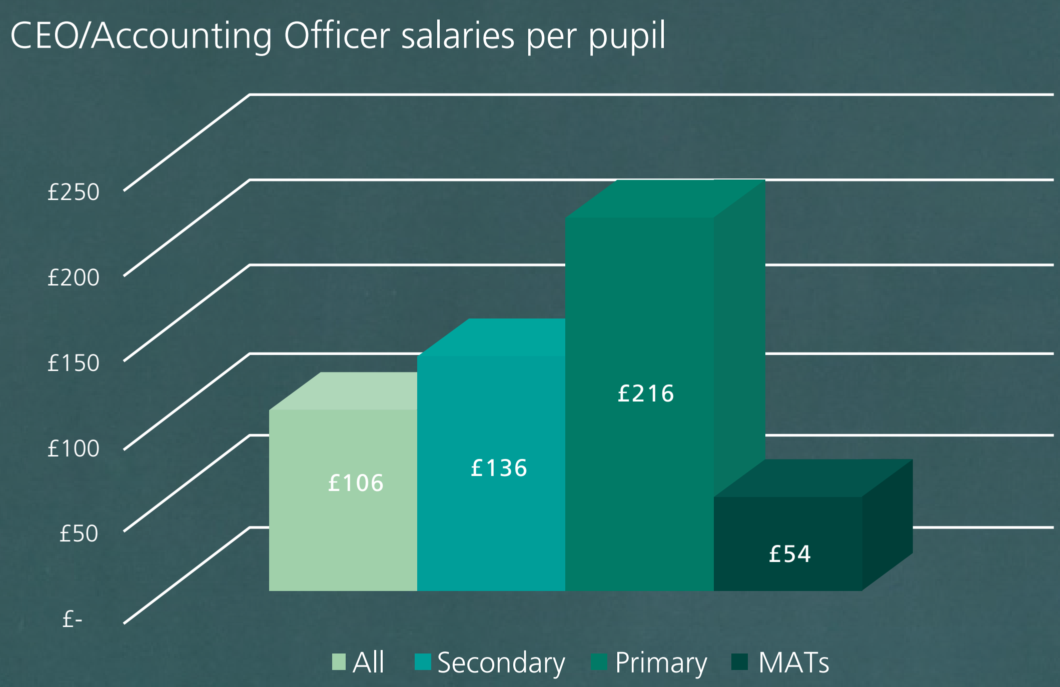
There is a much wider range for MATs, understandably, with the CEOs of some of the larger MATs commanding higher remuneration.

CEO/Accounting Officer salaries



	All	MAT	Secondary	Primary
Q1	£84,417	£96,569	£97,000	£66,733
Average (median)	£114,740	£120,000	£114,147	£72,522
Q3	£129,330	£170,572	£120,959	£84,180

A fairer comparison can be made when reviewing per pupil salaries:

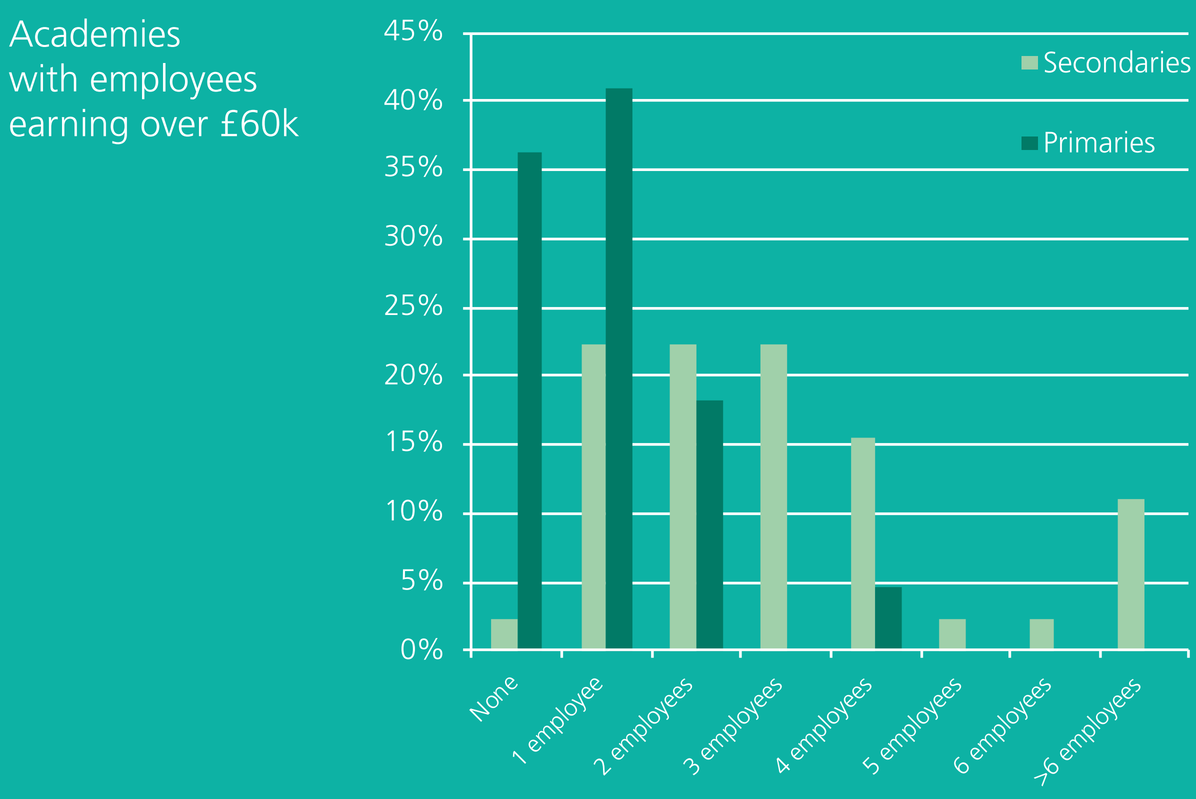


Staff salaries

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

Secondary academies – presumably due to their larger size - 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 53% (54% in 2017/18) of secondary schools employed three or more members of staff earning in excess of £60k.

In the primary sector 77% (80% in 2017/18, 77% in 2016/17) did not pay anyone, or just the Headteacher, more than £60k.



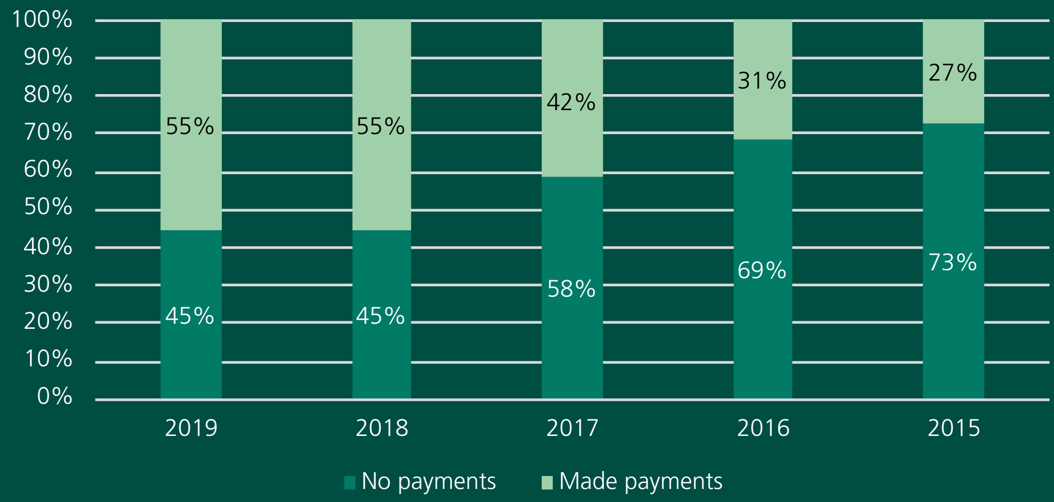
Restructuring and severance payments

The number of trusts making restructuring or severance payments has remained consistent this year with just over half (55%) making some form of restructuring payment again. The trend over the past five years has been worryingly upward – the percentage of trusts paying out has doubled since 2015.

Trusts can find themselves in a catch twenty two situation, which is why it is vital trustees are closely monitoring financial performance and position and react promptly to any issues. If action is taken too late, the trust may not have the reserves or cash flow to fund the short term costs arising from a restructuring process. Too often – but inevitably in today's litigious society – trusts also have to pay out following tribunal claims or agree severance payments to avoid time-consuming cases arising.

The backdrop to this – and this should never be forgotten – is the need to maintain educational standards. Achieving this through a period of significant restructuring can be particularly difficult but it can be done; we have seen trusts turn around significant £500k+ in-year deficits in fairly short timeframes through restructuring and cutting other costs. Early action is key.

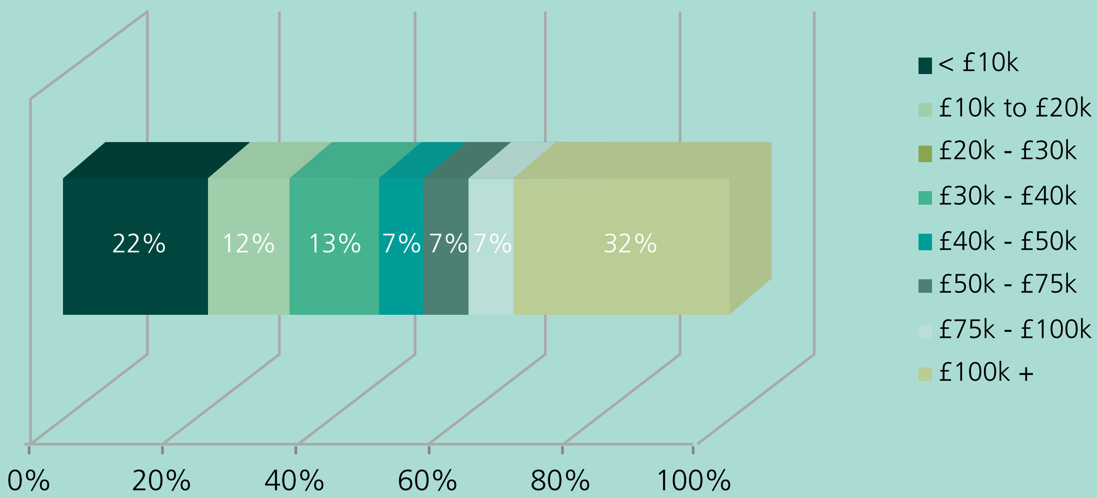
Academies making restructuring and severance payments



Range of restructuring payments

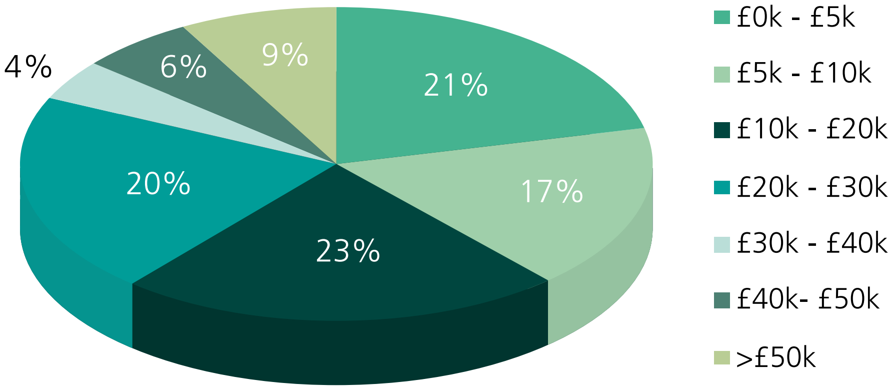
It would be less concerning if the level of restructuring payments were low, however, many trusts are paying sums totalling six-figures. Even if this cost is spread across a number of academies it highlights the amounts being paid out in the sector.

Range of restructuring payments



Trusts have to disclose the individual non-contractual severance payments which form part of the total restructuring costs, and making several large individual payments can also attract attention.

Highest non-contractual payment



Although over a third of trusts' largest payments was less than £10k, and a further 23% of trusts' highest non-contractual settlements fell in the £10k - £20k band, a significant number (9%) of trusts' highest payments exceeded £50k. A further 10% of trusts made payments in excess of £30k.

One MAT in our sample paid out £200,000 to one individual, and other eye-watering amounts included £142,000, £89,000 and £81,000. Sorted by type of trust, the highest individual non-contractual payments during 2018/19 were:

Primary	£10k
Secondary	£30k
MAT	£200k

Pension costs and liabilities

Academy trusts and their staff pay into two different pension schemes: the Teachers' Pension Scheme (TPS) for their teaching staff and the Local Government Pension Scheme (LGPS) for all other support staff.

Both schemes offer very attractive pension benefits to staff, but funding them has been a long term issue. The schemes are defined benefit schemes, and traditionally have been final salary schemes.

The last full valuation of the TPS in 2016 revealed the scheme was in deficit by around £22 billion, up £7 billion from the previous valuation with economic conditions and increased longevity attributed as the key factors.

Teachers' Pension Scheme (TPS)

As discussed within the staff costs section, a key change happened immediately after 31 August with the rise in TPS employer contribution rates.

The Teachers' Pension employer contribution rate rocketed to 23.6% on 1 September 2019, from 16.4% - representing an enormous 43.9% rise. For a salaried teacher at £40k, an additional contribution of nearly £2,900 per annum is required by the employer.

The TPS has over 2 million members and is one of the largest pension schemes in the UK. A full actuarial valuation exercise is completed once every four years to ensure that ongoing contributions from both members and employers are sufficient to meet the obligations of the scheme.

To provide some context to the rates and increases there have also been recent rises across all public sector pension schemes:

NHS	Rising from 14.3% to 20.6%
Civil service	c. 6% rise to between 26% - 30%
Police	Up from 21.3% to 31%

Until 2012, teachers were enrolled to the Normal Pension Age (NPA) final salary scheme. The CARE, or Career Average Revalued Earnings, scheme replaced the final salary scheme in 2012 and under this scheme a retiree's pension is calculated by using an average salary.

Confusingly, there are different schemes and membership of a particular scheme will depend on when the teacher entered the teaching profession. Until 2012, teachers were enrolled to the Normal Pension Age (NPA) final salary scheme. The CARE, or Career Average Revalued Earnings, scheme replaced the final salary scheme in 2012 and under this scheme a retiree's pension is calculated by using an average salary. The new approach was introduced in an attempt to combat the increasing deficit in the scheme and to make this more manageable in the future with an ageing population.

Elsewhere in the education sector the rise in employers' TPS rates has impacted significantly on independent schools who do not receive the pension contribution grant which academies and local authority maintained schools are paid. Some independent schools have been forced to leave the TPS and many others are considering their positions since the rate increases are unaffordable.

Whether, or how soon, this impacts on the teacher recruitment and retention within the independent sector is unclear. It does seem likely that this will cause challenges for the independent sector and it is not unfeasible to predict a flow of teacher staff from the independent to the state-funded sector.

Local Government Pension Scheme

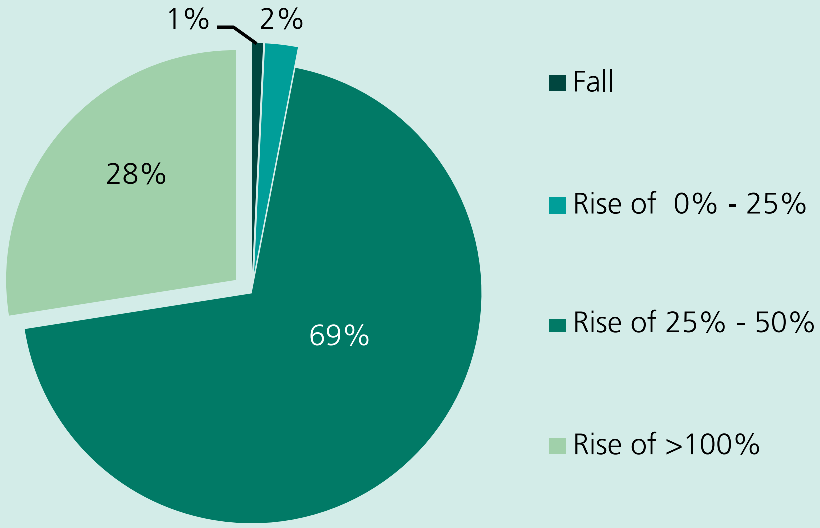
In terms of the annual financial statements, the focus is on the Local Government Pension Scheme (LGPS) liabilities since these sit on academy trust balance sheets and are more visible.

Trustees have become accustomed to the fluctuating nature of these liabilities, and are generally now comfortable that the carried deficit is an accounting deficit with no direct impact on the cash contribution levels paid by their trust.

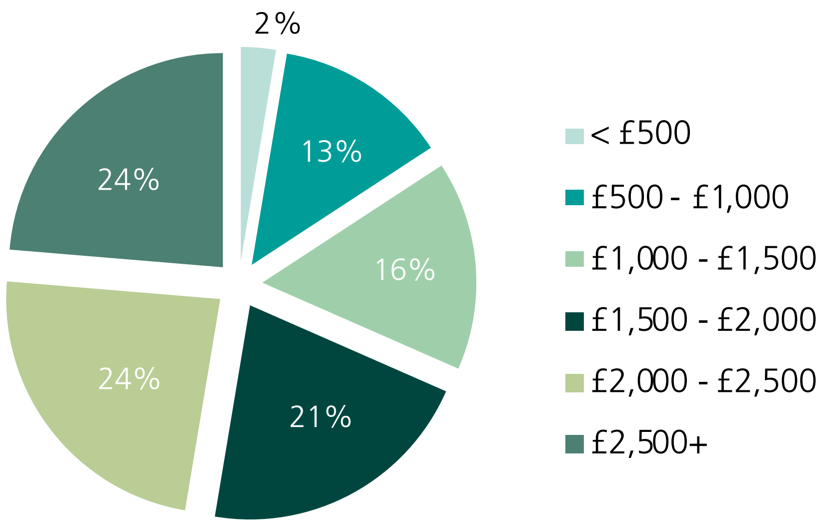
Most academy trusts saw the deficit carried on their balance sheet increase sharply during 2018/19. LGPS liabilities had generally fallen year-on-year from 2016 to 2018, but 2018/19 saw a marked increase back to levels close to, and in some cases exceeding, the 2016 levels. This has created an element of alarm for trustees who became comfortable with the declining deficits in recent years.

LGPS deficits have more than doubled during 2018/19 within some Local Authorities. The steep rises are highlighted by the pie charts below, with the darker colours representing higher per pupil liabilities, much more prominent this year.

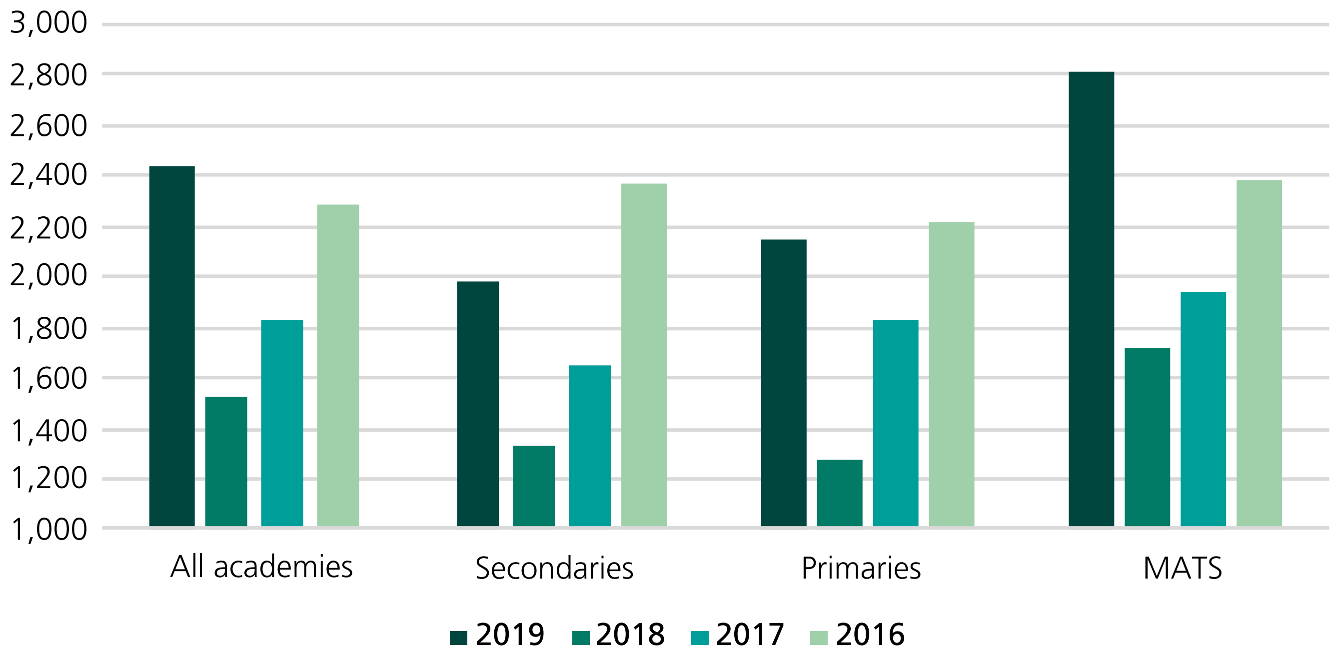
% Movement in LGPS liability vs opening liability



LGPS liability to £ per pupil



Average LGPS liability per pupil (£000s)



There is no national LGPS, with each Local Authority administering their own scheme, and as a result the levels of both employee and employer contributions can vary significantly depending on geographical location.

Income

The Government have committed to increasing funding to the education sector, and this played a key part in the party manifestos before the election last year, even with Brexit on the horizon.

Pledges have been made to ensure that every secondary school will be able to receive a minimum of £5,000 per pupil, and every primary school will be able to receive a minimum of £4,000 from 2021/22. The intention is also for the biggest increases to go to the schools that need it most.

Campaigns continue to ensure schools really do see a benefit and that the funding increases are for the long term. Claims are regularly made by union groups such as "83% of schools still lose out under the cash allocations in April 2020" or that "over 16,000 schools will have less money per-pupil in 2020 in real-terms than they had in 2015."

It is difficult to get to the truth. Schools and those involved in education will naturally always campaign for more funding. Coming with ideas and target figures is the easy part, however, and surely even the harshest critics of the government would not envy them the task of finding the desired additional funding and balancing the books. The Institute of Fiscal Studies has already suggested in 2020 that the government will need to raise taxes in order to fund spending or risk government borrowing spiralling out of control. The education sector is not alone in applying pressure, and the NHS and social care sectors are also desperately seeking more funding.

We have previously commented in these reports that the education sector is perhaps unique in the sense that schools are encouraged to work collaboratively, but this is with the backdrop of competition for pupils which, at the end of the day, equals hard cash.

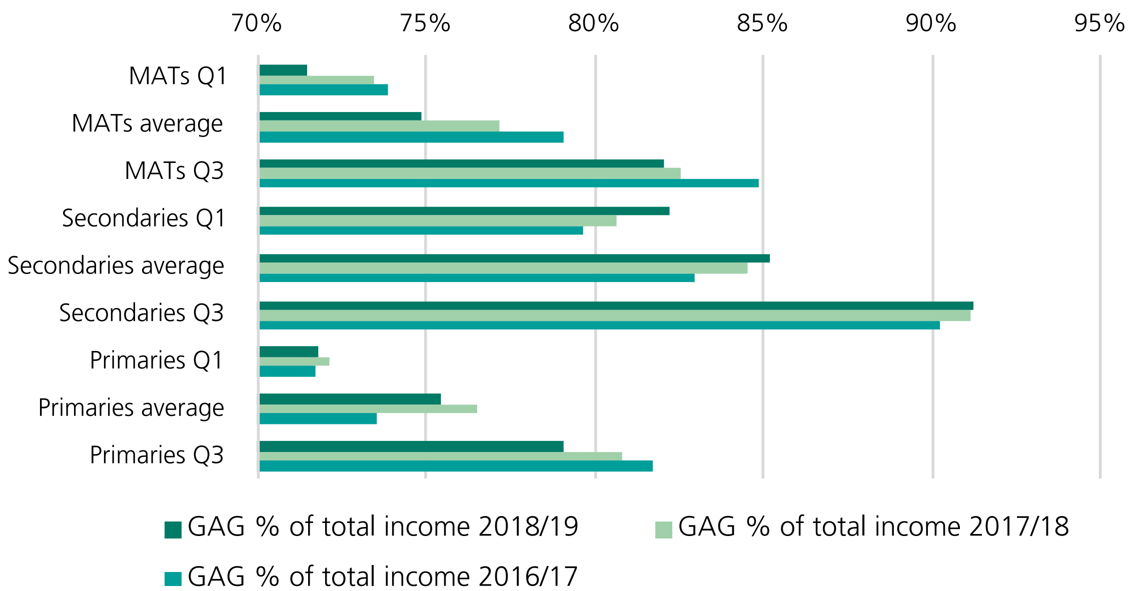
Local authorities monitor birth rates and use these to predict the number of school places. Pupil numbers in primary schools are believed to have reached their expected peak in 2019/20 and, whilst declining numbers in the coming years will ease pressure on schools places, it will mean increased competition and reduced funding for some schools. Secondary pupil numbers are, in general, forecast to continue rising over the next few years which may help some academies.

Rising pupil numbers can prove challenging, however, due to the lagged nature of core funding. Trusts with sufficient reserves can cope with this, but those with less stable finances may struggle. We continue to see larger MAT clients negotiate with the ESFA to ensure they are funded, or partially funded, on an actual basis. This can be particularly important when a MAT takes on a struggling academy and then, as the reputation is restored, pupil numbers begin to climb.

General Annual Grant

The key source of funding for virtually all academies is the General Annual Grant (GAG). Across all the academies covered in our sample, GAG accounts for around 78% of total income on average. Secondary academies report slightly higher percentages reliant on GAG than primaries; 83% versus 77%.

GAG income as % of total income (all academies)



Secondary schools are often in a more fortunate position than primary schools and find it easier to generate their own income because of the opportunities arising from their facilities. Primary schools often find it difficult to generate other income and would therefore appear to be more dependent on GAG. The opposite is true, however, because primary academies often receive more non-GAG grant funding such as UIFSM and many primaries have nurseries attached to the school.

Other income

MATs are often best placed to maximise their self-generated income because they can take the opportunity to use facilities across the entire trust. A centralised MAT team is likely to have more time to devote to income generation, and increasingly we are seeing trusts appoint operations managers, or business development officers to review this area.

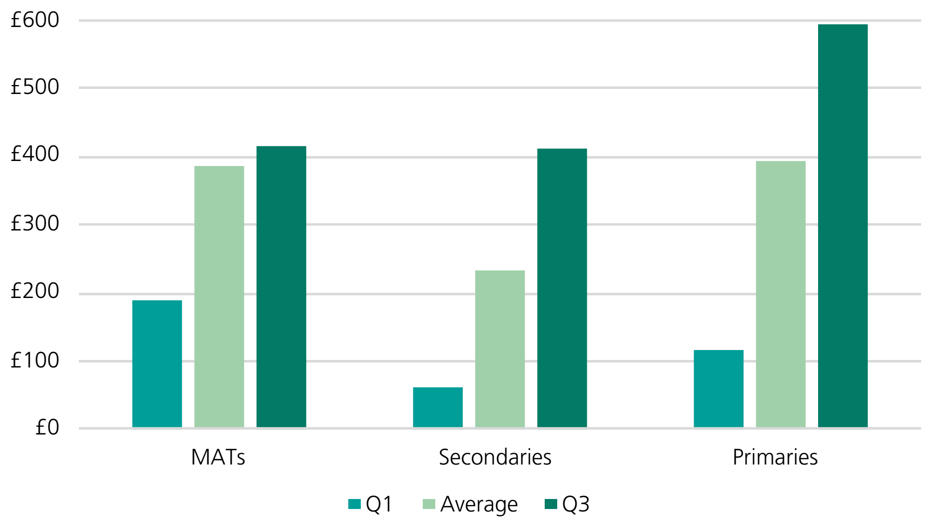
We continue to see larger MATs establish trading subsidiary companies. If trusts are generating new income streams it is beneficial to take professional advice to ensure that these do not create tax or VAT problems. It is always better to plan ahead and be clear on the most efficient structure before thresholds are breached.

The other income figures in the table below 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, is at a considerable financial advantage over a trust that is more reliant on grant income.

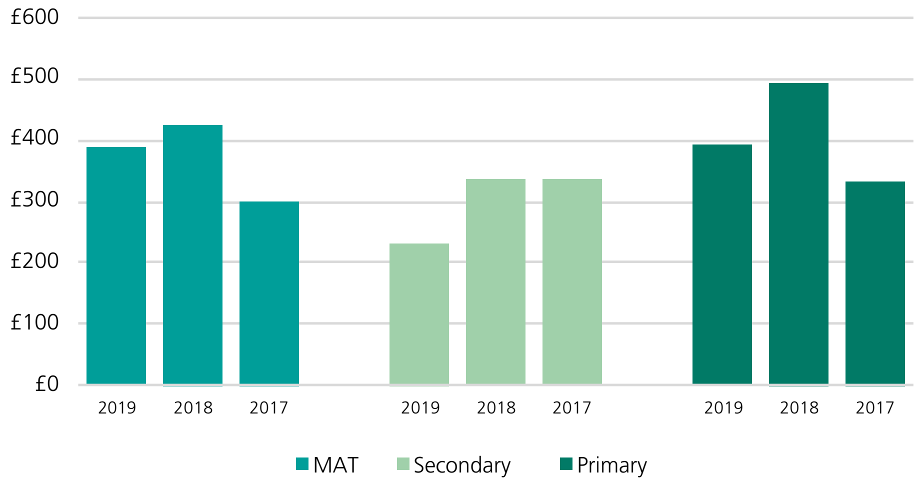
There is a large variation between the per pupil other income figures for both secondary and primary academies with the bottom 25% struggling to reach £100 per pupil whilst the top 25% are above £400 per pupil for secondaries and £600+ per pupil for some primaries.

The year-on-year movement shows that all types of academy have seen their other income decline on a per pupil basis compared to 2017/18. There is no obvious reason for this, especially at a time when trusts are trying hard to expand other income, and this may just be a quirk of the data represented in our sample or presentation.

Other income per pupil



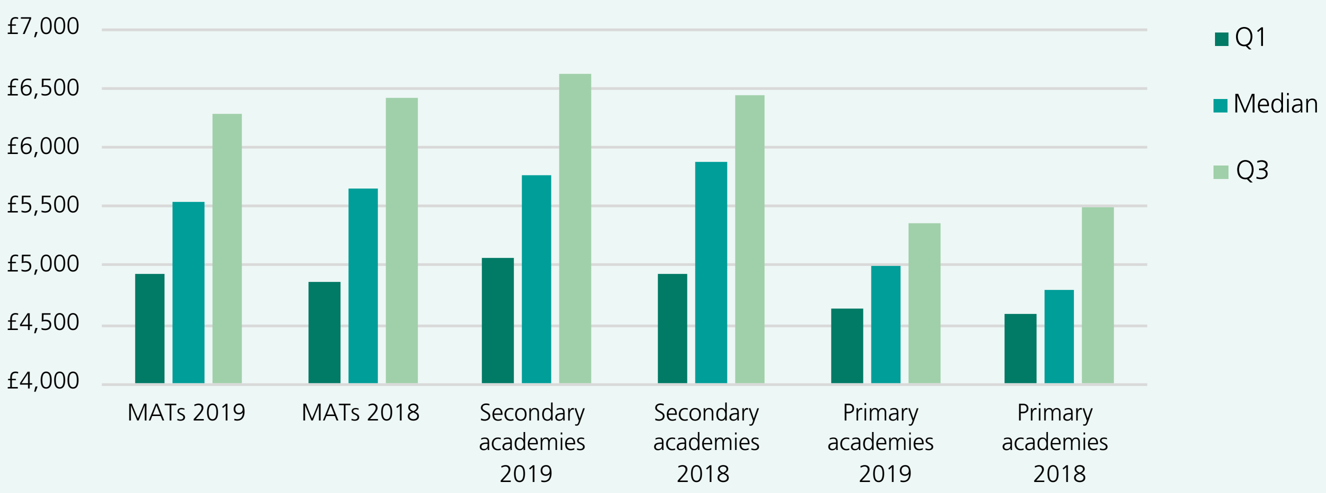
Other income per pupil - average year on year



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.

These per pupil rates have applied for a few years now and 2019/20 is also funded on the same basis.

In February 2019, academies received the one-off 'additional capital funding' – the income that was referred to as covering the "little extras" when it was announced in the 2018 Budget. This funding delivered a welcome £400 million capital funding for schools. Each school received a lump sum of £3,000 plus a variable amount based on a per-pupil amount, weighted by the phase of the pupil.

Many academies find that core capital grant funding is not sufficient, and regularly have to dip into other income streams to fund capital work.

Academies undertaking major projects usually rely on the Condition Improvement Fund (CIF). The multi-million-pound annual fund can be used by academies (and sixth form colleges) to expand classrooms, upgrade facilities such as sports halls or science labs, and address issues with the general wear and tear of school buildings.

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:

	Per non-boarding pupil	Lump sum per school
Nursery/Primary	£11.25	£4000
Secondary	£16.88	£4000
Post-16	£22.50	£4000
Special/PRU	£33.75	£4000

	Number of successful projects	Total CIF paid
CIF 2019/20	1,412	£433m
CIF 2018/19	1,566	£514m
CIF 2017/18	1,425	£466m
CIF 2016/17	1,276	£442m

A further £8.2 million of funding for 30 projects at 28 additional academies and one sixth-form college was awarded on appeal, highlighting that even if a trust is unsuccessful initially it can, in certain circumstances, be worth appealing. It is worth commenting that the number of successful appeals has reduced in each of the past three years.

The CIF is always heavily oversubscribed and it is important that trusts take the time, and often professional advice, to determine the likelihood of success for their particular project before investing significant time or money writing their application bid.

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

The 2020/21 CIF closed in December 2019 and applicants are eagerly waiting to hear whether or not they have been successful with the announcement expected in spring 2020. The 2020/21 CIF guidance stated that the DfE expected "the majority of projects supported through the CIF to involve the replacement of high priority components such as boilers and electrics, fire doors and alarms, roofs and windows, and asbestos removal."

Interestingly, the DfE opted to change the criteria used to assess applications. At the heart of the new system is a scoring system designed to favour strong governance procedures and organised finances. For example, trusts showing restraint on executive salaries were to be favoured and trusts paying two or more salaries in excess over £100k (or one salary over £150k) and who have failed to take appropriate action in response to the ESFA's high pay challenge, would have points deducted. Cumulative deficits and late filing of accounts or other ESFA returns have also been penalised.

Remember that trusts who are unsuccessful with their CIF bids can still apply to the ESFA for 'Urgent Capital Support' (UCS) 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.

School Condition Allocations for larger MATs

MATs with at least five academies and more than 3,000 pupils receive the SCA, which they are free 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.

There is a lagged element to this funding because it takes a while for expansion to be recognised. Trusts eligible for SCA in the 2020/21 financial year were notified in autumn 2019 and trusts with five or more open academies at the start of September 2019, and with at least 3,000 pupils counted in the spring 2019 census, should be eligible.

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.

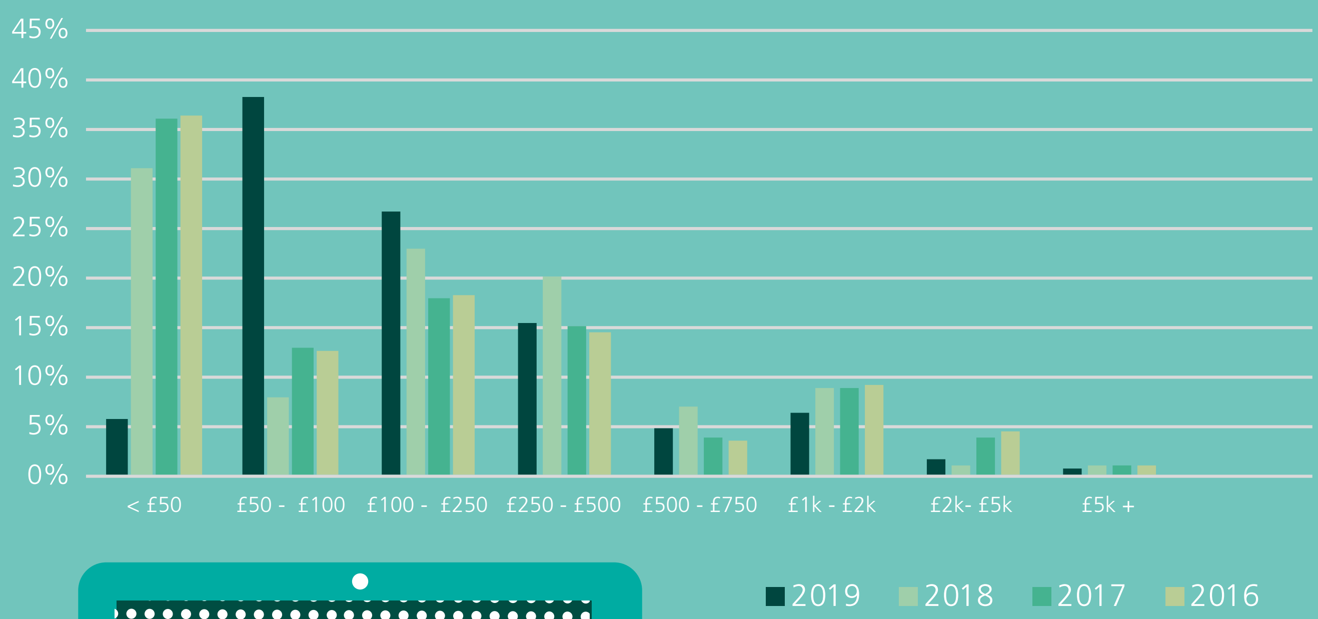
For 2019/20, the number of MATs receiving SCA increased to 232 from 176 with an average allocation of, once again, just over £1 million. 77 trusts received SCA of over £1 million and, of these, 25 received over £2 million. The largest allocation of £5.2m went to ARK Schools.

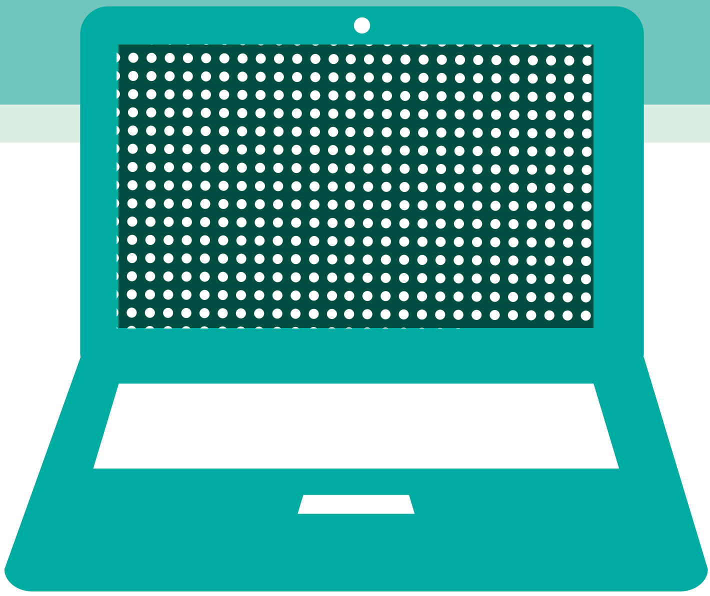
Academies considering joining a larger MAT that receives SCA funding should be aware that it is important to plan their timing to avoid a scenario where their CIF bid could become ineligible at the point they transfer to the MAT.

The rise in numbers of large MATs means each year more and more trusts are able to gain access to guaranteed SCA funding, avoiding the need to apply for funding through the CIF.

	School Condition Allocations 2016-19			
	2019/20 Final	2018/19 Final	2017/18 Final	2016/17 Final
Multi-academy trusts and sponsors receiving SCA	£236.4m	£182.4m	£129.6m	£97.8m

Spread of capital funding per pupil





The additional capital funding paid in February 2019 has resulted in an increase in the average per pupil capital funding. The most common range in the three previous years was up to £50 per pupil but in 2018/19 the £50-£100 range was the most common and only 6% of trusts received less than £50 per pupil. There has also been a further increase to the percentage of trusts in the £100 - £250 band.

Interestingly, the DfE opted to change the criteria used to assess applications. At the heart of the new system is a scoring system designed to favour strong governance procedures and organised finances.

Fixed assets and capital expenditure

For most trusts – church academies not reflecting the value of school land and buildings are the exception - fixed assets will be the largest category on the balance sheet.

Despite this, fixed assets are often overlooked by trustees who are more interested in income and expenditure and revenue fund balances. The value of buildings has no bearing on the day to day running of the academy and is, in any case, a subjective figure.

Since land and buildings is such a significant figure, the carrying value can cause issues for auditors. At government level, the academy sector annual report and accounts (SARA) is audited by the National Audit Office (NAO) and, collectively across the sector, the value of land and buildings is huge and is considered to be 'a significant accounting estimate'. The SARA has previously been qualified because of concerns over the reliability of valuations and this led to the DfE commissioning professional surveyors to undertake valuations. The 2018/19 academic year was the first accounting period in which the Government revalued a rolling portion of its estate.

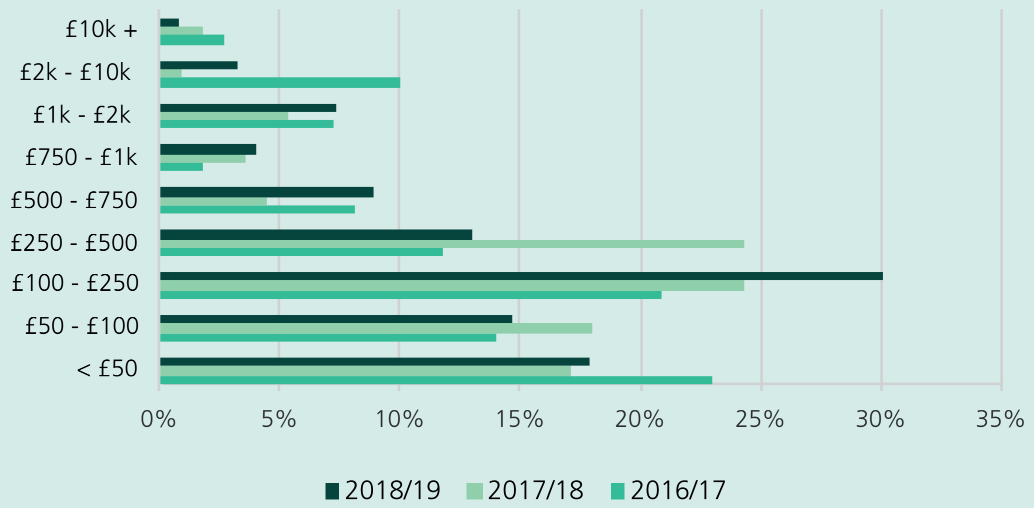
In early 2020 the NAO announced that they plan to increase their engagement with academy trust auditors to develop 'a more granular understanding' of the sector which will help support their risk assessment of the sector. During the first six months of 2020, the NAO will be visiting audit firms to discuss the audits of a sample of academy trusts. Trusts selected for review have been chosen after consideration to size, location and composition of the trust. The NAO aim to build a longer term detailed picture of the sector through a cyclical review of different trusts over a number of years.

Capital spending

Trusts are free to adopt a suitable accounting policy for capital spending, with purchases over a certain amount capitalised on to the balance sheet. A common threshold is £1,000, or £2,000 for single asset purchases, with a higher limit for bulk or group purchases made on one order, but some trusts have much higher limits.

It is important to remember that in most cases any significant works funding by CIF should be capitalised even if the nature of the work could be justified as maintenance. It is difficult to justify an alternative approach because significant investment funded by CIF grants is likely to lead to an enhancement and ongoing benefit.

Capital expenditure per pupil (£)



30% of trusts spent between £100 and £250 per pupil during 2018/19 and some of the higher bands have also seen increases. Capital spending does not always correlate with capital income and, elsewhere in this report, we have seen that the most common band of income was lower at £50 - £100.

The timing of recognition of capital income and the way this does not necessarily matche to expenditure is one of the more confusing elements of academy trust accounts. Income is recognised early, at the point the trust is entitled to receive it, which can result in large surpluses on the Statement of Financial Activities.

UHY spend a lot of time helping clients develop ways of drawing out the underlying results to explain the impact of large capital grants to make it easier for trustees and other readers of the accounts to understand the figures.

The Condition Data Collection (CDC) programme was commissioned between 2017 and 2019 to provide the ESFA with information to assess the condition of state funded schools across the country and to help the ESFA prioritise future funding. The results of this survey have not yet been published but will make interesting reading. Many schools are operating from very old buildings in need of significant investment.

Cash at bank balances and reserves

Individual academy trusts receive and hold significant cash reserves. Across the sector the sums can be colossal. The 2017/18 academy SARA, published in July 2019, revealed that trusts held £3.9 billion as cash at bank on 31 August 2018, up from £3.5 billion in 2017. The average balance per academy was £500k.

The SARA noted that the rise in cash held across the sector represented a slightly lower rate than the increase in sector size, and also commented that cash held represented approximately two months' cash expenditure.

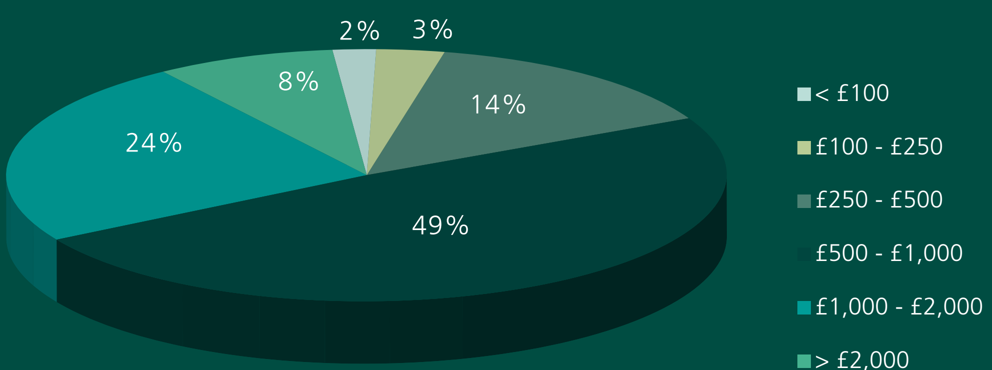
Academy trusts need to hold reserves, and specifically cash balances, to protect themselves and provide something to fall back on. There is a balance, and the DfE encourages trusts 'not to hold more cash than is required to maintain financial stability'.

Anti-academy protestors often target cash levels and accuse trusts of unnecessarily hoarding money; something trustees should be aware. Cash flow may rise and fall throughout the year, and there will be natural peaks and troughs, and trusts have to be able to ride through these. Increasingly, MATs are choosing to operate with one centralised bank account which helps to smooth out individual variations and low points for constituent academies. It is also worth noting that cash at bank balances are stated at a point in time. A significant proportion of cash at bank across the sector will relate to capital grant money, mainly SCA and CIF, which has been received by trusts but not spent by 31 August. These grants are paid for the DfE's April to March year and so there is no requirement to spend these grants by August. The projects funded by capital grants often run over several months or even years.

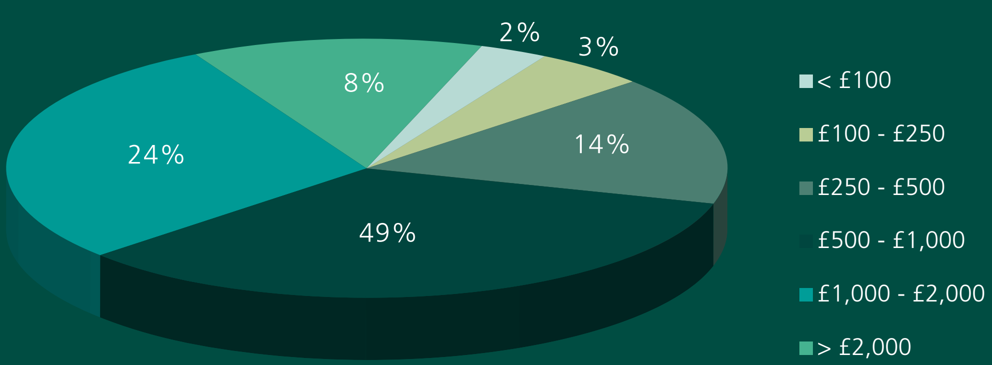
Regular monitoring of cash flow is important. For financially strong trusts it may not seem so crucial but it is beneficial to get into good habits and practices. For trusts with a weak financial position monitoring cash on a weekly, or even daily, basis is vital.

The 2018 SARA disclosed that in 2017/18 a total of 100 academy trusts' annual accounts contained an audit report which contained references to material uncertainty over going concern. Whilst this only represented a tiny 1.2% of all trusts, it is still a large number of trusts responsible for thousands of pupils and employing large numbers of staff.

Range of cash balances held (per pupil) - MATs

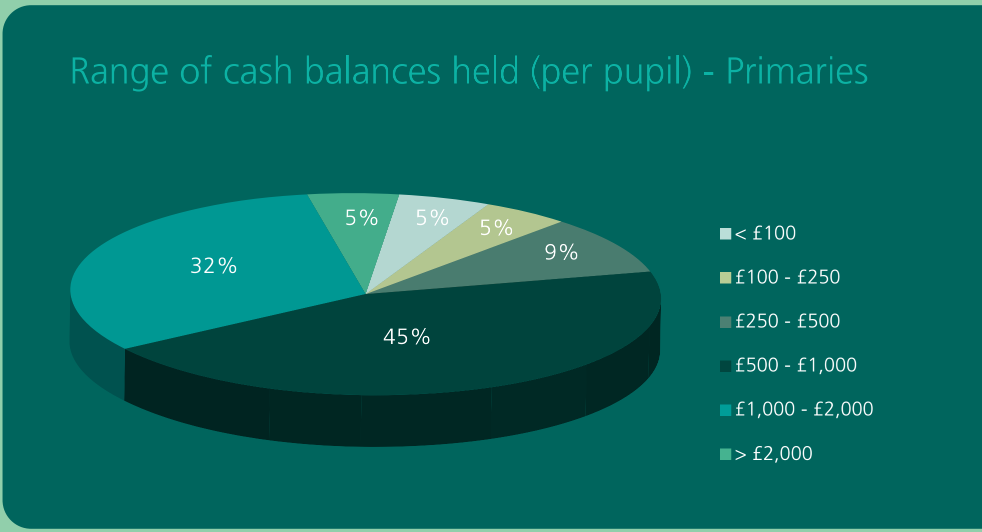


Range of cash balances held (per pupil) - Secondaries

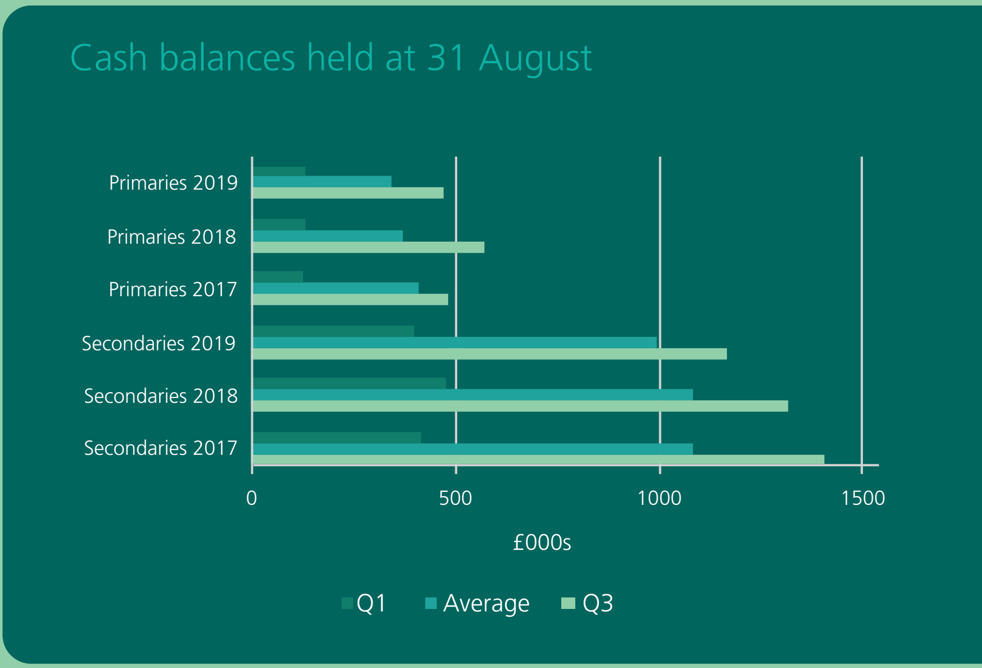


Once again, virtually one half of all MATs in our sample held cash balances of between £500-1,000 per pupil. There was little movement elsewhere this year, although more MATs were in the lowest three bands with 19% holding less than £500 per pupil compared to 16% last year.

On a per pupil basis, secondary academies generally hold larger cash balances than MATs with 42% holding at least £1,000 per pupil, although this is down from 47% last year. Encouragingly, just 3% held less than £100 per pupil this year.



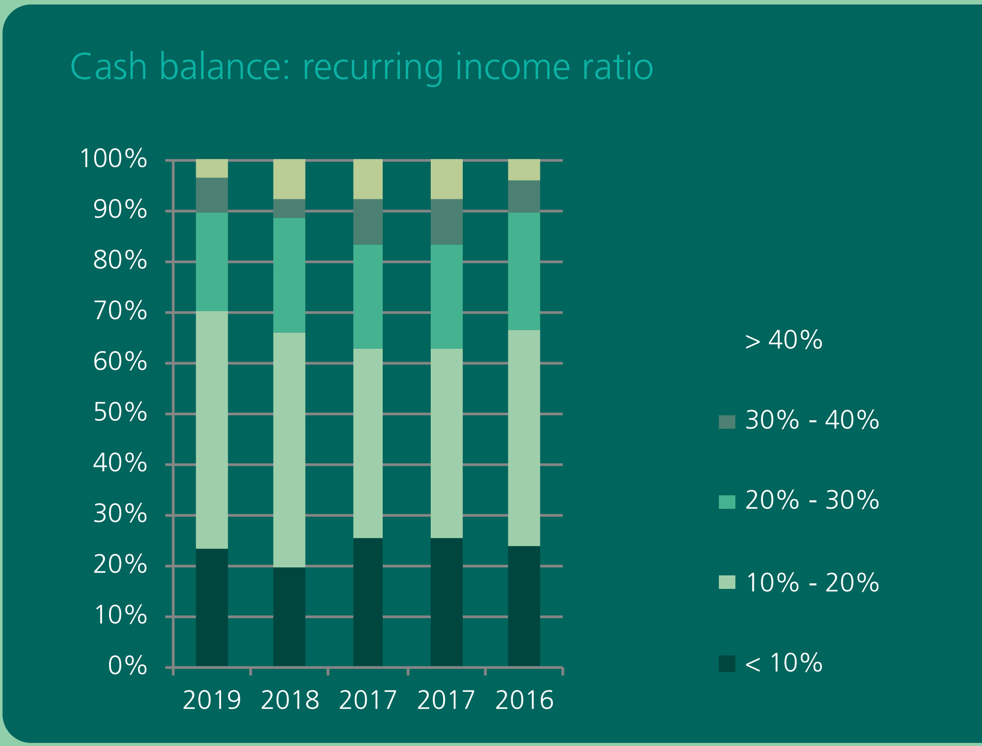
The chart to the right shows the average primary and secondary cash at bank balances, alongside the lower and upper quartiles. The average secondary and primary academy both held around 8%; slightly less at 31 August 2019 than the year before. It was noting the disparity between the quartile 1 and quartile 3 figures once again.



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 last year the level in this lower band fell. This appears to be a blip and the numbers of trusts in the lower band increased in 2018/19 to closer to the 2017 level.

Once again, almost half of trusts (47%) are holding cash balances that equate to between 10-20% of their annual income. It is worth noting that the very highest band has halved since last year, but this does represent a very small proportion of trusts that are sitting on significant cash reserves.



Revenue reserves

Cash and reserves do not equate to each other, although 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. We would recommend that, generally, trusts should aim to hold reserves equivalent to between four to six weeks of operational expenditure, and for this to be held as cash at bank.

Trustees need to be clear on the distinction between cash and reserves, and understand why. Just because cash may appear healthy, the trust may not necessarily be financially strong. If unspent capital money is held, it is important that such balances are ring fenced and trusts should not find themselves in a position where they are dipping into such funding to cover day-to-day shortages.

It is also important to distinguish between unspent restricted revenue grant money and completely free unrestricted reserves. The level of reserves held in a MAT can be approached differently than in a single academy. The collective strength and support of the MAT can mean each individual academy can operate confidently, on a lower level of reserves.

We have considered GAG pooling elsewhere in this report and of course pooling results in each academy losing its own fund balance and everything belongs to the trust.

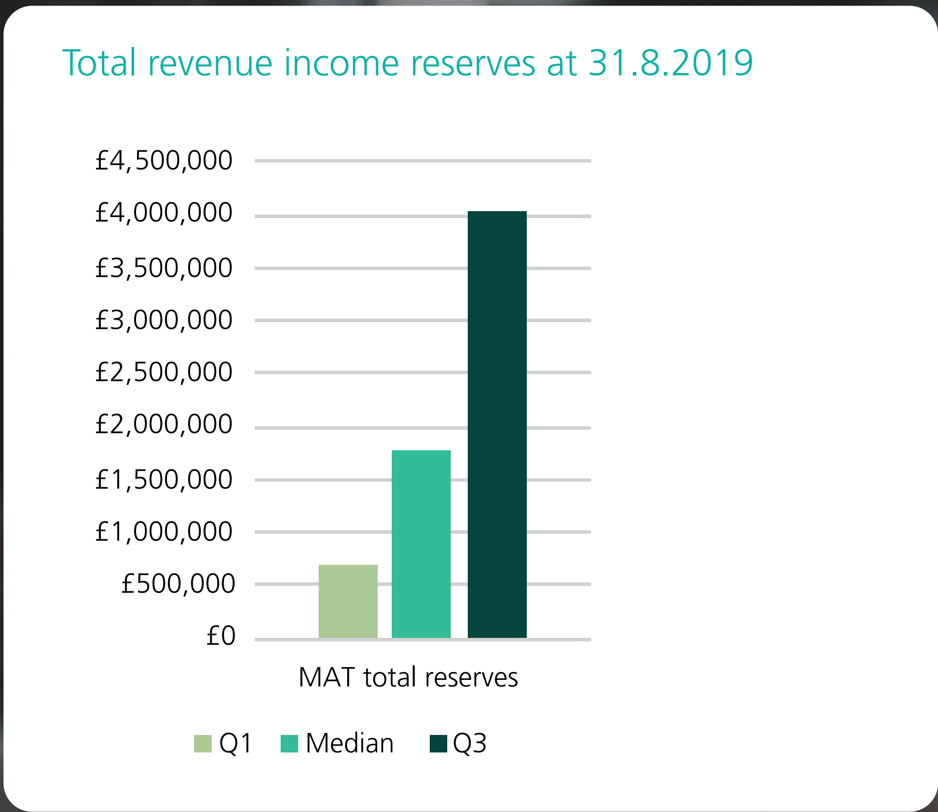
In our experience, few MATs have academies that all operate at similar financial levels. Most MATs will have an academy or two which is struggling financially – and often educationally too as these two often go hand in hand – and surviving on low reserves or even struggling with a cumulative deficit.

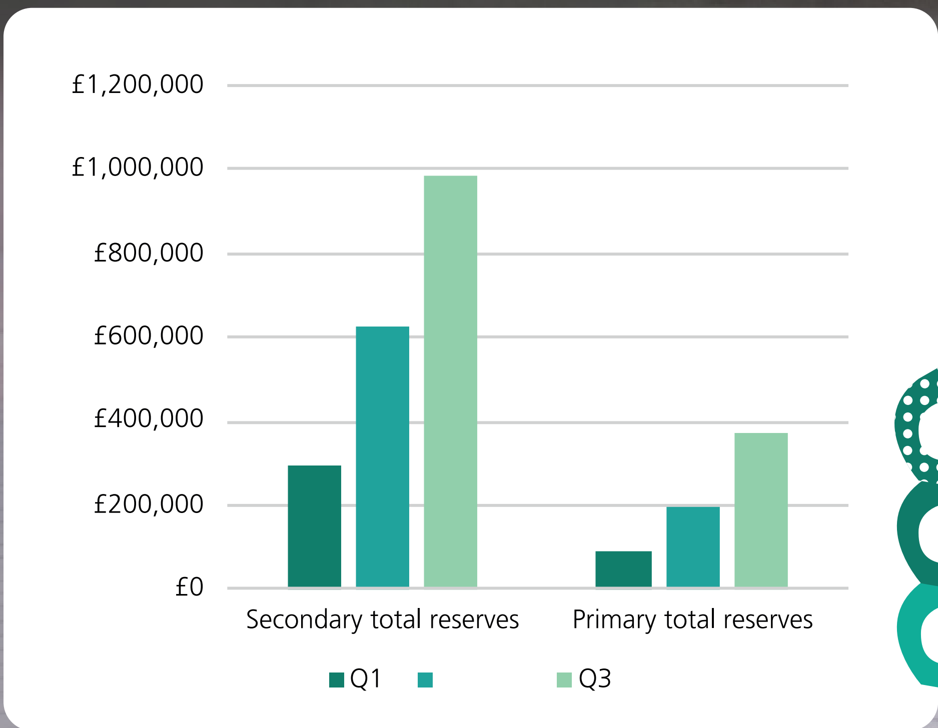
Many of the remaining single academy trust are those that are strong financially and have been able to resist the calls to join into a MAT.

There is, as is so often the case, a significant variation in the level of reserves held by the stronger trusts and those struggling. The top 25% of secondary academies hold £1m+ compared to the bottom 25% with less than £300k. The lowest 25% of primary academies hold less than £88k.

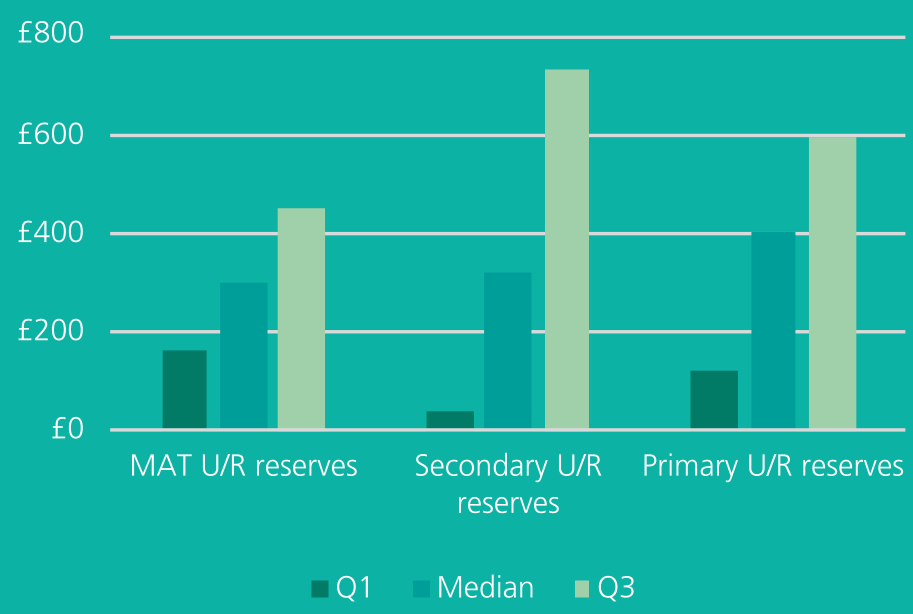
These actual reserves figures do not take into account the size of the academies or trusts; particularly important for MATs. If we look at per pupil results, and solely for unrestricted 'free' reserves, then the results are perhaps clearer; primary academies actually have the highest median average at £400 per pupil.

Compared to last year, MATs and primary academy trusts both held less unrestricted reserves per pupil, although the reductions were only slight. Secondary academies bucked the trend with a small increase. On a per pupil basis there is relatively little difference between the different types of trust, in either year.

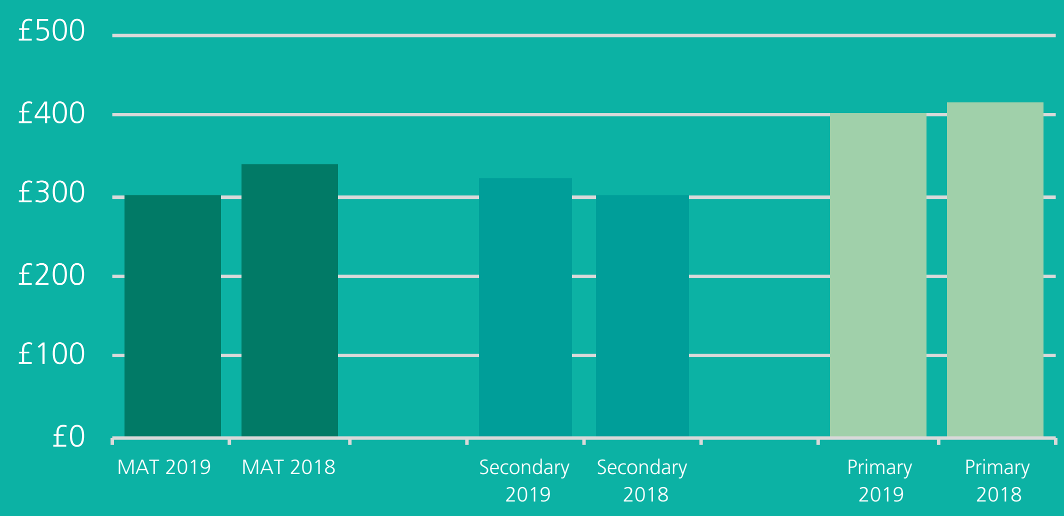




Total unrestricted revenue income reserves per pupil at 31.8.2019



Total unrestricted revenue income reserves per pupil - average year on year (£)



Surplus or deficit

In this section, we look at whether academies have achieved a surplus or deficit during 2018/19.

Academy trusts' accounts are notoriously difficult to unpick and when reference is made to a surplus or deficit it is important to ensure that the nature of the result is understood fully. The Statement of Financial Activities (SOFA) reports a net movement in all funds for the year, including non-operating figures such as pension movements and depreciation. The entire restricted fixed asset fund, through which capital grant income is recognised, can be misleading and can result in large overall surpluses or deficits which bear no relation to the operating result.

With the figures themselves difficult to interpret it is vital that trustees use the financial review section of the trustees' report to explain the true operating result and to highlight unusual transactions or exceptional items which mask this result on the SOFA.

The ESFA enhanced their guidance within the Accounts Direction 2018 to 2019 and specifically required trusts to clearly state the in-year surplus or deficit figure which should agree to the change in balance of restricted general funds (excluding pension reserve) plus unrestricted funds. This is what we are referring to when we talk about the operational result.

We have always worked with our clients to help them develop meaningful financial reviews which aid the understanding of the reader.

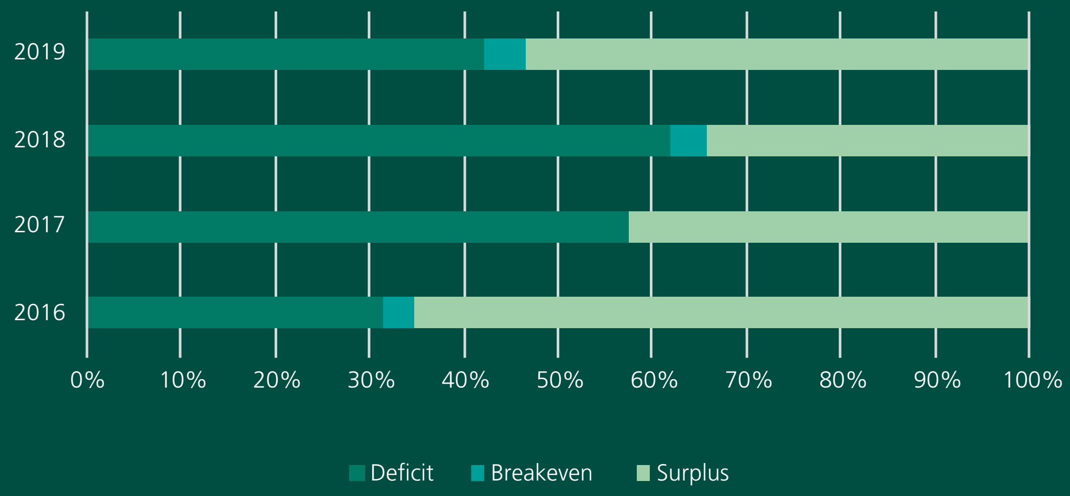
It was interesting that in a letter to audit firms in April 2019, to which accounting officers were copied in, he chose to comment on the quality of financial summaries. The ESFA have noted from the management letters they receive each year that the quality and level of detail in these varies between audit firms and that some letters include excellent packs that summarise the trust's accounts in addition to the audit findings themselves. Lord Agnew recognised how useful such summaries could be, but then went on to say that it is important for academy trust management teams to produce an appropriate briefing for their boards when they table the accounts, and not to out source this to their auditors. The implication of the letter is that too many trusts, particularly smaller trusts, have perhaps relied too heavily on their auditors and that internal finance teams need to take more responsibility and ensure they fully understand the financial statements. This may be challenging for some trusts and CFOs because a large proportion of trusts do not have qualified accountants and it is common for trusts to outsource the preparation of the financial statements to their auditors.

The overall in-year movement on operating revenue funds is important, but we consider that the movement on the core GAG fund is key. Trusts will usually spend all or most of their other ESFA and other government grant funding (expenditure against these funds is often an allocation of salary costs) and these funds tend to break even most years.

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:

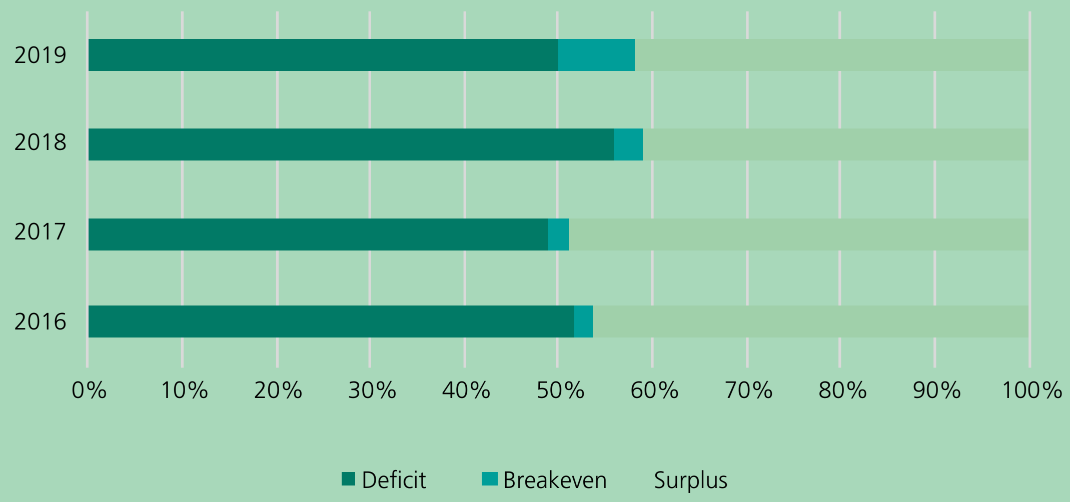
- A GAG deficit is covered by a transfer from the unrestricted fund
- Capital items are funded from GAG and are represented by a transfer out of the GAG fund to the restricted fixed asset fund. We have not included such transfers because the choice to fund capital items from GAG was discretionary and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

GAG result: primaries



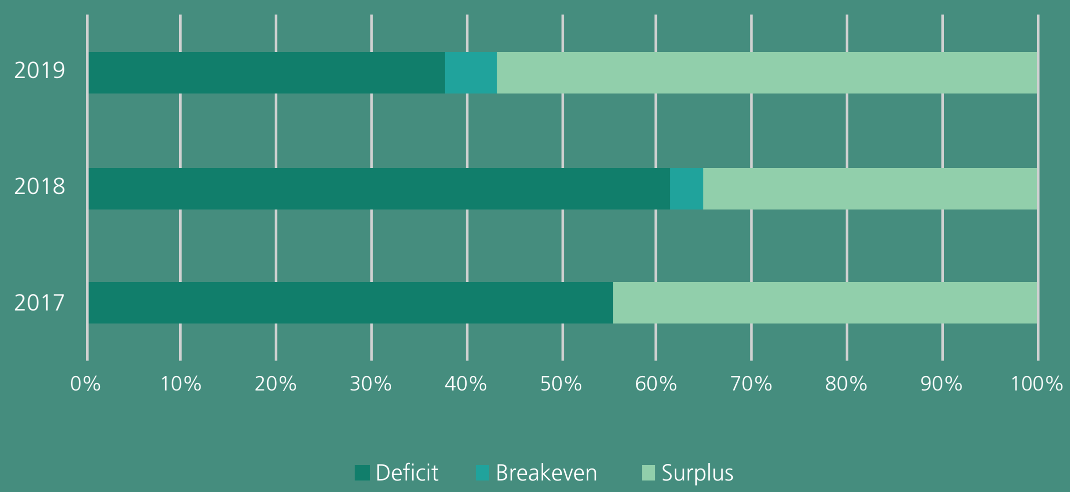
The year on year rise in the number of primary academies reporting an in-year GAG deficit has been reversed this year with 42% much lower than 62% in 2018.

GAG result: secondaries



Slightly fewer secondary academies reported deficits this year, although the reduction was less marked than with primaries. Exactly 50% reported an in-year deficit in 2018/19.

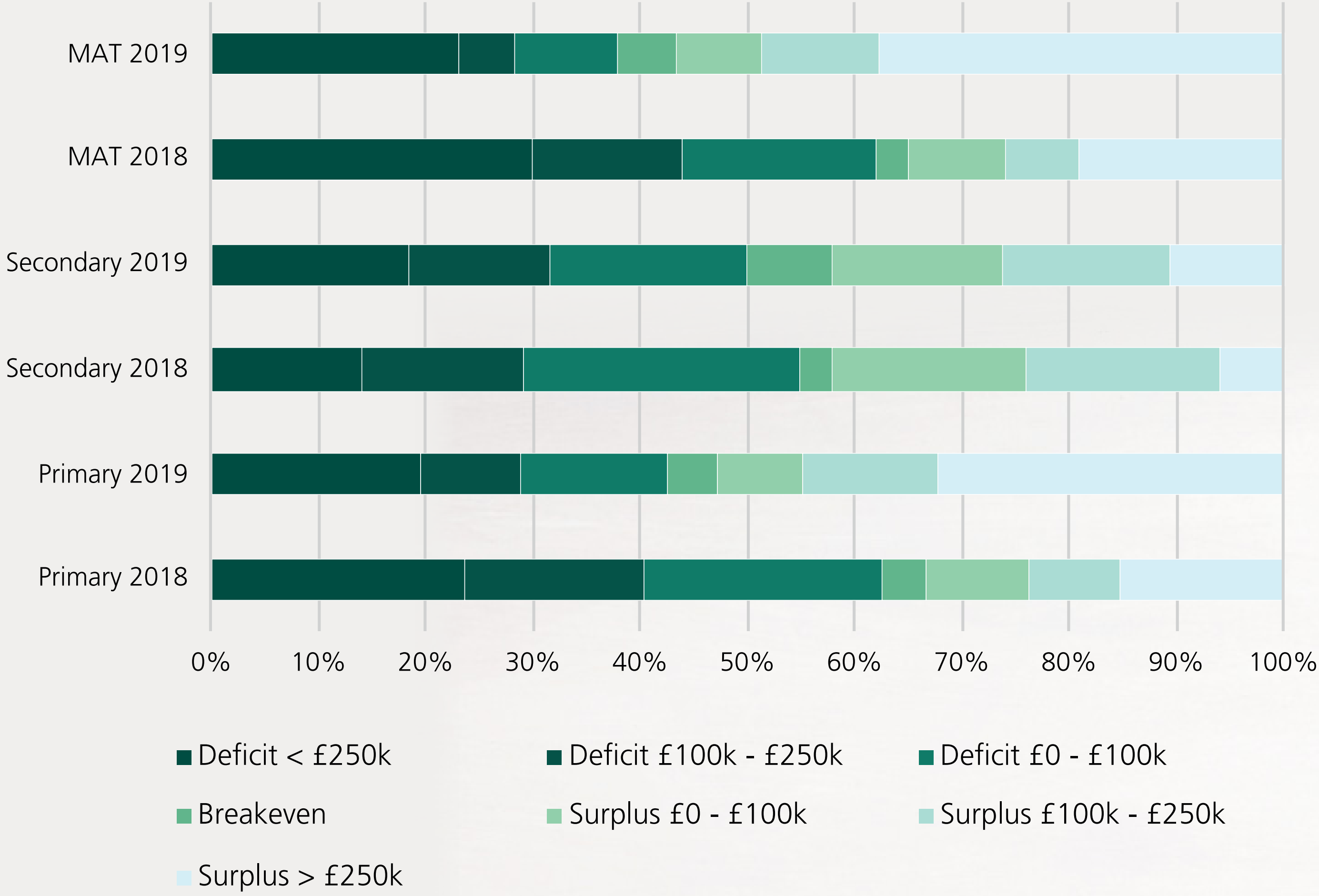
GAG result: MATs



The number of MATs reporting in-year GAG deficits also fell this year, from 61% to 38%.

MATs were therefore the least likely type of trust to report a deficit in 2018/19, slightly ahead of single primaries.

Range of GAG results



It is clear that a significant number of trusts experiencing a deficit have suffered a large deficit of over £250k. Whilst MATs are more likely to post large deficits, significant proportions of secondary and primary SATs also reported in-year deficits of over £250k.

The chart above breaks down the deficits and surpluses further to reveal the extent of these results.

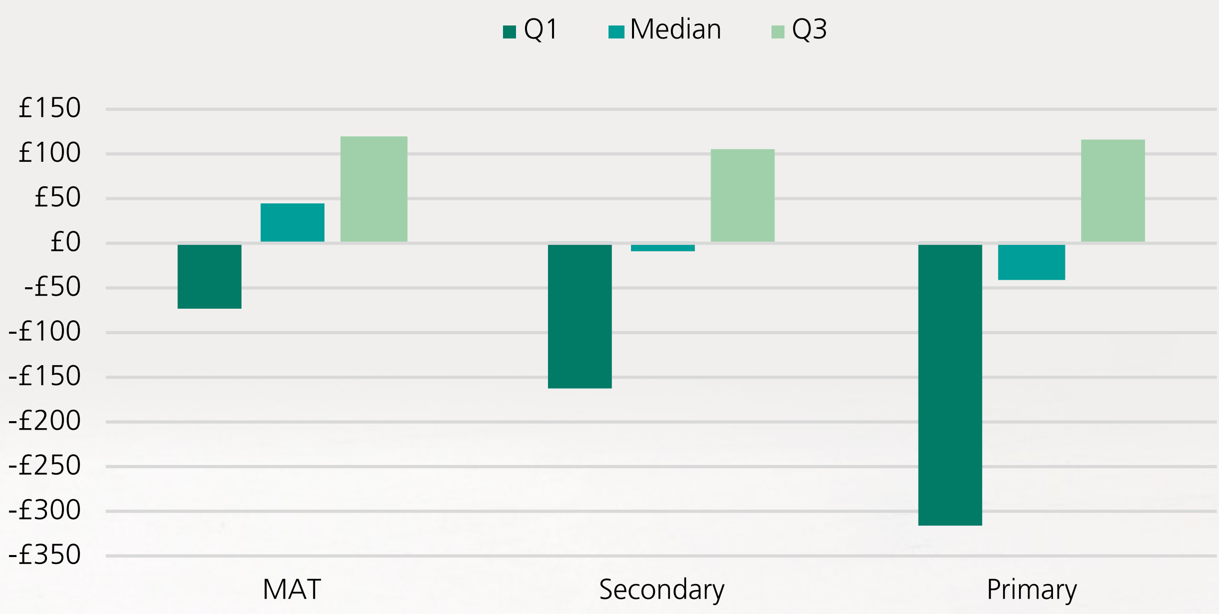
It is clear that a significant number of trusts experiencing a deficit have suffered a large deficit of over £250k. Whilst MATs are more likely to post large deficits, significant proportions of secondary and primary SATs also reported in-year deficits of over £250k. 18% (2018: 14%) of all secondaries in our sample suffered such large deficits. Although relatively more primaries were in this band, at least the percentage of primaries in this top range fell.

There are a significant number of trusts at the opposite end of the scale – particularly MATs and primaries – which achieved a 2018/19 in-year surplus of at least £250k.

Large MATs are always more likely to post extreme results and so these can influence the MATs' results when we look at actual results.

If per pupil results are reviewed the picture changes considerably. MATs are the only type of trust with an average per pupil surplus and have by far the lowest quartile 1 results.

Per pupil GAG result



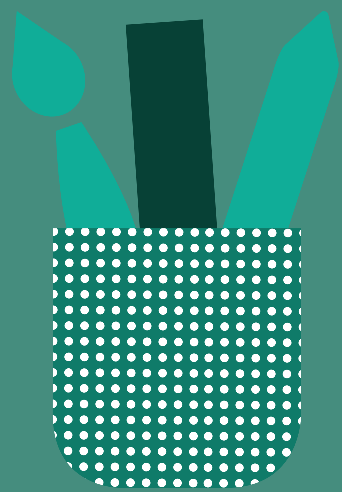
In-year deficits are not necessarily a problem if they are expected and either arise for specific reasons, or at least are understood, and if the trust retains strong cumulative reserves.

The year-end audit process should not be identifying large adjustments, in terms of quantity or size, and boards of trustees should not be getting a surprise then they receive accounts to approve in the late autumn. If a significant number of adjustments do arise it is reasonable to expect boards to ask questions and hold Accounting Officers and CFOs to account. After all, if boards are expected to plan for the future and make decisions it is vital they are presented with up to date financial information that is accurate and which they can have full confidence in. Again, it is reasonable to question the accuracy of in-year monthly management accounting information if surprises arise at the year end.

In-year deficits can sometimes arise where a trust has incurred some one-off exceptional costs; perhaps significant maintenance work or restructuring costs. Continual deficits are of more concern unless they are being fully managed and, as noted elsewhere, trusts can find themselves in an overall cumulative deficit position.

The 2018 SARA report, published last year, revealed that there were 195 trusts (2017: 185 trusts) in cumulative deficit during the previous year, representing 6.4% (2017: 5.9%) of all trusts. 39 of these trusts had a cumulative deficit of over £500k and, worryingly, 15 of these were single academy trusts.

At the opposite end of the scale the SARA report revealed that 80 trusts were holding cumulative surplus reserves in excess of £4m. 725 trusts held over £1m and 31% of these were single academy trusts. Some of these trusts may be holding reserves for a good reason, but there is a strong accusation that trusts holding such levels of reserves could be seen as hoarding and not spending on their current pupils.



Governance and audit findings

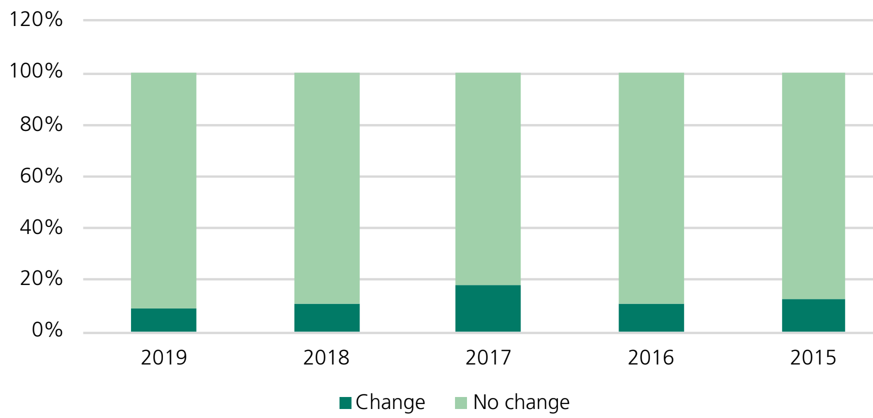
Within our annual benchmarking reports we review various non-financial areas, including governance, as well as taking a look at the results of our analysis of the audit findings reports of our clients, to add further depth to our findings.

Changes in staff

Back in 2016/17 nearly one in five trusts experienced a change in their executive leader or Accounting Officer. Since then the percentage of trusts with such a change has reduced and, after a fall last year, the number has fallen again to just 9%; the lowest over the past five years.

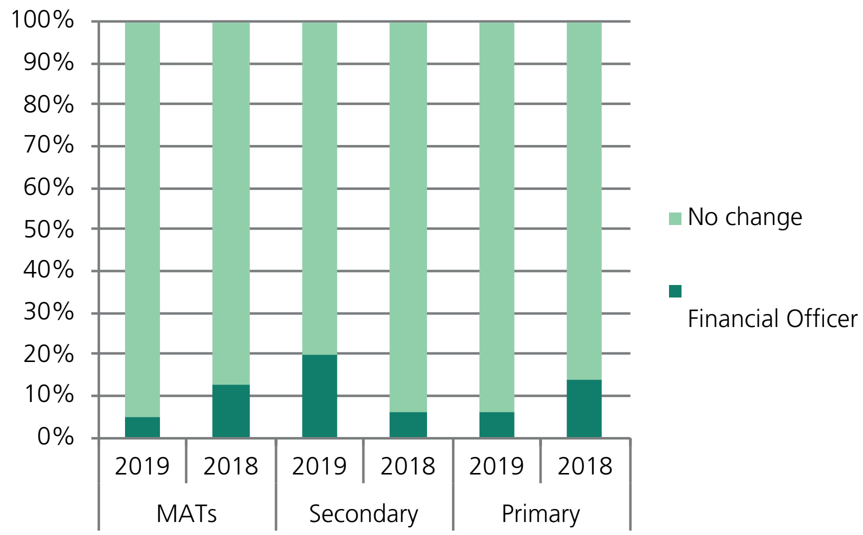
In 2016/17, we noted that a number of leaders were retiring and the reduction in trusts seeing a change since then may be partly as new and younger leaders take on the top roles.

Academies with Accounting Officer change during the year



It was a slightly different story when it comes to CFOs. We have seen some clients struggle to recruit CFOs after a change and there does appear to be a shortage of good candidates that have both the experience of working in the education sector and the accounting technical expertise required to work in some of the larger trusts.

Academies with CFO changes during the year



There was a marked increase in the number of secondary SATs who changed their CFO during 2018/19, with 20% seeing movement.

Audit findings report (management letter) points

Trustees, Accounting Officers and CFOs remain as keen as ever to ensure the audit process is smooth, and there is a strong desire for the audit findings report to be as clean as possible. This perhaps stems from familiarity with Ofsted ratings and the continual desire to be seen as 'Outstanding' or at least 'Good'. We are often asked the question of how a trust's findings report compares to other academies.

Concern should not arise just because an audit findings report highlights issues and recommendations. The audit process should be an invaluable tool that helps build efficiencies and system improvements that can benefit the trust as a whole. It is of course different if significant audit findings arise, or if issues flagged previously are not resolved in a timely manner. This is where audit committees, and boards generally, should be stepping in and ensuring that appropriate rectifying action is taken.

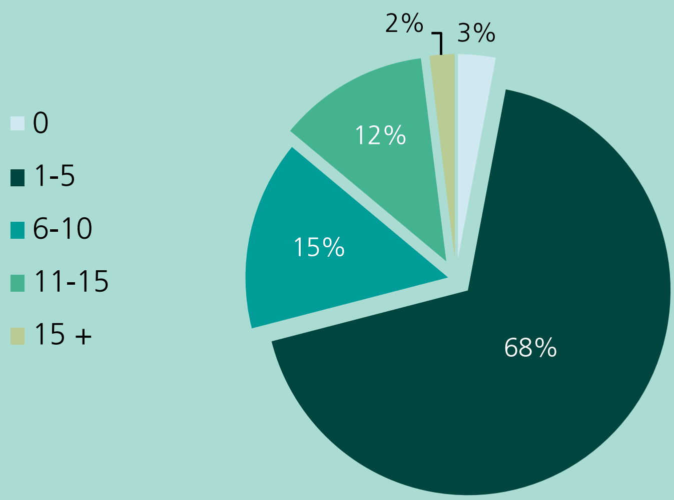
In Lord Agnew's letter to auditors in April 2019 he commented:

"I recognise that comprehensive reporting may involve sensitive or difficult conversations with a trust, but it is hugely beneficial to the trustees in supporting their oversight of financial management and improving governance. Whilst a robust exchange of views between the client and auditor is healthy, it will be an immediate warning if trustees are in denial on material issues that you raise. If serious issues develop in a trust that are linked to previous audits, but they were not flagged in management letters, we will take any appropriate action open to us."

This highlights how important it is that prompt action is taken to address issues identified with controls and systems. Audit or Finance Committees should be reviewing the findings report and ensuring that the programme of internal scrutiny work for the following year is checking that issues have been addressed, and if certain areas appear to be risky or prone to error then the internal scrutiny work should be directed towards these areas.

The number of issues arising this year is broadly unchanged from the previous year, although slightly fewer trusts (3%) achieved a complete clean findings report with no recommendations.

No. of audit finding report (AFR) points 2018/19



	2018/19	2017/2018
No issues raised	3%	5%
1 – 5 issues	68%	66%
6 – 10	15%	18%
11 -15	12%	8%
15+	2%	3%

Part of the reason so few trusts do achieve the 'holy grail' of no issues is because there are so many rules and regulations for academy trusts to follow. There are over 100 'must' requirements listed in Annex C of the Academies Financial Handbook (if some of the individual bullet points were to be broken down the number of 'musts' would be much higher), and this is before general accounting rules, the Accounts Direction, or charity and company law are taken into account.

Most academy trusts are incredibly well run and have robust systems and controls which operate effectively, and both deter and prevent fraud whilst helping the trust to achieve value for money. The headlines made when a trust fails, or where a fraud or related party transaction issue is identified, can often make it appear that the sector is in disarray. It sometimes seems that certain journalists and commentators try to spin articles to convey this message.

It is interesting that in the 2019 AFH, the ESFA chose to expand on their guidance covering internal scrutiny. Having reviewed trusts that made the headlines for the wrong reasons, or which have found themselves in financial difficulty, the ESFA have identified a clear correlation between these trusts and those that have not implemented a robust internal scrutiny service. The rules introduced from September 2019 place much more of an onus on this service and emphasised the Audit Committee's role in directing the programme of work and linking this to the risk register. Trusts were required to submit a copy of their most recent internal scrutiny report to the ESFA in December 2019 and, later in 2020, it will be necessary to prepare and submit an annual summary of the internal scrutiny work conducted and its outcomes.

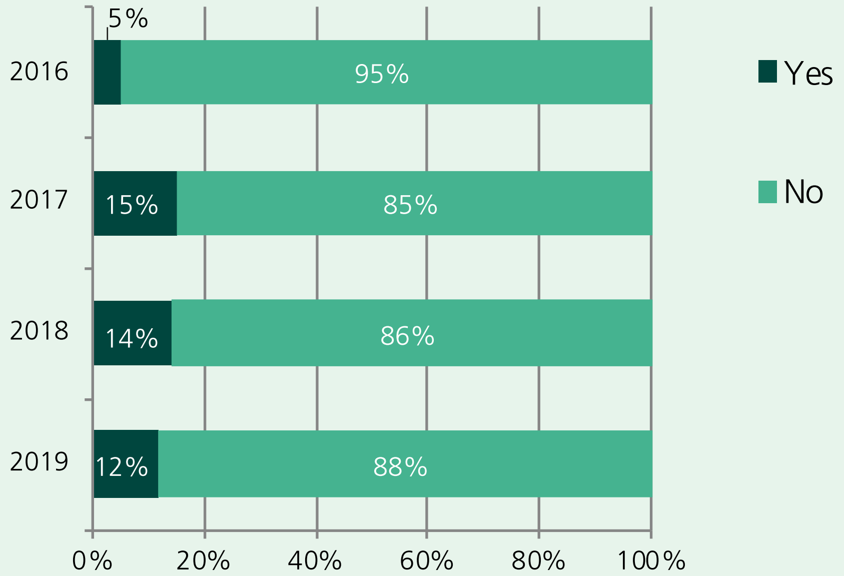
A robust and effective internal scrutiny service provide comfort and assurance throughout the year and should help to avoid surprises at the year-end audit, providing time to implement necessary changes if something has slipped or new legislation has been overlooked.

We continue to enhance our internal scrutiny offering to academy clients, broadening the scope of the work we are able to complete into increasingly non-financial areas.

Some of the common issues identified during our 2018/19 audits included:

- Not fully complying with the new related party transaction rules which became effective in April 2019
- Weaknesses in the management accounting process, often including failure to provide the Chair with monthly financial information
- Going concern issues, including general concerns over the financial situation and depleting reserves
- Weaknesses in fund accounting
- Dear Accounting Officer letters not discussed by the full board
- Missing deadlines for ESFA returns, including Budget Forecasts or the LBCT
- Company secretarial matters, including updating Get Information about Schools within 14 days
- Non-compliance with internal procurement processes
- Insufficient disclosure of business interests on the trust website, including not keeping this fully up to date
- Websites omitting other necessary information e.g. the last three years' accounts
- Not reviewing and updating the risk register
- Issues over monthly reconciliations of sales and purchase ledger control accounts
- Issues accounting for 16-19 bursary funding as agents
- Problems with accounting for capital items and maintaining an accurate fixed asset register

Trusts with high risk/priority management letter points

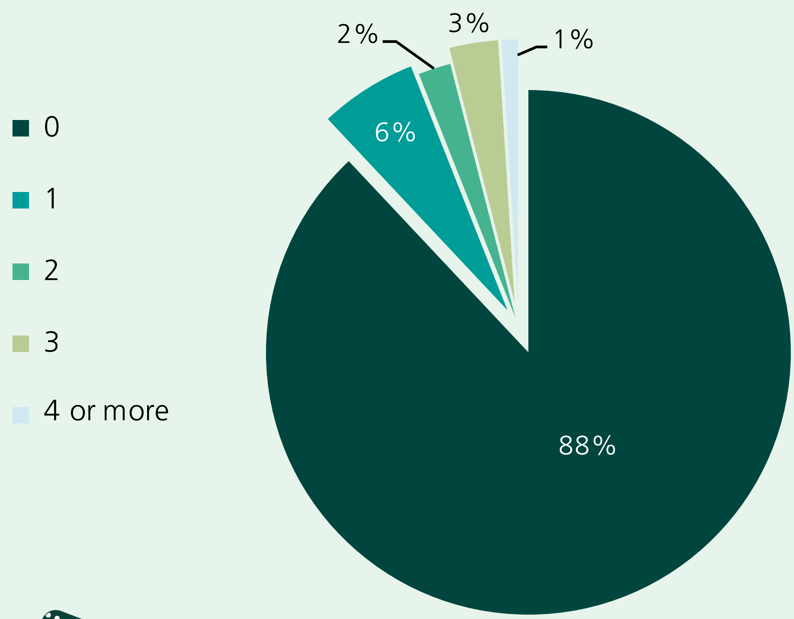


The proportion of trusts whose findings reports contained a high risk/priority point has fallen slightly but has remained broadly consistent over the past three years.

Of the 12% of trusts that did have a significant issue raised, half of these had more than one high risk point. This has been the case in previous years too, and it does suggest that if a trust does not comply in one area it is more likely to breach another requirement. Four or more high risk issues were raised in 1% of trusts.

These high risk points included going concern or other serious financial concerns, failure to comply with the new related party rules and significant issues adhering to the trust's internal procurement policies.

Number of high risk or priority AFR points



Related party transactions

New related party rules came into force part way through 2018/19, on 1 April, meaning that two different sets of requirements applied during the year.

To recap, since 1 April 2019, trusts have been required to pre-notify the ESFA of any new related party transactions and to obtain prior approval for any transaction exceeding £20,000, whether individually as a single contract, or cumulative value with the same supplier.

In previous editions of our benchmarking report we have commented about the negative press given to the relatively low number of trusts who have abused or ignored the related party rules. This is unfortunate and provides ammunition for those with an agenda against academies.

Trusts who have not complied should be held to account, but not all related party transactions are 'bad'. Many related party transactions will be entered into in good faith and will provide the trust will an excellent product or service at a 'value for money' achieving price. It does the sector no favour to starve trusts of potential trusted and well-placed suppliers.

One overriding principle should never be forgotten, however:

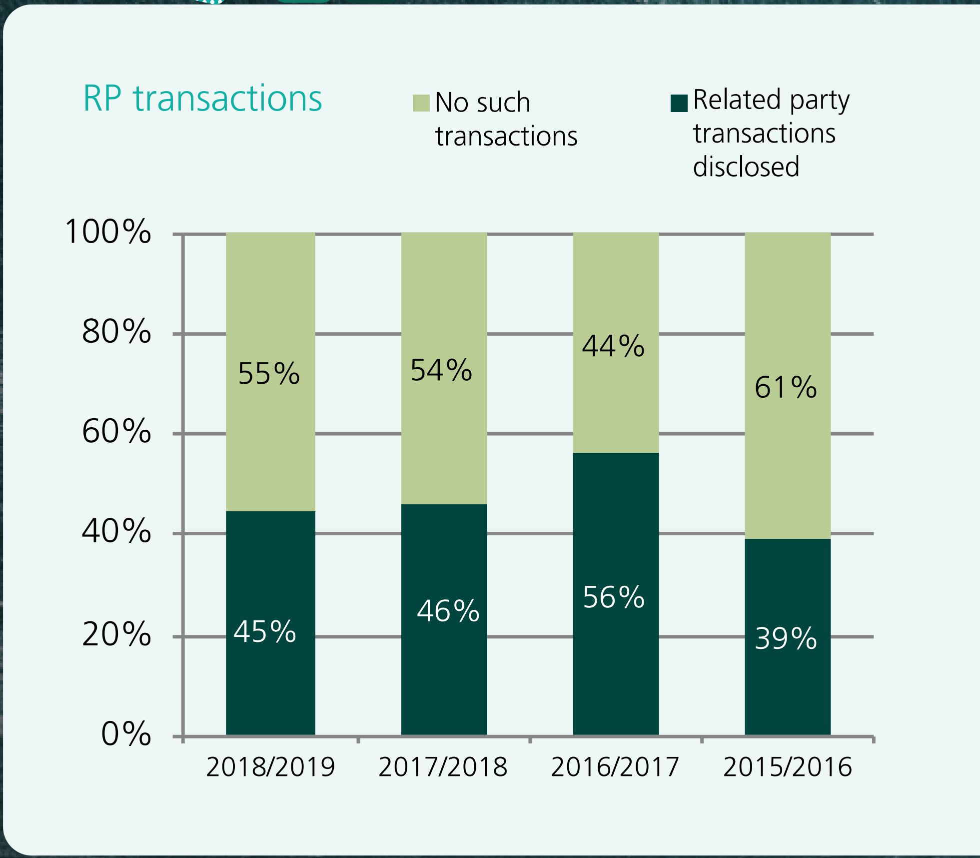
"Academy trusts must ensure that...no member, trustee, local governor, employee or related individual or organisation uses their connection to the trust for personal gain, including payment under terms that are preferential to those that would be offered to an individual or organisation with no connection to the trust."

The 2018 Academy SARA reported that the number, and value, of payments to related parties actually decreased slightly. Is this because increasingly trusts are playing safe and shying away from related party transactions altogether? The focus is naturally on payments to related parties but, interestingly, there were almost half as many receipts from related parties as payments and, in 2017/18, the value of these receipts outweighed the value of the payments. Academy trusts are therefore receiving significant sums of money from sponsors and other related parties.

Many academy trusts have links to other trusts, local authority schools or other not-for-profit organisations and a significant proportion of the payment transactions will be to these types of entries, and not to commercial companies.

Despite our own attempts to provide guidance to support the ESFA's own advice, we have seen some trusts fall foul of the new rules. We recommend that all finance staff working in academies and all trustees read the related party section of the AFH and familiarise themselves with the requirements.

The statistics from our own data show that the number of trusts reporting transactions held steady with a small majority not entering into any arrangements.



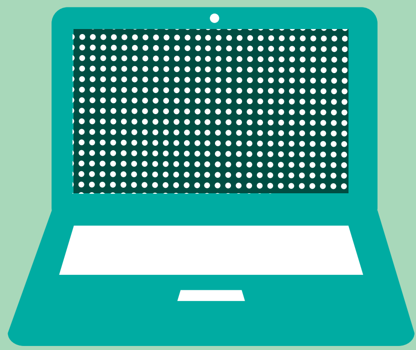
The percentage of trusts disclosing that they entered into related party transactions may, at first, appear high but this figure would fall dramatically once receipts and payments to non-commercial organisations were removed. The transparency over related party transactions in the academy sector is a good thing and is something that does not exist for maintained schools.

In our view, the rules would benefit from further clarification, although as with most legislation it is often necessary to interpret the requirements. A trust's systems and controls should act as a barrier and deterrent to any less than honest related party transactions. Probably more important is the culture. Often, when an issue does arise, there has been an overbearing individual in a senior position. Trusts should have appropriate whistle blowing policies in place so that all staff feel comfortable flagging any concerns that they may have.

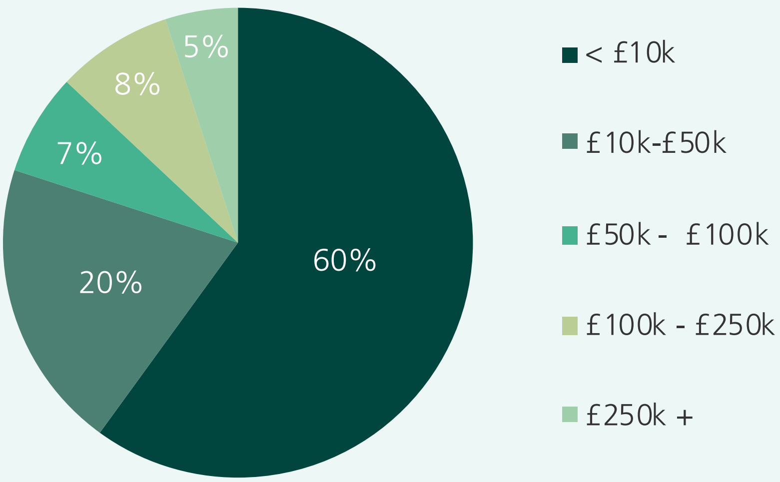
The vast majority of trusts reporting related party transactions did not enter into any exceeding £10,000. In 2018/19, 60% of trusts were in this category; an increase for the second year in a row from 52% in 2017/18 and 47% in 2016/17. This again supports the view that trusts are considering their positions carefully, understanding the rules better, and thinking carefully before entering into any large transactions.

A small percentage of trusts reported some high value related party transactions but these often include donations from a related entity, costs paid to sponsors for rent and other property costs, remuneration of staff trustees or payments from local authority schools for support and consultancy in advance of joining the trust more formally.

Many of these examples show how easy it is to misinterpret the overall statistics. We are aware that the ESFA are increasingly asking questions about intended related party transactions notified to them. One issue we are increasingly seeing is how the requirements work in a group situation. As the size of trusts grows, and the number of larger MATs also increases, more and more trusts are forming trading subsidiaries and, in some cases, the trust will procure services from the subsidiary. It may be that due to the structure the subsidiary is the only entity that could reasonably provide the service and, in such instances, it is vital that sufficient documentation is maintained to show how the trust has considered its own internal procurement rules and demonstrated value for money. It is not always necessary to obtain the three written quotes or tenders, but if a trust deviates from its own policies it needs evidence explaining why and how the eventual decision was reached.



Value of highest related party transaction



UHY's final thoughts

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

Once again we have included the average data sheet on pages 44-45 to enable you to compare your academy trust against similar trusts. We would be pleased to plot your key data on graphs against the averages if you would like us to.

This year we thought we would close our report with some top tips:

For CFOs:

Analyse how your own trust's data compares to the average, and also take advantage of the ESFA's **'My financial insights tool'** which enables comparison of financial performance against statistically similar schools across nine different cost categories.

For trustees:

To ensure you remain challenging and ask questions of key management. It is also important to be sceptical and do not be afraid to ask further questions if the initial answer provided does not bring sufficient clarity. If you have not read the AFH 'must' requirements in Annex C at the rear of the handbook recently, we recommend that you do so.

Accounting Officers:

Remember the personal responsibility for assuring the board that there is compliance with the funding agreement and handbook. AOs have a responsibility to advise the board in writing if the board fails to act where required by the funding agreement or handbook. AOs should not be formal members of the Audit (or equivalent) Committee but they should attend to provide information and participate in discussions. We would also recommend reading Part 2 of Annex B of the Accounts Direction, if you have not done so recently, summarising your responsibilities over regularity.

Audit Committees:

Read the internal scrutiny requirements section (Part 3) of the AFH and ensure that you implement a suitable programme of work that will provide independent assurance to the board that its financial controls, and other controls and risk management procedures, are operating effectively.

And finally...

With Covid-19 at the forefront of everyone's minds at the time of writing, I hope you are managing to stay safe and that your academy trust comes through this testing period relatively unscathed. To end on a positive note, many organisations and individuals will have learnt a lot about themselves and some new operating practices, which may serve us well in the future, hopefully making us all more efficient and resilient.

Take care.

Where does your academy fit within the results?

	Your academy	MATs Average 2018/19	Secondary academies Average 2018/19	Primary academies Average 2018/19
Non financial data				
Number of teachers		Not included as highly dependent on number of academies in the MAT	64	16
Number of admin and support staff			54	32
Number of management staff			8	3
Number of pupils			1050	357
Pupil to teacher ratio		19	16	20
Income				
Total revenue income per pupil		£5,639	£5,883	£4,916
Grant income per pupil		£5,034	£5,635	£4,482
Grant income % of total income		91%	94%	91%
GAG income per pupil		£4,329	£5,159	£3,702
GAG % of total revenue income		75%	85%	75%
Other income per pupil		£388	£233	£393
Other income % of total income		7%	4%	8%
Capital grant funding per pupil		£173	£93	£86
Capital grant funding % of total revenue income		3%	2%	2%
Expenditure				
Total expenditure per pupil		£6,258	£7,011	£5,759
GAG expenditure per pupil		£4,319	£5,373	£3,910
GAG % of total expenditure		69%	79%	71%
GAG result		Not included	(£10,000)	(£22,426)
GAG result per pupil		£45	(£10)	(£42)
Staff costs per pupil		£4,597	£5,050	£3,969
Staff costs % of total expenditure		73%	73%	72%
Teaching & ed support staff costs per pupil		£3,527	£3,971	£3,088
Teach & ed support staff % of total staff costs		76%	80%	78%

	Your academy	MATs Average 2018/19	Secondary academies Average 2018/19	Primary academies Average 2018/19
Support/Non-teaching staff costs per pupil		£963	£1,035	£860
Non-teaching staff costs % of total staff costs		22%	19%	21%
Supply teacher costs per pupil		£124	£107	£75
Supply teacher costs % of staff costs		3%	2%	2%
Light and heat costs per pupil		£71	£68	£63
Light and heat % of total expenditure		1%	1%	1%
Buildings & grounds maintenance per pupil		£105	£77	£83
Maintenance % of total expenditure		2%	1%	2%
Cleaning and refuse per pupil		£47	£52	£57
Cleaning and refuse % of total expenditure		1%	1%	1%
Educational supplies and services per pupil		£212	£173	£257
Educational supplies and services % of total		3%	3%	5%
Examination fees per pupil		£27	£72	£0
Examination fees % of total costs		0.4%	1.1%	0.0%
Staff development per pupil		£29	£32	£26
Staff development % of total costs		0.4%	0.4%	0.5%
Technology costs per pupil		£73	£81	£53
Technology costs as % of income		1%	1%	1%
Balance sheet				
Total reserves held		£1,780,224	£628,500	£197,846
Total reserves held per pupil		£534	£608	£579
Unrestricted reserves held		£880,134	£419,000	£103,500
Unrestricted reserves held per pupil		£299	£323	£400
LGPS deficit per pupil		£2,806	£1,976	£2,147
Capital expenditure per pupil		£862	£243	£527
Cash and bank balances held per pupil		£686	£1,027	£772

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 20* 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
- internal scrutiny and monitoring visits to provide assurance on systems and controls
- 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
- 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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