UHY Hacker Young
Chartered Accountants

2021 Academies Benchmark Report

For academic year 2019/20

Our 9th 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 ninth annual benchmarking report for academies.

Well, what a year it has been since our last report. Our 2020 report was delayed by the start of the Covid-19 pandemic and eventually published in June 2020. Now, some ten months later, it is hard to believe the country has spent most of this time in various lockdowns and that the majority of pupils have spent weeks and months learning at home.

The year has undoubtedly been challenging for everyone working in the education sector. Teachers have had to get to grips with forms of blended learning, with some pupils in class and others working remotely, and many schools have embraced modern technologies such as MS Teams and Zoom to deliver live lessons. School leaders have had to constantly react to changing government announcements, trying to do the best for their schools often with little information or guidance, or time to decipher what has been available. School finance staff have largely been overworked with CFOs pulled in several different directions.

Despite these challenges, academy trusts have been in a very fortunate position compared to many other entities, including independent schools. Their core government funding has continued and been guaranteed throughout the pandemic and, unlike many other organisations, trusts have not faced cash flow pressures, threats to their going concern status and the need to consider redundancies. That's not to say some trusts haven't been adversely affected in a financial way. Many trusts have lost out on self-generated income over the past year, and some of these were quite dependent on these additional sources.

Many trusts have saved on expenditure they would usually incur, for example agency staff, and as a result financially the majority of trusts had a good year in 2019/20 with around two thirds of trusts posting a surplus.

Benchmarking your trust is a valuable tool and we hope our report can once again be a useful resource.

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.

A summary of our report

This year our benchmarking report once again covers around 1,300 academies, with the sample including a mix of our own clients plus some other trusts, as in previous years, 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.**

I do hope that you enjoy our report and find our analysis interesting. 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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1. 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.

Average secondary academy reserves of £698,000.

66%

of primaries and 68% of secondary academies reported a GAG surplus in 2019/20.

15%

of secondary academies suffered a GAG deficit of more than £250,000.

48%

of MATs held between £500 - £1,000 of cash at bank per pupil.

Average primary academy unrestricted reserves of £502 per pupil (2019: £400)

67% of trusts reported entering into a related party transaction during 2019/20, a big rise from 45% last year.

47%

of primaries held between £1,000 and £2,000 of cash at bank per pupil.

+ £269

Average MAT reserves of £269 per pupil.

49%

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

3%

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

The average secondary held unrestricted funds of £331 per pupil, up from £323 last year.

5%

(2019: 3%) of trusts received an audit findings report with no issues or recommendations.

79%

of trusts received between 1-5 recommendations in their audit findings report.

14%

(2019: 12%) of trusts received at least one high risk or high priority audit recommendation.

87%

% of trusts reported a rise in their LGPS liability (2019: 99%).

16%

of trusts changed their Accounting Officer during 2019/20.

£246

The average secondary generated £246 of non-grant income per pupil

Across the whole sector there was a decline in supply teacher costs to average £106 per pupil.

76%

GAG income represented 76% of total income for the average primary.

£

A marked decline in agency supply costs for primary and secondary academies

52%

of trusts made some form of restructuring payment (2019: 55%)

46%

As of 1 January 2021 46% of trusts were MATs.

46%

of trusts' (2019: 69%) LGPS liabilities rose by between 25-50%.

£590

The average secondary paid key management remuneration of £590 per pupil.

76%

The average secondary had staff costs at 76% of total costs.

£

The average primary paid key management remuneration of £900 per pupil.

£87,000

The average AO salary in a single primary academy was £87,000.

£125,000

Average AO salary in a secondary academy was £125,000

£178,000

Average AO salary in a 11 – 20 school MAT was £178,000

2. 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.

The growth in the number of MATs has slowed further and the majority of trusts continue to be responsible for just one single academy. With so many academies in MATs, however, less than one in seven academies are in a single academy trust.

Academies in trusts and size of trusts

Trust size	Academies	% Academies	Trusts	% Trusts 1.2.2021	% Trusts 1.1.2020	% Trusts 1.9.2019	% Trusts 1.1.18	% Trusts 1.12.17
1	1,415	14.9%	1,415	54.2%	55.5%	59.6%	62.2%	69.8%
2	504	5.3%	252	9.6%	10.1%	11.0%	11.5%	10.5%
3-5	1,814	19.2%	471	18.0%	18.6%	17.3%	16.0%	12.7%
6-10	2,130	22.5%	284	10.9%	9.8%	7.7%	7.0%	5.0%
11-20	1,967	20.8%	139	5.3%	4.3%	3.0%	2.4%	1.3%
21-30	753	8.0%	30	1.1%	1.0%	0.8%	0.6%	0.4%
31-40	457	4.8%	13	0.5%	0.5%	0.3%	0.2%	0.1%
41+	429	4.5%	8	0.3%	0.3%	0.2%	0.2%	0.2%
Total	9,469	100%	2,612	100%	100%	100.0%	100.0%	100.0%
Total 1.1.2020	9,041	100%	2,705	100%				

Source: DfE Open Academies

There has been a reduction in the percentage of smaller MATs responsible for up to five academies as trusts continue to grow and consolidate together with a marked rise in the mid-tier trusts. There has been very little movement at the top end with a growing realism that trusts can, perhaps, become too large and that it may be preferable to keep trust size at a more manageable level.

GAG pooling vs top slicing

We are increasingly seeing trusts explore pooling, however, the more traditional top slice method remains by far the most popular route of financing a MAT's central trust function. A snowball effect is perhaps likely; as more trusts embrace the pooling model others will gain confidence that it can work successfully and this should encourage further trusts to at least look at pooling.

The main opposition to pooling continues to be academies fearing the relinquishment of control, and trust leaders also show concern that it may be more difficult to recruit academies to a trust that pools.

Of course, it is possible to begin gently by pooling only certain funds instead of rushing to pool all income funds from the beginning.

One strong approach is to build a central pool of funds which can be used as a reserve for any trust academy to dip into. We are increasingly seeing trusts pool all self-generated income centrally so that these funds can be put to use where needed.

More and more MATs are also moving to one central bank account. Running just one central account (or perhaps a couple if a reserve or despot account is also required) significantly reduces the amount of admin and the time it takes to complete routine financial procedures, such as bank reconciliation. One central account irons out any cash flow difficulties arising at individual academies and reduces financial management time monitoring cash flow.

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 but it is not uncommon for small MATs to charge more than this 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.

Each year the CFO needs to consider the expected central trust running costs for the following year and set an appropriate top slice percentage that ensures these costs are covered. We have seen too many MATs charge insufficiently to then find the central trust function is running at a deficit. Whilst this can be managed from a cash flow perspective, particularly if one central bank account is in operation, it should be avoided where at all possible since it sends out the message that the trust is finding it difficult to manage its finances. Academies potentially looking to join a MAT may also be deterred if they feel they will be asked to pay for the deficit themselves in the future.

It remains vital for any MAT's future that individual academies feel they receive value for money from the services they are effectively procuring through their top slice payments.

3. Staff costs, numbers and teaching staff to pupil ratios

Academy budgets remain tight and, in view of this, all well managed trusts will be keeping a close eye on what is by far their most significant cost – their employees.

To operate both a sound financial model and to provide an excellent education to its pupils, a trust has to ensure its staff offer value for money. This can be difficult at times, with teaching staff automatically rising up through pay spines for most trusts, and regular pressure from teaching unions.

Academy leaders are very aware of what other local trusts may be paying their staff and, with a shortage of high quality staff in some areas, competition between schools is fierce. Academies near London, but outside the zone for higher pay, face a particular challenge with the risk that teachers living on one side of the threshold will travel to work at a school on the other side.

In 2020, the Education Secretary accepted recommendations by the School Teachers' Review Body to increase the starting salary for new teachers by 5.5%, and the Government has committed to a £30,000 starting salary by 2022/23. Since then, the continued impact of Covid-19 on Government finances and announcement of a pay freeze for public sector workers has cast considerable doubt on this commitment.

Time will tell what happens but it is difficult in the meantime for academies to prepare their budgets: the hope would be that any significant changes are funded in some way.

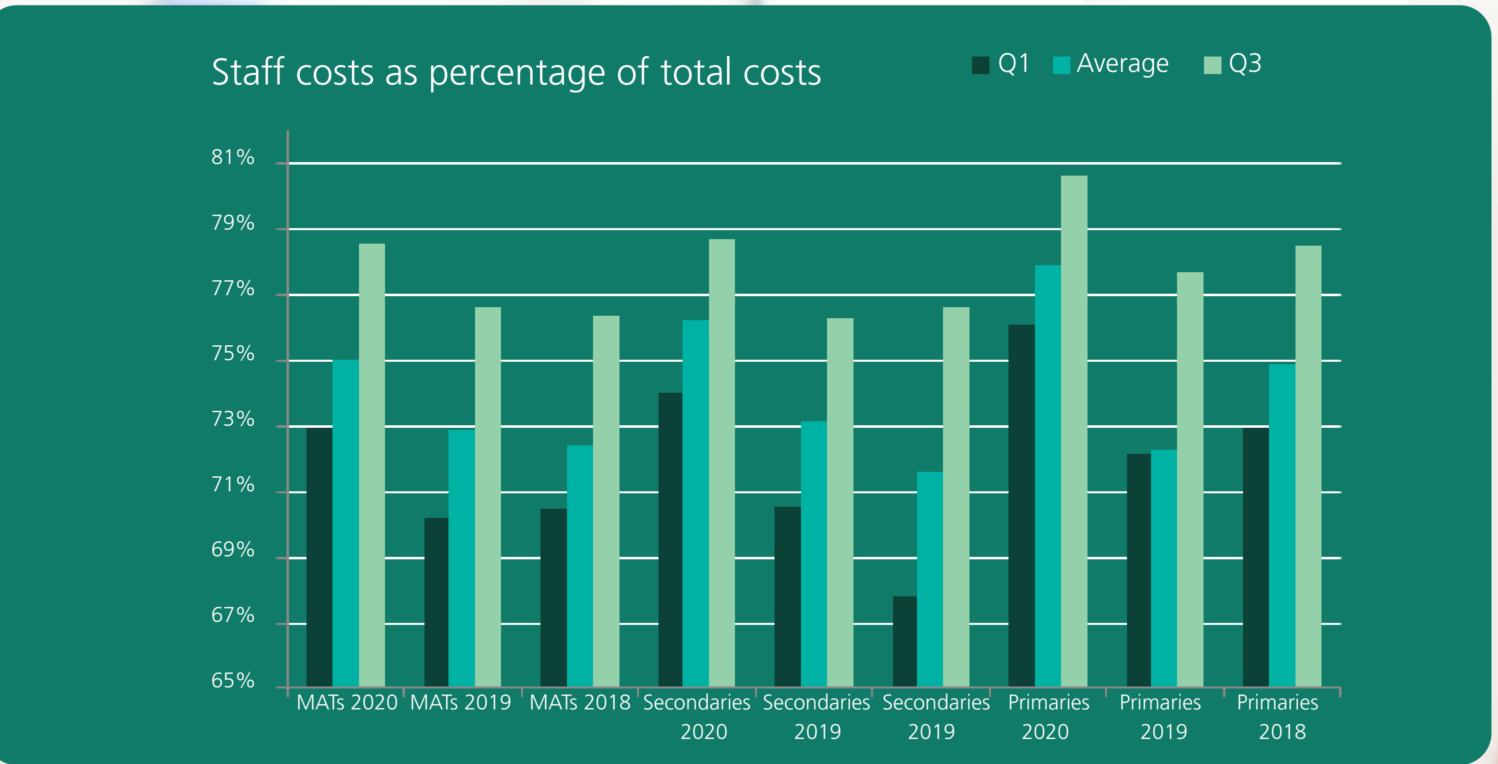
The Teachers' Pay Grant and Teachers' Pension Employer Contribution Grant (TPECG) continued as separately paid grants for the 2020/21 financial year and have been worth significant sums. The grants will be swallowed up within core funding thereafter, and there remains uncertainty over how much the funding will be worth in the future.

Staff costs make up such a large proportion of any school's budget that it is the obvious area to focus on if it becomes necessary to make savings. At the same time, staff are at the core of the educational activities being provided and it is therefore a constant and difficult balance. This is why ensuring value for money is achieved is so key. Using techniques such as benchmarking and integrated curriculum financial planning (ICFP) can help identify areas where a trust may not be operating efficiently as possible. The contact ratio is an important part of ICFP since it is vital that teaching staff, including educational leaders, are spending sufficient time in front of pupils.

If the new minimum starting salary does come into force, it is likely to impact on some trusts more than others. Whilst the rise for the starters themselves is significant, the real additional cost for trusts comes from the knock-on impact on other salaries which will need to rise in response to higher starting salaries. This extra cost is hard to quantify but is likely to be significant, and trusts that often rely on new graduates and other less experienced teachers will see sharper increases.

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 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 marked increase in staff costs during 2019/20 across all types of trust following several years of stability, or even falling costs in some cases. This is to be expected following the funded pay and pension increases, but it does highlight the importance of the continued funding to academies' future budgets. The average staff costs have crept up a few percentage points across the sector, but primary academies have seen the largest increase.

	Average staff costs as % of total costs			
	2019/20	2018/19	2017/18	2016/17
Primary academies	78%	72%	75%	73%
Secondary academies	76%	73%	72%	73%
MATs	75%	73%	72%	73%

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.

The cost of getting it wrong when it comes to staff can result in significant financial costs. Restructuring costs remain common, and when it comes to agreeing severance settlements this can take up significant management time. Of course, some restructuring costs arise by choice if costs need to be cut, with the shortterm cost outweighed by the longer-term savings.

Where an employee is not performing, trusts should ensure they manage the process well from the very beginning, taking appropriate HR and legal advice where necessary, and maintaining detailed records. This can help keep the cost of a settlement down but with current employment law weighed in the employee's favour it continues to often be cheaper – when management time is taken into account - to enter into a settlement than deal with a protracted court case.

We continue to see innovative ways of dealing with annual pay reviews and trusts increasingly linking pay rises to performance. The past twelve months have been unprecedented and I am sure all trusts will have staff who have embraced these challenges more than others, and it is only right that they are the staff rewarded.

Last year we highlighted the DfE updated guide **'Implementing your school's approach to pay'** and this remains a useful resource, with helpful non-statutory advice for schools and governance boards on subjects such as delivering the appraisal process and how to make robust and informed decisions on teachers' and leadership pay.

Integrated Curriculum Financial Planning

We touched on **Integrated Curriculum Financial Planning (ICFP),** or curriculum led planning, earlier in this section. This method of monitoring efficiency remains popular and the DfE continue to push trusts to use ICFP by requiring them to sign up for it as part of the terms and conditions of certain grant funding.

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.

If you have not already embraced ICFP we recommend that this is something you do look into.

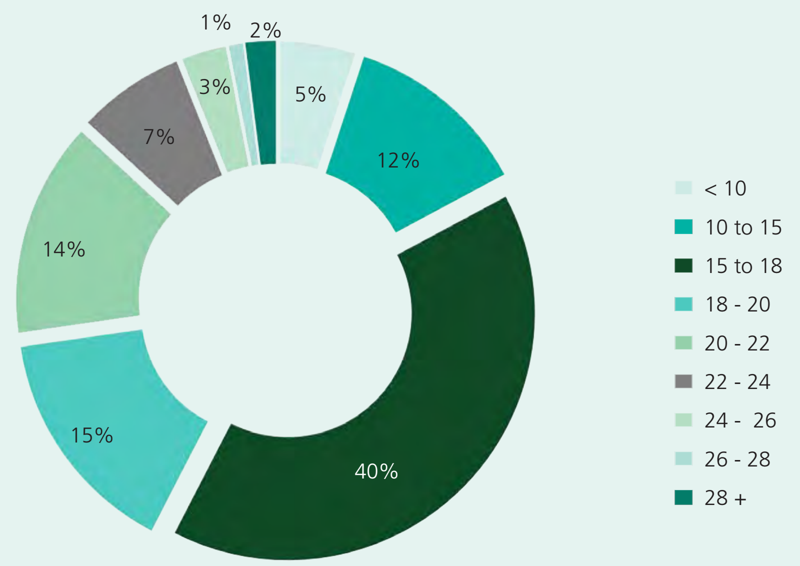
Pupil to teacher ratio

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, 55% (2019: 57%) of academies in our sample had a pupil to teacher ratio (PTR) in one of two most common ranges, meaning the majority of academies once again 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, 2% of academies (up from 1% last year) had a PTR of over 28, but overall there was little movement and a similar percentage of trusts reported PTRs of over 20, as last year.

Pupil to teaching staff ratio

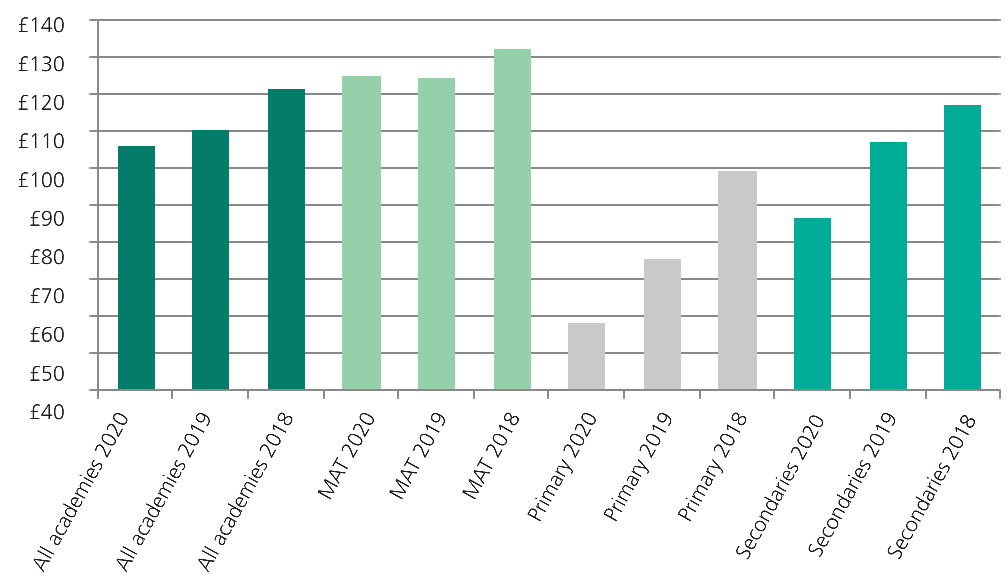


Supply staff

The cost of supply and agency staff remains high for many academy trusts. The final few months of 2019/20 saw some challenges and opportunities in this area, with many academies and trusts saving considerable sums they were expecting to spend during the period where schools were closed, apart from for children of key workers. Other academies have battled with losing staff at short notice due to the virus itself, or where staff have had to shield or self-isolate.

Across the sector there has been, on average, a decline in supply teacher costs from £110 per pupil to £106 per pupil. Interestingly, the supply costs incurred by MATs is unchanged, where as both single secondary and primary academies showed a marked reduction. The actual spend behind these per pupil numbers shows that the average primary academy has paid out £21k (2019: £23k) in supply costs and the average secondary £92k (2019: £109k).

Supply teacher costs to £ per pupil



Key management remuneration

Senior leadership pay continues to be a divisive issue in the sector and, rightly, is often an area that comes under scrutiny.

Trusts need to follow the AFH guidance for setting executive pay which requires a "robust evidence-based process and a reasonable and defensible reflection of the individual's role and responsibilities".

Benchmarking against other trusts is worthwhile but differing structures and the decision over who is classed as key management, particularly in a MAT, continues to vary enormously and restricts the usefulness of some comparisons.

Academy trust accounts need to disclose remuneration pay to key management personnel (KMP). This is a term used in the accounting standard FRS 102, on which much of the Academy Accounts Direction (AAD) is based. The AAD makes it clear that key management would be considered to be:

"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 trusts with multiple academies, it may also include principals and senior leadership teams of individual academies. However, this will depend on the specific circumstances in place."

The ESFA guidance issued in July 2019 on setting executive salaries continues to be a useful resource which can help boards in making decisions about pay and 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.

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.

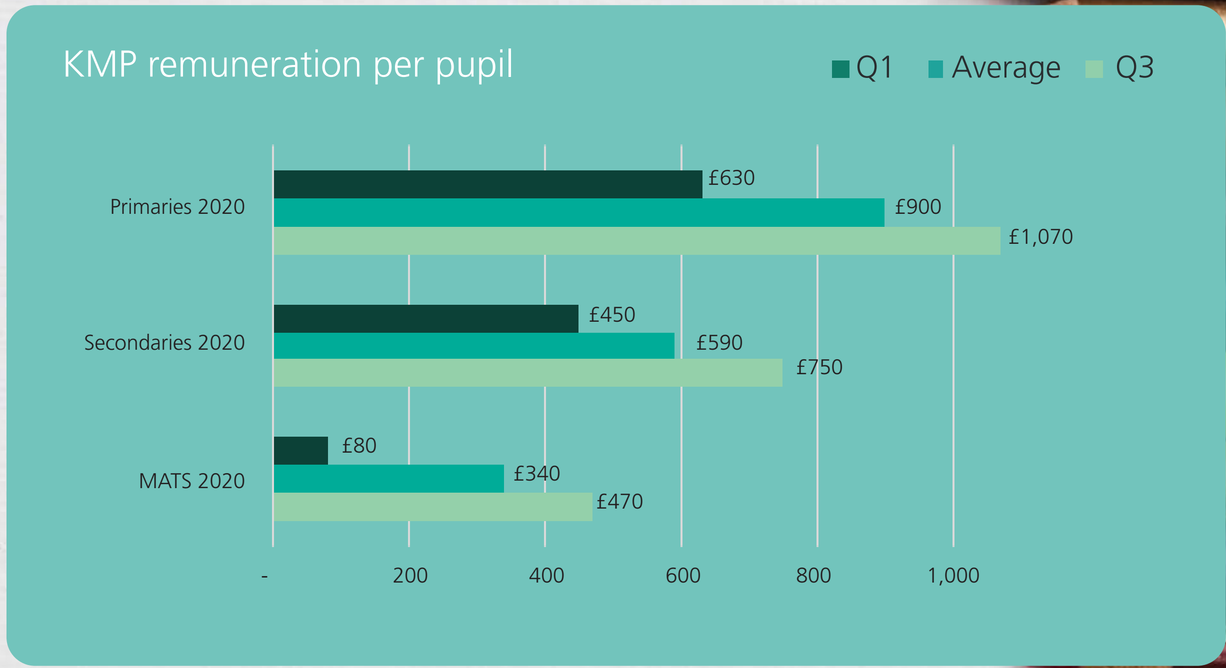
The DfE has taken steps to challenge and reinforce the message to the sector that there is need for robust evidence-based processes in setting pay, and to ensure in particular that pay of leadership teams in the sector is transparent, proportionate and justifiable, including:

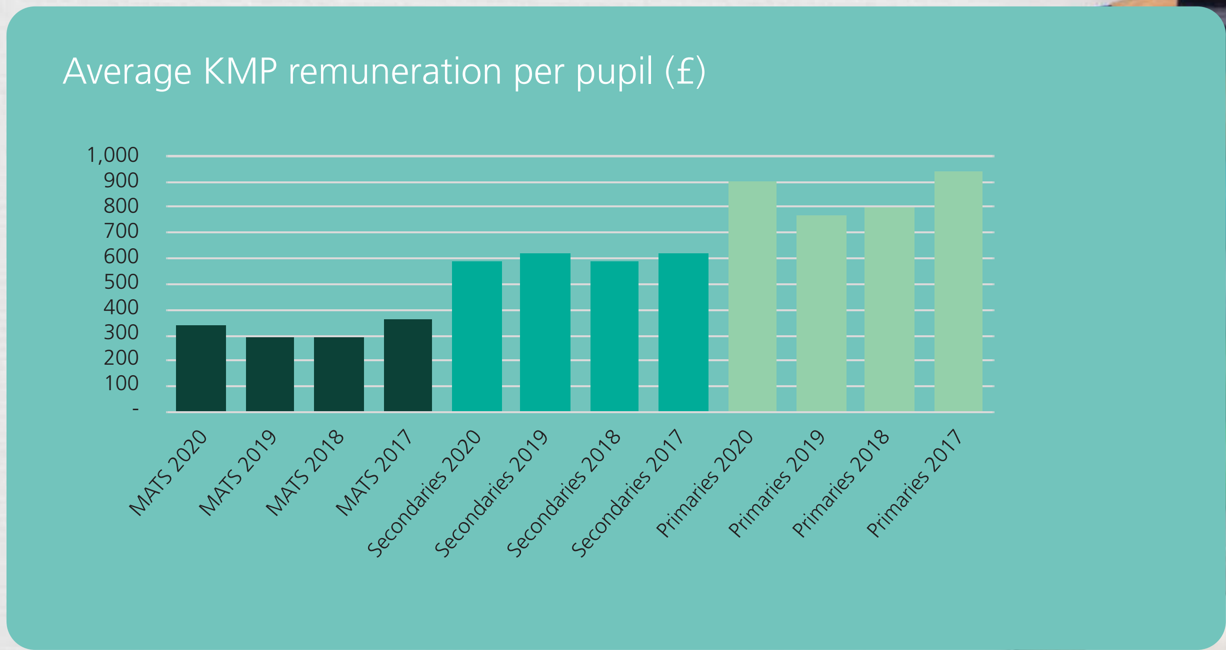
- publication of trusts paying a member of staff or trustee £150,000 or more, or multiple salaries between £100,000 and £150,000
- a requirement for trusts to reproduce on their website the high pay disclosure provided in their financial statements.
- trusts in the defined Excessive Executive Pay (EEP) category can face up to a four point deduction on Capital Improvement Fund (CIF) bids
- seeking assurance from chairs of trustees that structured pay policies and procedures are in place where trusts pay any individual over £150,000, or two or more over £100,000 each
- with reference to the size of the trust, challenging trusts to justify their decision making where a member of staff is paid over £150,000, or two or more salaries are over £100,000 each.

	2018/19: Number of ATs paying at least one individual above this	Proportion of ATs in sector	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
Payments of £150k or more	325	11.1%	146	4.8%	125	4.0%
Payments of between £100k - £150k	1,387	47.5%	988	32.4%	941	30.1%

Source: DfE Academy Schools Sector Annual Report and Accounts for 2018/19

The Academy Schools Sector Consolidated Report and Accounts (SARA) for trusts 2018/19 year was published by the DfE in July 2020 and reveals why there is such a continued focus in this area. At first glance, the large increases in numbers and percentages of trusts paying high salaries is concerning, but a change in reporting requirements for 2018/19 means these latest figures include employer pension contributions whereas the earlier years do not. Many more staff have therefore been pushed into the first band or up into the higher £150k band. It will be interesting to see the results for the 2019/20 SARA when this this is published later in 2021.





The chart above top shows quite a range of results in per pupil figures across all types of trust. For MATs in particular the quartile 1 result is a mere fraction of the quartile 3 figure.

If we look just at the average figures, and compare year on year, we can see an increase this year for both MATs and primary academies, reversing the general slight downward trend in previous years.

In the chart above, 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 2020	Mean average KMP cost per pupil 2019	Mean average CEO/AO cost per pupil 2020	Mean average CEO/AO cost per pupil 2019
2-5 schools	£577	£423	£122	£85
6-10 schools	£343	£324	£46	£51
11-20 schools	£241	£181	£24	£19
20 schools +	£73	£74	£14	£9
Mean average	£340	£290	£65	£54

CEO/Accounting Officer salaries

Trust boards and pay committees should also remember it is not acceptable to pay a certain salary just because another local trust of a similar size does likewise.

Payments to the very highest paid individuals will always attract 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 be 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.

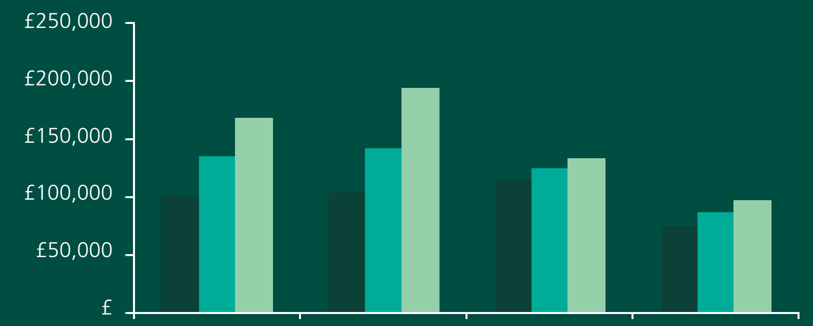
In recent years, the ESFA letters to trusts paying high level of salary to executive leaders has forced trusts to justify these salaries, in some cases resulting in a reduction.

There is a relatively small band of remuneration levels for both secondary and primary headteachers. Half of all secondary headteachers were paid between £115,000 (quartile 1) and £133,000 (quartile 3) whilst 50% of primary headteachers received remuneration of between £75,000 and £96,519.

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

Size of MAT	Average CEO/AO salary
2 - 5 schools	£110,000
6 - 10 schools	£140,000
11 - 20 schools	£178,000
20 schools +	£203,000

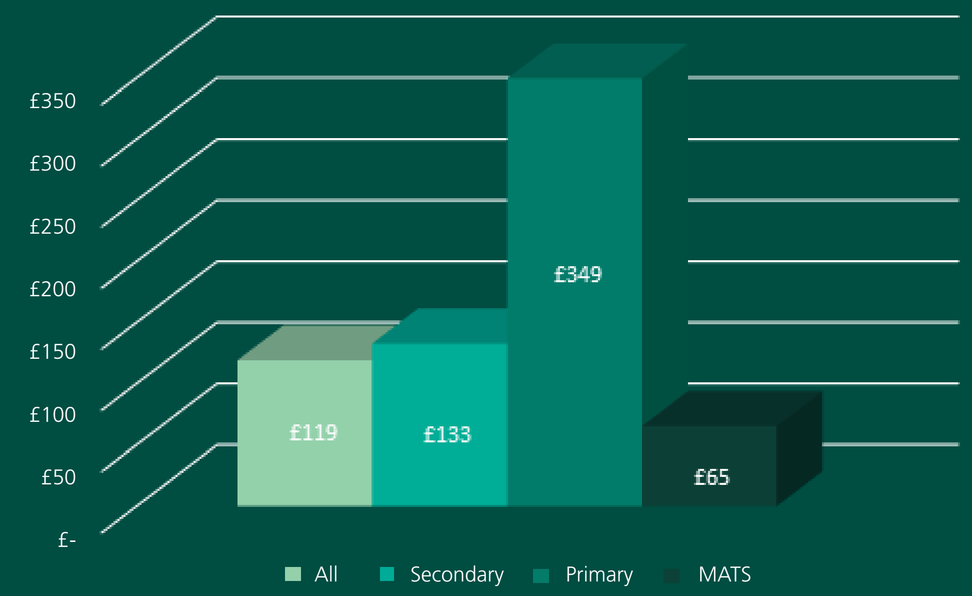
CEO salaries



	All	MAT	Secondary	Primary
Q1	£101,287	£104,801	£115,043	£75,236
Average (median)	£135,651	£141,781	£125,000	£87,577
Q3	£167,447	£193,922	£133,000	£96,519

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

CEO/Accounting Officer salaries per pupil

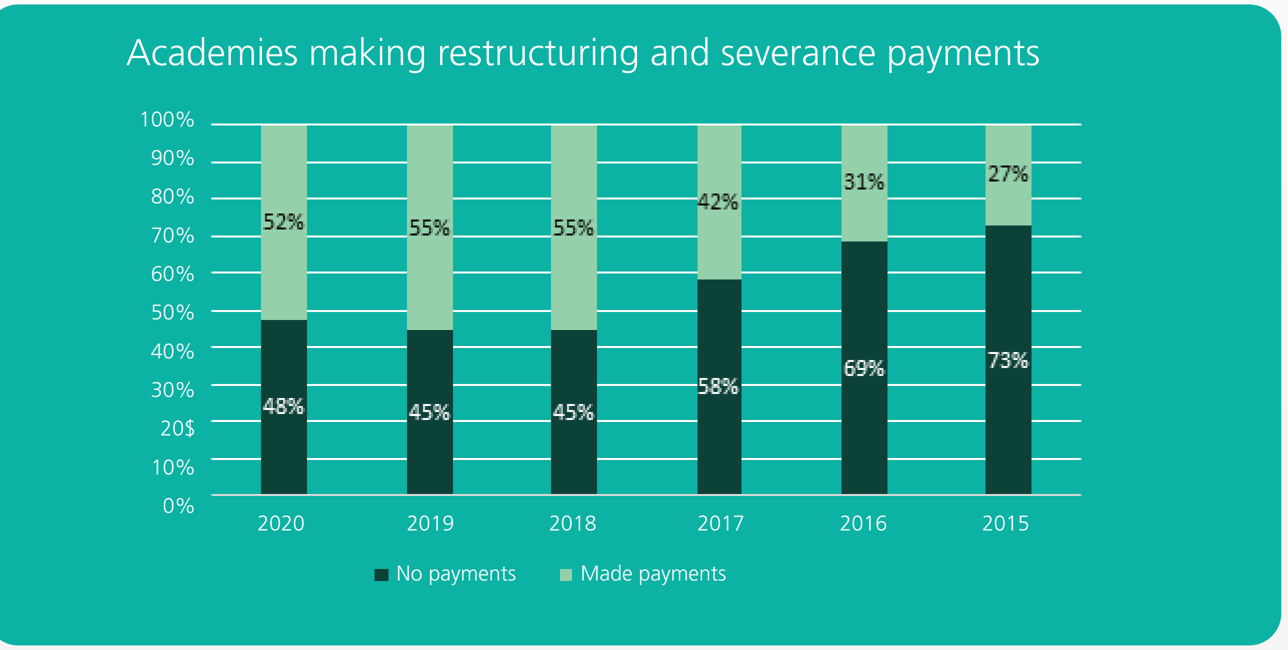


Restructuring and severance payments

Restructuring payments, including severance, are common in the sector. For the third consecutive year, the number of trusts making such payments has been slightly more than those trusts which have not. This year there has been a slight fall in the percentage of trusts making such payments. It is only a slight decline, but it does reverse the previous worrying upwards trend.

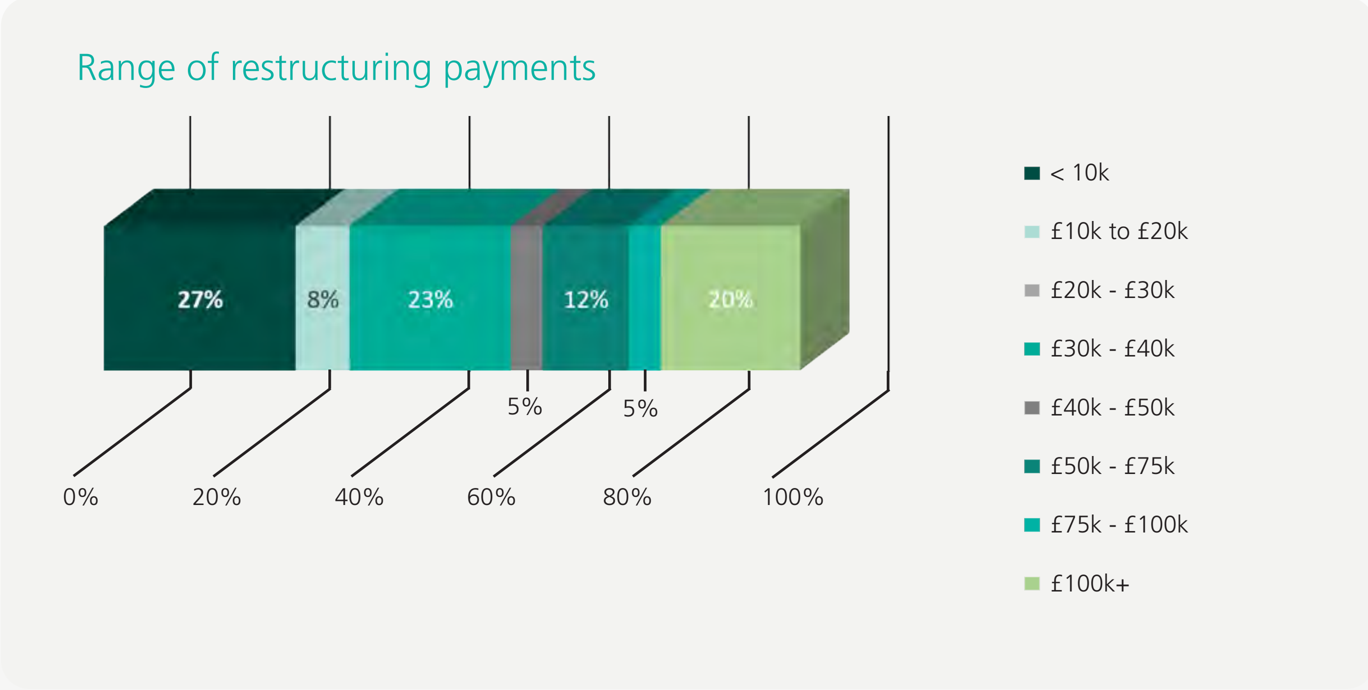
It should be remembered that restructuring costs are often incurred deliberately with the aim of becoming more efficient and achieving longer term savings. The regular rebrokerage of trusts and mergers between MATs also has an impact since some degree of restructuring is inevitable after such changes.

Restructuring is sometimes instigated by a financial need. If a trust is struggling in a financial sense, it is imperative that leaders react early enough to ensure that the trust can afford the short term costs without causing cash flow worries.



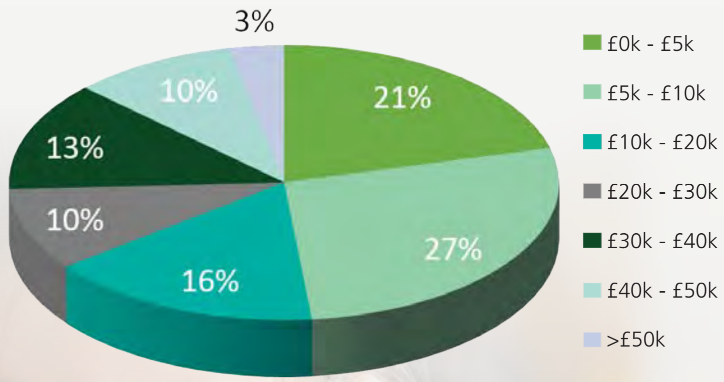
Range of restructuring payments

The level of restructuring payments made is also important. A significant number are relatively small, and this year almost 3 in 10 trusts making payments paid less out less than £10,000. At the opposite end of the scale, 20% of all trusts paid out over £100k in total. This is a substantial decline from the 32% of trusts paying at that level in 2018/19. With the MAT figures often spread across numerous academies the high totals should not come as a complete surprise, but it highlights the additional costs that some trusts do face.



Trusts have to disclose the individual non-contract severance payments which form part of the total restructuring costs, and this further analysis helps us to understand the total costs. In some cases, the totals comprise a number of smaller payments, but there are some trusts paying significant individual sums.

Highest non-contractual payment



This year even more trusts' (48%) (2019: 38%) highest non-contractual payment was in the lowest two bands (up to £10,000). There were also fewer trusts in the over £50,000 band, with the largest individual payment recorded of £67,000.

Sorted by type of trust, the highest individual non-contractual payments during 2018/19 were:

	2019/20	2018/19
Primary	£12k	£10k
Secondary	£59k	£30k
MAT	£67k	£200k

4. 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.

Teachers' Pension Scheme

We noted last year the key change on 1 September 2019 was the rise in TPS employer contribution rates. The Teachers' Pension employer contribution rate increased sharply from 16.4% to 23.6%. With the additional employer contribution of nearly £3,000 for a teacher on a gross salary of £40,000, it is easy to see why the rate rise has had an impact on total salary costs.

As noted elsewhere the rise has been funded via the Teachers' Pension Employer Contribution Grant and so there has, to date, been no net cost to academies.

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. The last full valuation 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.

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. This should work, but it will take some time before the impact is seen in the pension valuation.

Local Government Pension Scheme

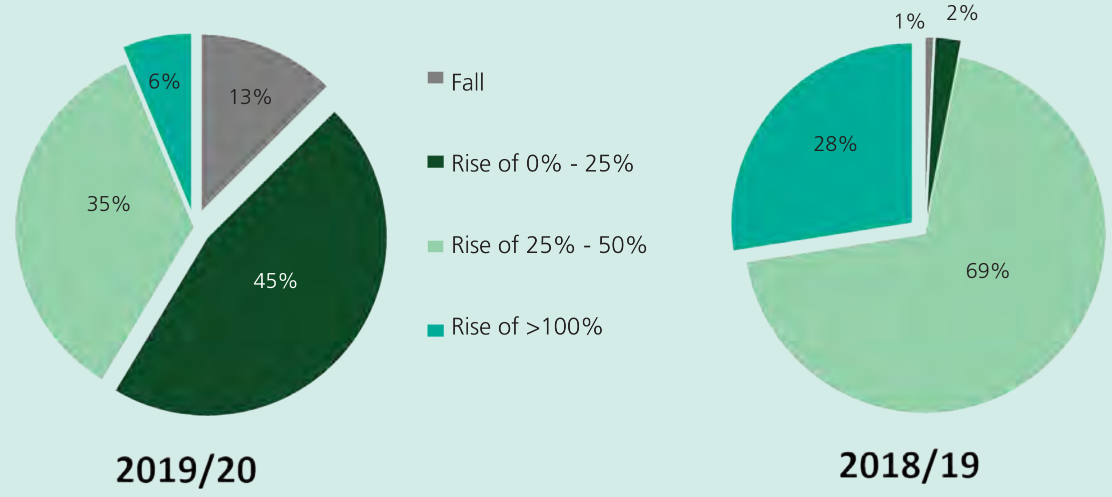
In terms of the annual financial statements, the focus is on the Local Government Pension Scheme (LGPS) liabilities, since these sit on academy trust balance sheets and are more visible.

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.

The stock market was thrown into a period of panic in response to the pandemic with share prices tumbling and, therefore, it should come as no surprise the value of assets has fallen in most schemes. There have also been some changes to the assumptions made by the actuaries which have increased liabilities in some cases. This is not a good mix and has resulted in significant rises in carried LGPS deficits. The range of assumptions used by different actuaries is one factor that makes understanding pensions so difficult. Some deficits have fallen where certain actuaries made extremely cautious assumptions in the prior year which have partially reversed out.

As a result, 13% of trusts did see their carried deficits fall (there will be some trusts within this figure that transferred academies out too). What really stands out compared to the previous year is that, on the whole, the deficit increases were less severe in 2019/20 with nearly half reporting a modest rise of no more than 25%.

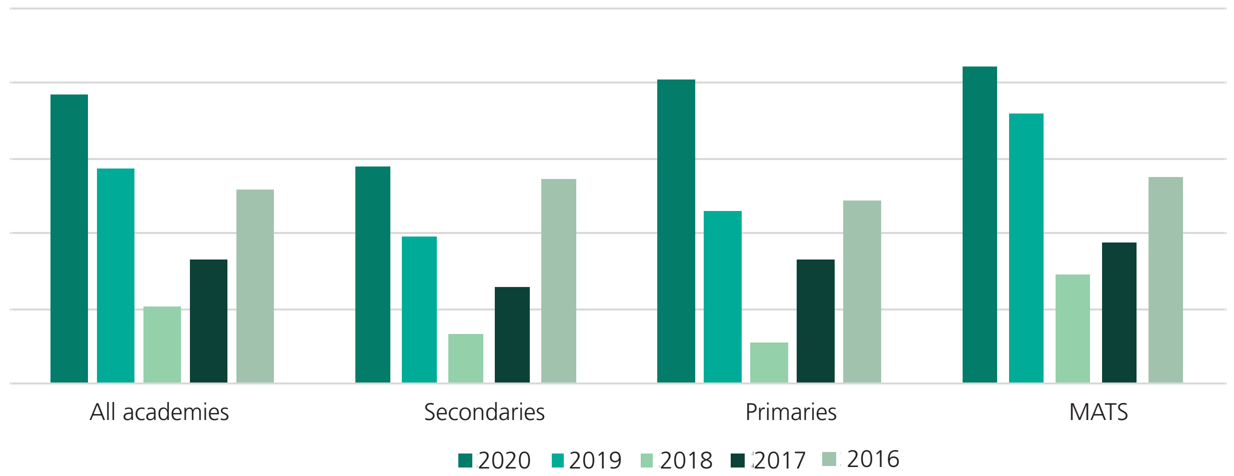
% Movement in LGPS liability vs opening liability



Despite the LGPS deficit being outside the trust's control, it remains a topic which trustees are sometimes keen to discuss because the large liability makes them nervous, even if their auditors are advising that it is merely an accounting deficit that they do not need to be overly concerned over.

The chart below, showing deficits on a per pupil basis, reveals just how much the LGPS deficits have increased, on average, over the past two years. It is hard to tell at this early stage of the Covid-19 recovery how deficits at 31 August 2021 may look.

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.

5. Income

Funding for schools continues to be a hot political subject. The Government reacted quickly to the coronavirus pandemic and put in place various funding streams to assist challenged academies.

- **Catch up premium** – worth £1 billion to help pupils and disadvantaged young people catch up on missed education because of coronavirus.
- **Exceptional cost funding** – designed for schools whose budgets could not cope with the additional costs arising from the pandemic, for example extra cleaning or other premises costs incurred when keeping the school open for key workers' children during holiday periods.
- Allowing **Coronavirus Job Retention Scheme** claims – where trusts employed staff working in an area of business where services are temporarily not required and whose salaries were not covered by public funding.

We have commented in section 2 on the significant commitment shown by the Teachers' Pay Grant and Teachers' Pension Employer Contribution Grant funding to cover rising staff costs.

The Government has also announced an additional £315m of capital funding for the academy sector, part of wider commitment to all schools.

For many trusts, therefore, the 2019/20 year saw a rise in income albeit with related costs. A number of trusts have been in the fortunate position in recent years of benefitting from significant self-generated income and, slightly perversely, it is these trusts which have been hardest hit during the pandemic. Their additional sources of income were often extinguished almost overnight and, for trusts relying perhaps a little too much on this income, this has caused some difficulties.

It will be interesting in the coming years to see how the aftershocks of the pandemic on government finances impact on the education sector. The national purse strings will need to be tightened in response to the increase in borrowings over the past year and, with increased burdens on the NHS, the pressure from other public sectors will need to be balanced.

For now, the funding promises announced in August 2019 continue, which means additional funding of £2.6bn for 2020/21, £4.8bn for 2021/22, and £7.1bn for 2022/23. This means an overall schools' budget of £52.2 billion in 2022/23. In 2020/21 alone, school funding has increased by 5% compared to in 2019/20, while high needs funding has increased by 12%. A commitment is certainly there, but for some this is not enough.

For 2020/21 the minimum funding per pupil is £3,750 in primary schools and £5,000 in secondary schools. Funding for 2021/22 will be at least £4,000 for each primary pupil and £5,150 per secondary pupil.

Schools will actually receive more than this because of the changes to the Teachers' Pay Grant and Teachers' Pension Employer Contribution Grant, which are being incorporated into the main funding following the cessation of the separate grants. Schools will receive an additional £445 per pupil to cover the combined additional teachers' pay and pension costs previously funded through the separate grants.

In 2021/22 every school, including academies, will be allocated at least 2% more pupil-led funding per pupil compared to its 2020/21 National Funding Formula (NFF) baseline.

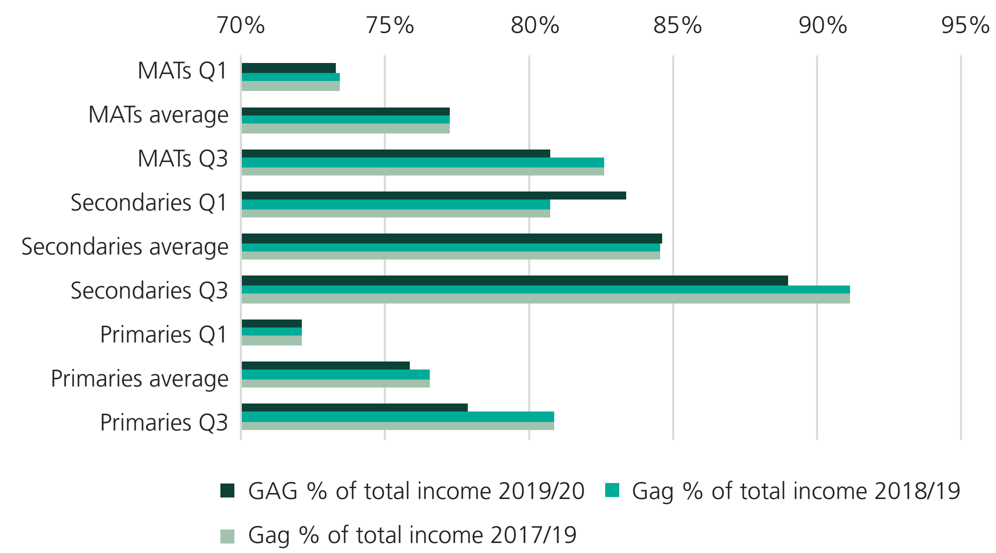
The implementation of the hard NFF has been delayed until 2022/23 at the earliest, however, leaving inconsistencies in the meantime depending on local authorities' own approach to funding.

We commented in our last report that 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 school 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.

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 academies continue to be considerably more reliant on GAG income than their primary counterparts. This is despite many secondary schools having more scope to generate their own income from their facilities. The reason for this is because primary academies usually 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.

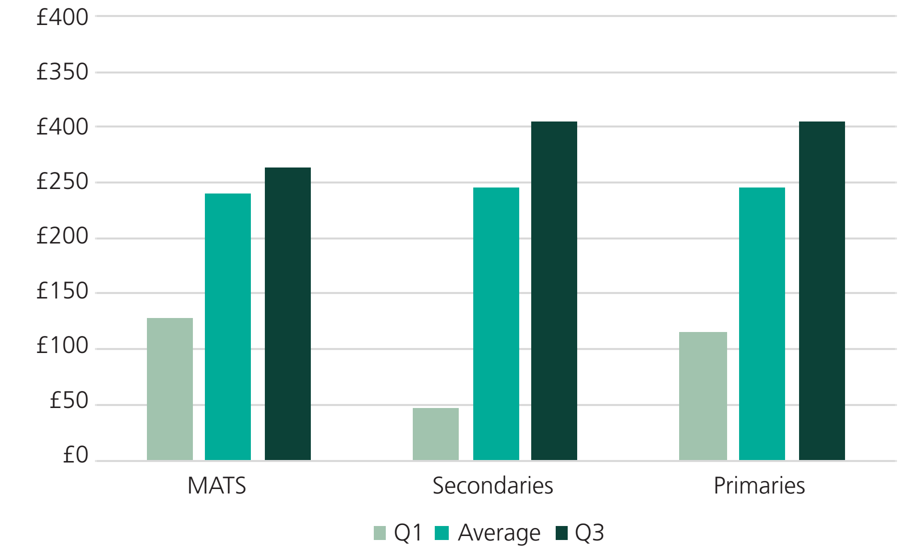
We continue to see larger MATs establish trading subsidiary companies. If trusts are generating new income streams it is beneficial to take professional advice to ensure that these do not create tax or VAT problems. It is always better to plan ahead and be clear on the most efficient structure before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

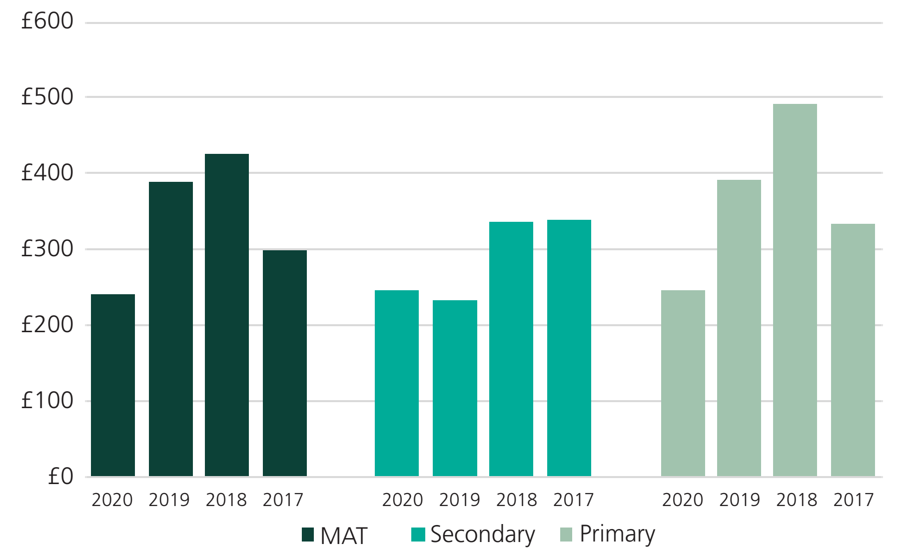
There is a large variation between the per pupil other income figures for both secondary and primary academies, with the bottom 25% lagging significantly below the average. The top 25% are above £300 per pupil, some way below the figures achieved in 2019.

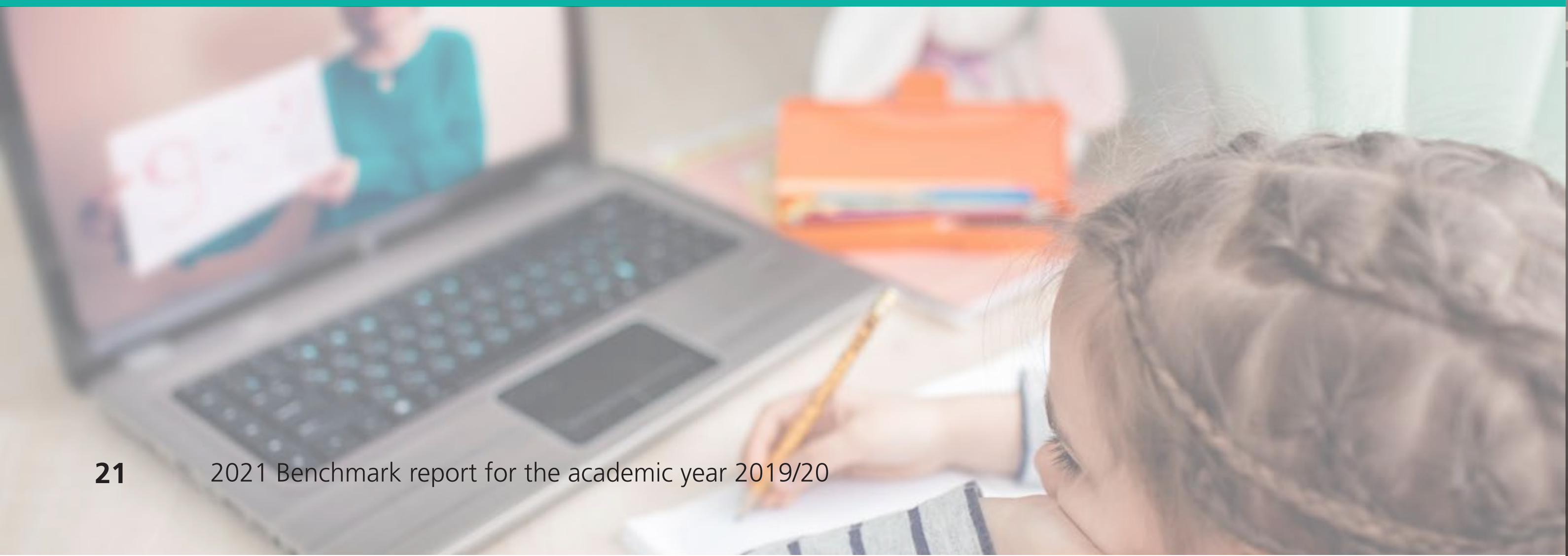
The overall decline in other income does not come as a surprise with schools partially closed for a significant proportion of the year.

Other income per pupil



Other income per pupil - average year on year

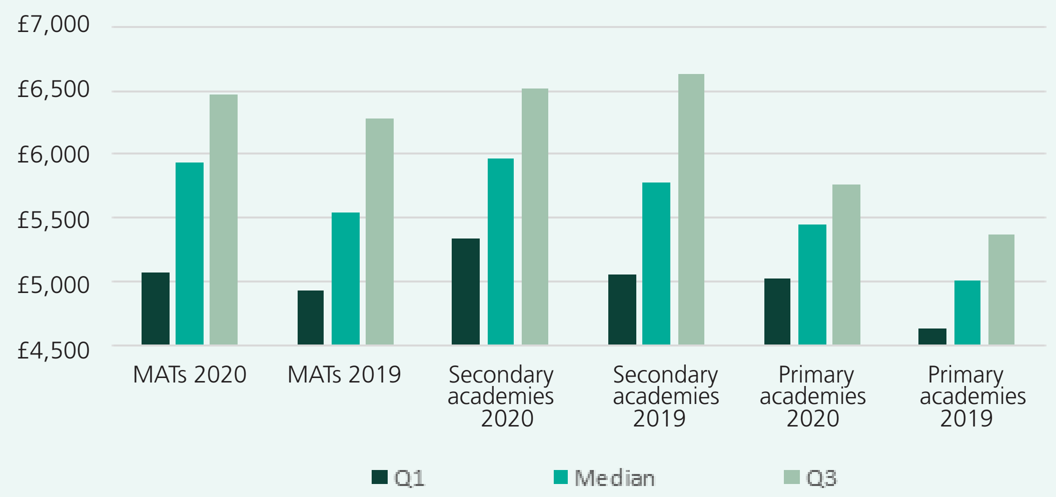




Total revenue income per pupil

The chart below illustrates the data from our sample for all recurring revenue income. There is an increase for all types of trusts this year, not a surprise with some of the additional income streams.

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 2020/21 is being funded on the same basis. It is probably about time at least an inflationary rise was applied to these figures.

In our experience, core capital grant funding is not sufficient for many academy trusts and we see clients regularly making revenue to capital contributions to fund capital equipment they have needed to buy.

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.

For 2020/21, the total amount paid out has levelled out after several years of annual rises, and there were approaching 1,500 successful projects. There is a clear downwards trend in the average project value, and of course the average is heavily influenced by some of the very largest expansion projects that can run into seven figures (maximum is £4m).

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

	Number of successful projects	Total CIF paid	Average per project
CIF 2020/21	1,476	£434m	£294,037
CIF 2019/20	1,412	£433m	£306,657
CIF 2018/19	1,566	£514m	£328,224
CIF 2017/18	1,435	£466m	£325,739
CIF 2016/17	1,276	£442m	£346,394

Additional funding of £182m was made available for CIF 2020 to 2021 projects which has helped fund a further 580 high quality projects at 548 academies, sixth-form colleges and voluntary aided schools. These projects narrowly missed the threshold when the CIF funding outcomes were announced in June 2020.

Trusts can appeal if their CIF bids are unsuccessful and each year some do manage to secure the funding they are seeking after this process. For the CIF 2020 to 2021 round, additional funding of £15.7 million for 48 projects was awarded, considerably higher than the 30 successful appeals in the previous year.

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.

The 2021/22 CIF closed in January and applicants are eagerly waiting to hear whether or not they have been successful, with the announcement expected imminently. The 2021/22 applications are once again subject to criteria which will favour bids from applicants with strong governance and good financial management.

The ESFA believes there is a strong link between trusts with a good grip on finance and governance and effective, value for money capital delivery. The criteria were relaxed slightly from the previous CIF 2020-21 round with the criteria relating to School Resource Management Adviser visits (SRMA) and Excessive Executive Pay (EEP) removed.

With competition for CIF funding so fierce it pays for trusts to approach applications in a professional manner, devoting the necessary time to the process and involving external technical advisers.

The CIF funds three categories of project: condition, condition with expansion, and expansion, and projects are scored against need, planning and cost.

Small level projects need to be funded through Devolved Capital, with minimum CIF project thresholds of £20,000 for primary academies and special schools, and £50,000 for secondary academies.

School Condition Allocations for larger MATs

The very largest MATs continue to be paid a guaranteed School Condition Allowance (SCA). MATs with at least five academies and more than 3,000 pupils in the spring census qualify for 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 2021/22 financial year were notified in autumn 2020 and trusts with five or more open academies at the start of September 2020 and with at least 3,000 pupils counted in the spring 2020 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.

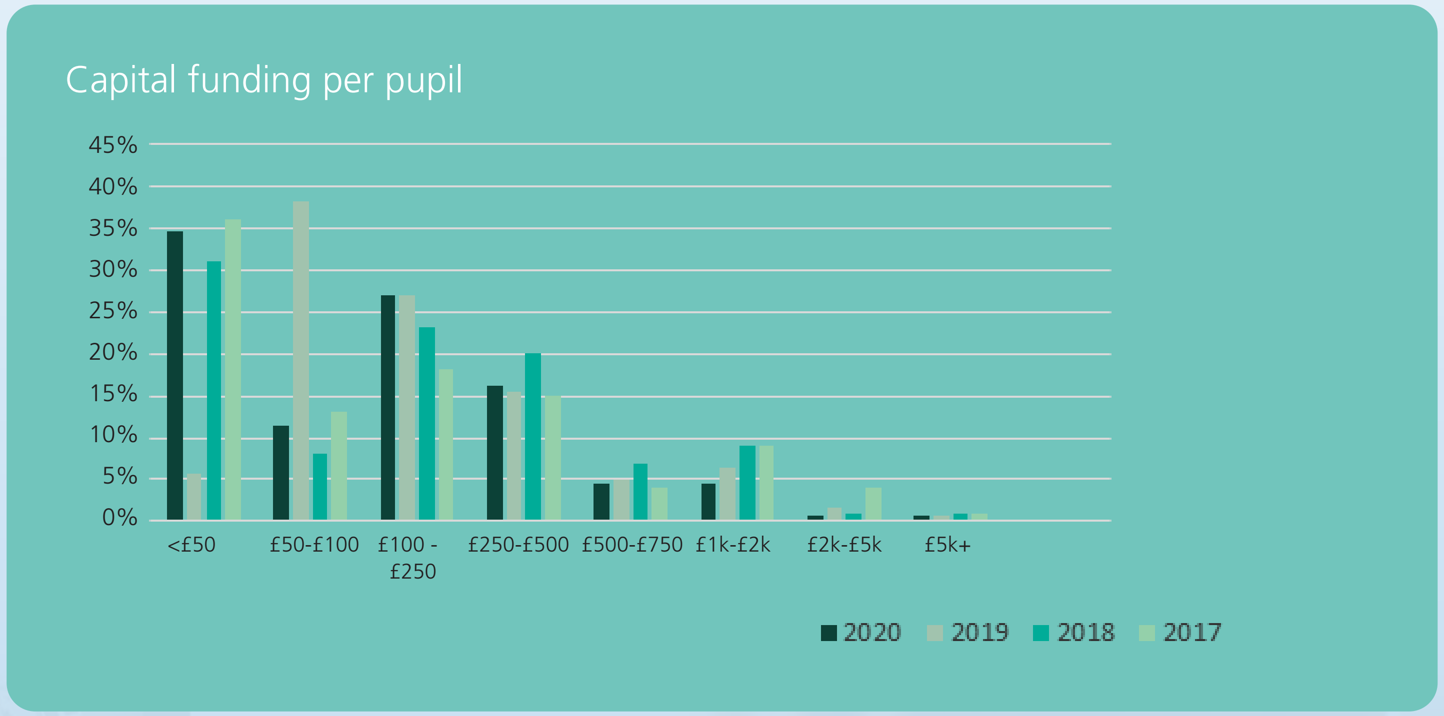
	School Condition Allocations 2018-21		
	2020/21	2018/19 Final	2017/18 Final
Total SCA paid	£283.3m (20% rise)	£236.4m (30% rise)	£182.4m (41% rise)
No. of trusts	290	232	176

As more trusts expand, an increasing number are being brought into the SCA explaining the 20% rise in the total SCA paid out. The average allocation for 2020/21 was £977k, slightly lower than the previous year when the average was just over £1 million. 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.

	Number of trusts receiving SCA in the different bands
Over £5m	3
£1m – £5m	84
£500k - £1m	122
Less than £500k	81

Last year the additional "little extras" capital funding paid in February 2019 resulted in an increase in the average per pupil capital funding with £50 - £100 being the most common range.

This year, around a third of trusts were in the most popular threshold up to £50, more in line with results before 2019.



6. Fixed assets and capital expenditure

With the exception of church academies, trusts reflect the value of freehold premises they own, or occupy under long term lease arrangements, in their accounts.

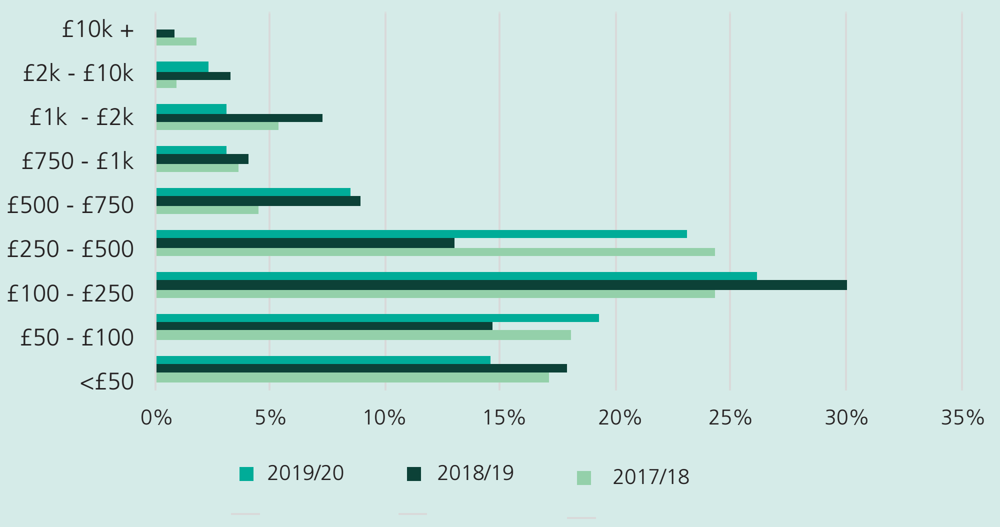
As a result, fixed assets will usually be the largest category on the balance sheet but, since they have little bearing on the day to day running of schools, this is also an area that can be overlooked by trustees.

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 (£)



Far more trusts spent between £250 - £500 per pupil during 2019/20 than in recent years. There were far fewer trusts in the higher ranges, however, and so overall the averages did fall. The average spend across all trusts was £358 in 2019/20.

We have commented in previous years that capital expenditure and how this and associated income is accounted for can be one of the most confusing aspects of academy trust accounts.

Expenditure does not necessarily match to income, with grant and other capital income recognised at the point the trust is entitled to receive it. This can result in large surpluses on the Statement of Financial Activities within the restricted fixed asset fund countered, over time, by the depreciation charges included to write off the cost of the capitalised assets over their useful lives.

The AFH makes it clear that trusts should draw out their meaningful, operational result on income funds within the financial review section of the trustees' report and capital income, and depreciation charges are some of the transactions that need to be excluded from this operational result.

UHY often spend a lot of time helping academy clients write their financial reviews to make it easier for trustees and other readers of the accounts to understand the figures.

Many school buildings across the country are in need of a significant upgrade. From 2021 to 2026 the DfE's Condition Data Collection 2 (CDC2) programme will visit every government-funded school and further education (FE) college in England to collect data about the condition of their buildings.

This data will provide a comprehensive picture of the condition of the school and FE college estate in England.

7. Cash at bank balances and reserves

Individual academy trusts receive and hold significant cash reserves.

Across the sector the sums can be colossal. The 2018/19 academy SARA, published in July 2020, revealed that trusts held £4.2 billion as cash at bank on 31 August 2019, up from £3.9 billion in 2018. £97 million of this increase was attributable to cash brought in to the sector on conversion of schools to academies during the year.

Academy trusts need to hold reserves, and the total cash stated above averages out at about £480k per academy. Reserves are required to cover unexpected costs, fund capital projects that cannot be met from capital funding, and to provide some comfort should an academy suffer a year or two of financial difficulty. This can happen for a variety of reasons; poor management, a declining reputation resulting in falling pupil numbers, or sometimes something outside a trust's control.

A trust with reserves will be able to survive a difficult period and, with appropriate planning, make the necessary changes to come through it in a strong position.

Trusts without reserves often find it hard to survive. There is a fine line between holding reserves and holding too many. Trusts do have an obligation to current pupils and should not be seen to be hoarding reserves for the future. The DfE encourages trusts "not to hold more cash than is required to maintain financial stability".

There are also natural cash flow peaks and troughs throughout the year and trusts need a certain level of reserves to ride through these without undue pressure on cash flow management. Increasingly, we are seeing MAT clients move to, or considering, one centralised bank account. This can help to smooth out variations at individual constituent academies, and has the added benefit of reducing administration time on tasks like bank reconciliations.

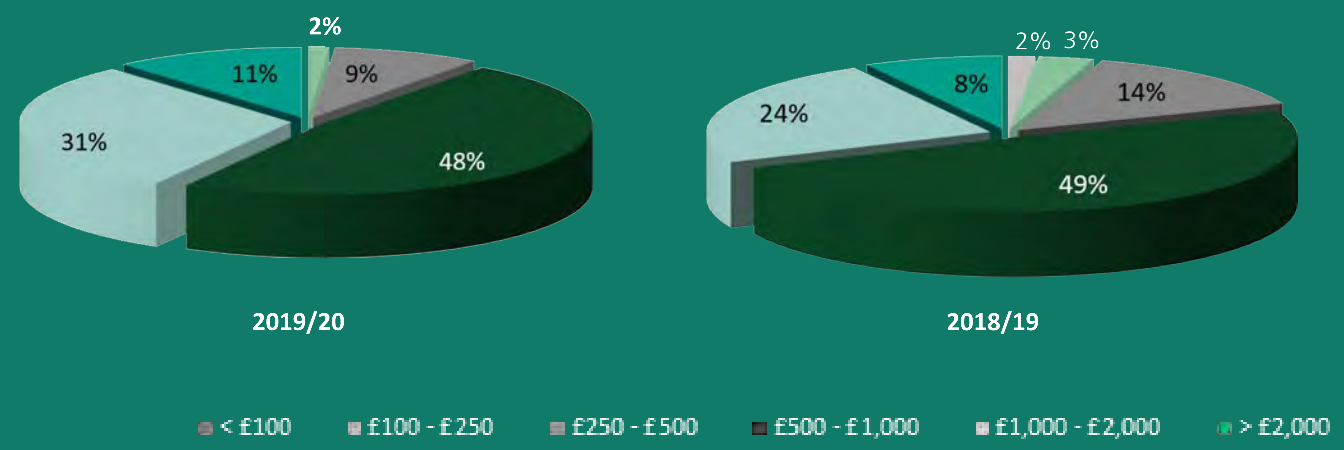
It is worth noting that a significant proportion of the cash held by trusts will not be 'free' reserves, it will relate to unspent government grant funding. This will include unspent capital money and it is common to see trusts holding capital funding, for example, SCA and CIF, at 31 August.

With many capital projects completed over the school summer holidays, much of this work will not be physically paid for until early in the following academic year. Capital grants are paid to trusts for the DfE's April to March year and so there is no requirement to spend these grants by August.

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 AFH requires monthly management accounts to include a cash flow and this should ideally mean an historic cash flow statement to show where the cash has been spent plus a future looking cash flow forecast.

The 2019 SARA disclosed that in 2018/19 a total of 84 academy trusts' annual accounts contained an audit report highlighting a material uncertainty over going concern (2017/18: 100 trusts). Whilst this only represented a tiny 2.9% of all trusts, it is still a large number of trusts responsible for thousands of pupils and employing large numbers of staff. If just a few of these failed, the schools would need to be rebrokered to other MATs.

Range of cash balances held (per pupil) - MATs



Once again, virtually half of all MATs in our sample held cash balances of between £500-1,000 per pupil. There were more trusts in the higher ranges this year, probably due to the good year in a financial sense many trusts have had.

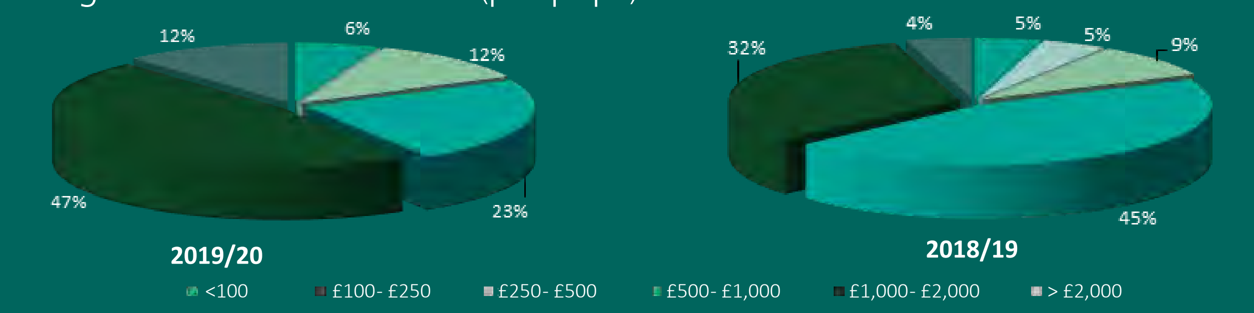
Range of cash balances held (per pupil) - Secondary academies

On a per pupil basis there was very little difference between the balances held by MATs and secondary academies this year. In previous years, secondary academies have generally held more cash, but this year the percentage of trusts falling within the top two bands was the same. However, the average secondary does still hold more. Encouragingly, no MATs or secondary academies in our sample held less than £100 per pupil this year.

	Q1	Average	Q3
Secondary academies	558	1,270	1,401
Primary academies	536	1,312	1,670
MATs	702	976	1,291

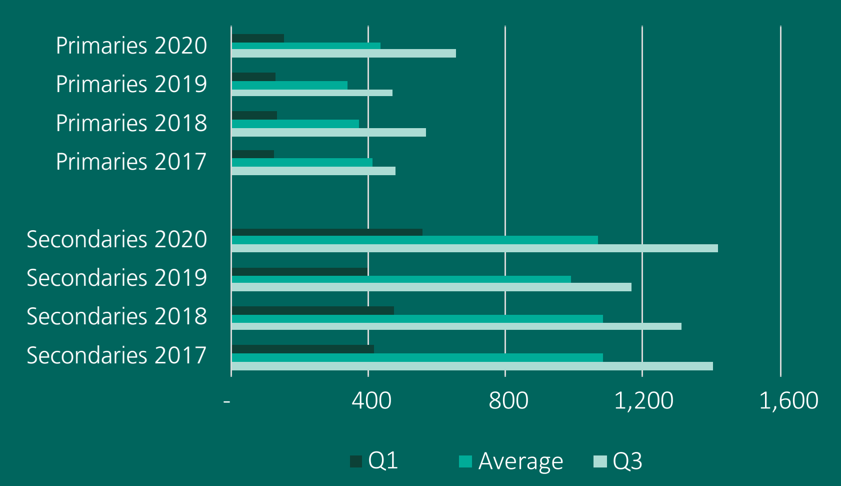
Primary academies have seen their cash balances increase significantly during 2019/20, and they also continue to hold more cash per pupil than other trusts. One reason for this might be that they have struggled to spend all their Universal Infant Free School Meals funding during the pandemic.

Range of cash balances held (per pupil) - Primaries



The chart to the right shows the marked increase in average primary and secondary cash at bank balances. The average secondary held just over £1m, the average primary a little over £400k. Once again there is a startling variation between the lower and upper quartile results highlighting the difference between the 'haves and the have nots".

Cash balances held at 31 August per pupil



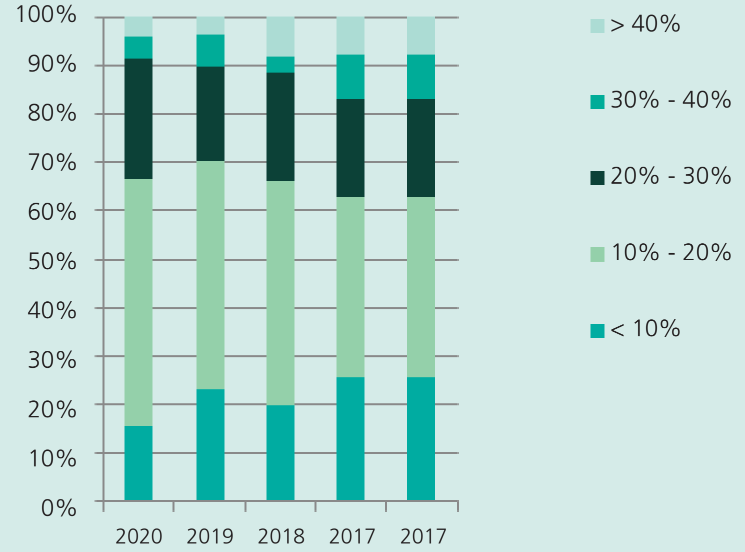
Cash balances vs recurring levels of income

Comparing cash balances against recurring revenue income is an alternative and useful way of reviewing levels of cash.

At 31 August 2020 over half of trusts held cash of between 10% - 20% of their recurring income. With cash balances generally rising, far fewer trusts were in the bottom range this year.

A small number of lucky trusts are sitting on a cash balance that equates to over 40% of their recurring income, and one trust is fortunate to hold cash at 77%!

Cash balance: recurring income ratio



Revenue reserves

With cash balances up, one would expect reserves to have also increased. This has happened, although since cash and reserves do not necessarily equate to each other the movements in the two balances can vary.

Trusts are required to state their reserves policy in their annual accounts, explaining the policy for holding reserves, in particular stating the amount of reserves held and the reason for holding those reserves. Trustees therefore need to carefully consider the ideal level of reserves their trust should be holding.

Accounts must explain any steps being taken to bring the level of reserves held into line with the level set out in the policy, so it is important to see the reserves policy at the right level. Trusts holding less than their ideal level will need to explain how they aim to improve the position, whilst trusts holding higher levels of reserves need to carefully explain their justification for doing so instead of spending more on current pupils. This will often be to fund future capital projects.

In some ways there is no "ideal" level of reserves. Each trust's policy should be appropriate for its own needs, and this needs to be reviewed at least on an annual basis to ensure the policy remains relevant.

Generally, trusts seek to hold the equivalent of four, maybe six, weeks' expenditure. Individual academies within a MAT may not need to hold as much as a single academy trust since they will potentially, depending on the MAT structure, have support to fall back on it the need were to arise. We have discussed the advantages of a MAT operating one combined bank account elsewhere in this report.

The distinction between cash and reserves can be confusing for a non-accountant. Cash at bank may be high at the balance sheet date but if this money is allocated and will be spent shortly afterwards it is not free cash.

There are always timing differences and, at any given time, a trust will be holding cash that will be required to pay its suppliers, PAYE/NIC to HMRC etc. Due to the nature of academy trust funding and their activities most trusts will always have liabilities greater than their debtors; the opposite is true for a commercial trading company which would expect to be owed more from customers etc. than it owes to its creditors.

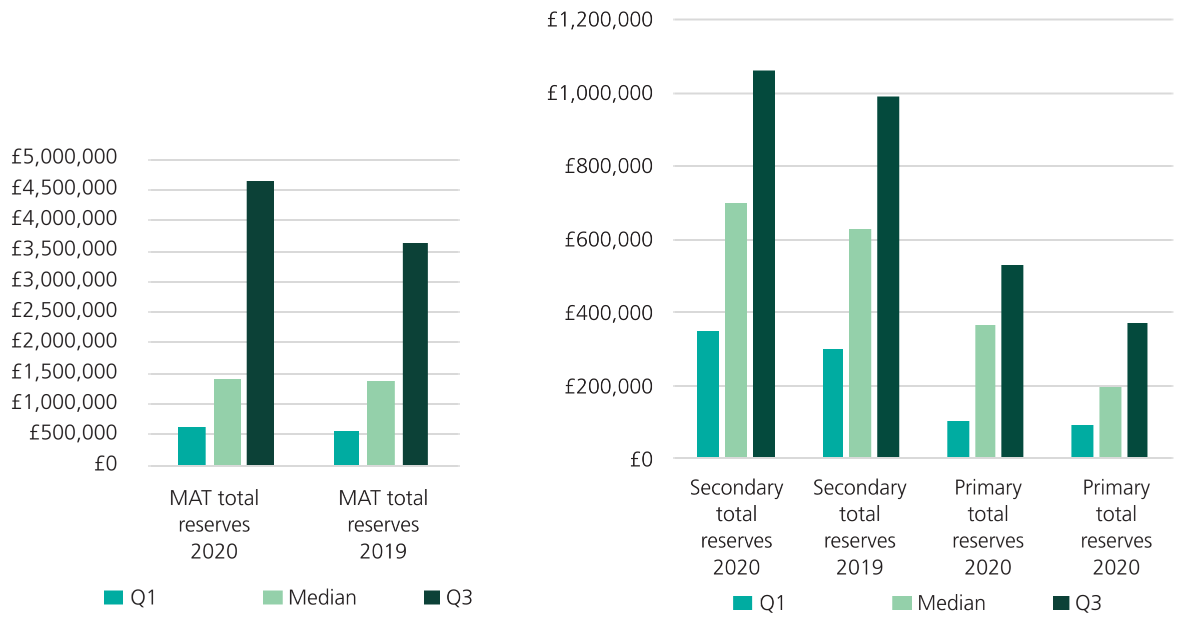
There is also a difference between unspent restricted revenue grant money and "free" unrestricted reserves, which the trust is able to spend as it sees fit. Free unrestricted reserves tend to accumulate where trusts generate their own income which often does not have any, or many, related costs.

The individual positions of academies within a MAT can vary enormously. With pooling still relatively rare, as discussed elsewhere, individual academies hold their own fund balances in most MATs.

Most MATs will have some academies with healthy balances and some that are struggling financially, or even one or two academies with a cumulative deficit. MATs have to disclose the reasons for any deficit balances on individual academies and the plans in place to improve the position.

As noted in section two of this report, there remains a large number of single academy trusts. Many of these are financially very stable, which has helped them resist any calls to join into a MAT, and it seems probable that the majority of these trusts will continue as standalone entities.

Total revenue income reserves at 31.8.2020

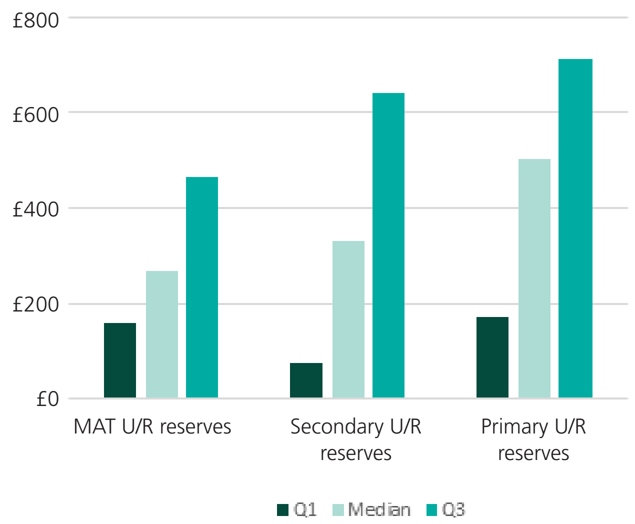


As with cash balances there remains a significant variation in the level of reserves held by the stronger trusts and those retaining the lowest levels. The top 25% of secondary academies again hold £1m+. The lowest 25% of primary academies hold less than £103k, up from £88k last year.

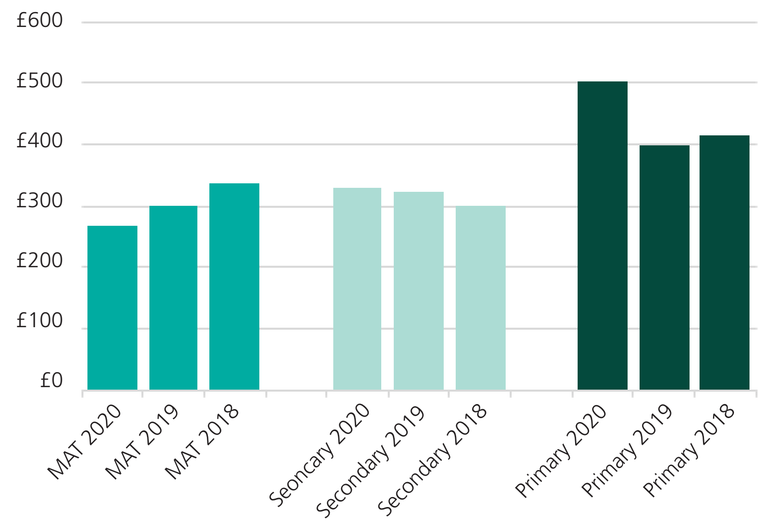
These actual reserves figures do not take into account the size of the academies or trusts; particularly important for MATs. Even for single school trusts the size difference is important, with some secondary schools easily double the size of others, and the largest primary schools with a four-form intake swamping the small village school.

If we look at per pupil results, and solely for unrestricted 'free' reserves, the results are perhaps clearer; primary academies have the highest median average. This is likely to be because, despite having fewer pupils, they do still need to cover unforeseen costs, and holding such reserves pushes the per pupil levels up slightly.

Total unrestricted revenue income reserves per pupil at 31.8.2020



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



Compared to last year, all single academy trusts, whether primary or secondary, are showing an increase in reserves per pupil. Intriguingly, MATs are showing a small reduction for the second consecutive year, and this is despite the actual average value of MAT total reserves creeping up very slightly.

2019 SARA

The 2019 SARA report, published last year, revealed that there were 168 trusts (2018: 195 trusts) in cumulative deficit during the previous year, representing 6.1% (2018: 6.4%) of all trusts. 39 of these trusts had a cumulative deficit of over £500k and, worryingly, 18 of these were single academy trusts.

It is worth noting that these trusts reporting a cumulative deficit must agree a recovery plan with ESFA to put the trust back on a financially sustainable path.

At the opposite end of the spectrum there were 825 trusts with a cumulative surplus of over £1 million and 189 trusts with a surplus greater than £3 million.

One would expect many larger MATs to hold large cumulative reserves, which explains some of these high balances, but 229 of the trusts holding more than £1 million were single academy trusts. This highlights vividly the vast differences in the sector.

8. Surplus or deficit

In this section, we look at whether academies have achieved a surplus or deficit during 2019/20.

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. Trusts must 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. One useful way of showing this is including a table to reconcile the movement between the overall surplus and the result on operational income funds e.g.

	(£000s)
Overall net movement in funds for the year per SOFA	**79**
Decrease/(increase) attributable to fixed asset fund	171
LGPS actuarial (gain)/loss	(193)
LGPS service and interest costs	128
Increase/(decrease) in revenue funds during the year	**185**
Add: Transfers from revenue to capital to fund fixed asset additions	15
Less: Revenue funds inherited from joining academy	(100)
Operational surplus on revenue funds before transfers to capital	**100**

Whenever we view academy trust financial statements for non-UHY clients we immediately notice the different styles. This should actually be a positive because the trustees' report needs to be unique to the trust and is an opportunity to tell everyone about the fantastic work the trust has been doing. The reports can unfortunately too easily become a little boilerplate. Many sizeable trusts personalise the trustees' report to the extent that it feels and looks more like a glossy large charity set of financial statements with pictures and other graphics.

Even in the table above there are therefore three different 'results' for the year (the bold rows) which highlights why it is important to be clear whenever talking about the in-year result.The operational result on revenue funds (the £100k in the table) is the key result as it shows the result on day-to-day funds before movements which cloud the position.

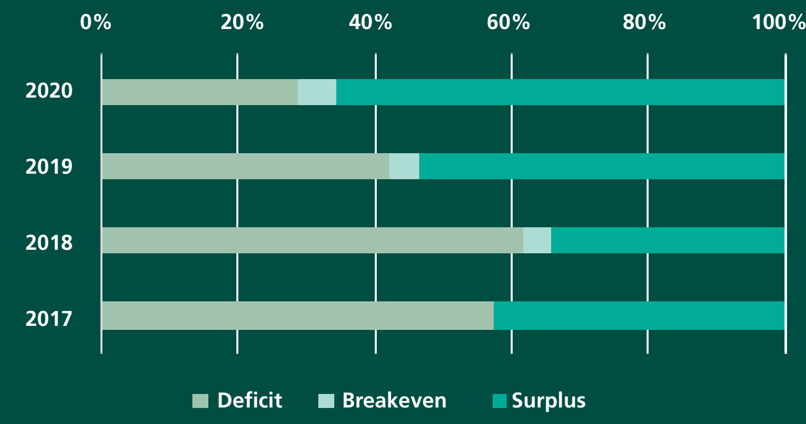
Here in our report, we have delved deeper to look at the movement on the core GAG fund. The GAG result forms part of the operational movement but is that which relates solely to the movement from core GAG income and related expenditure. As noted in Section 4, GAG income typically makes up approaching 80% of an academy trust's total income. This income should cover any trust's core costs and a trust experiencing a GAG deficit, certainly over more than a year, could be a concern.

The rest of the overall revenue result comprises movement on other DfE and government grant monies plus any outturn on unrestricted funds. Non-GAG grant funding generally breaks even most years and, whilst trusts generating significant unrestricted income will benefit from this, it is wise not to become overly reliant on such income sources.

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:

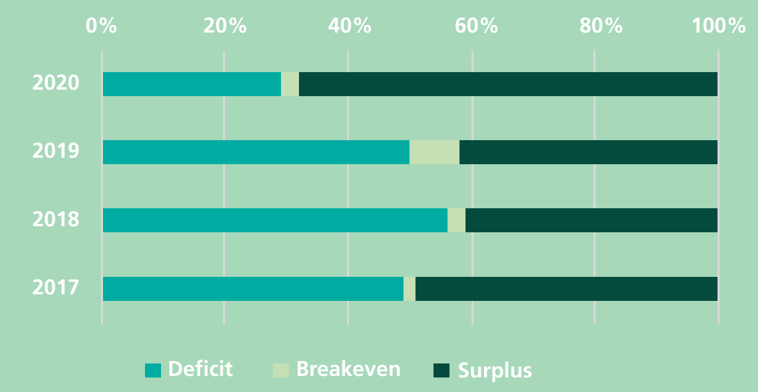
- a GAG deficit is covered by a transfer from the unrestricted fund
- capital items are funded from GAG and are represented by a transfer out of the GAG fund to the restricted fixed asset fund. We have not included such transfers because the choice to fund capital items from GAG was discretionary and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

GAG result: primaries



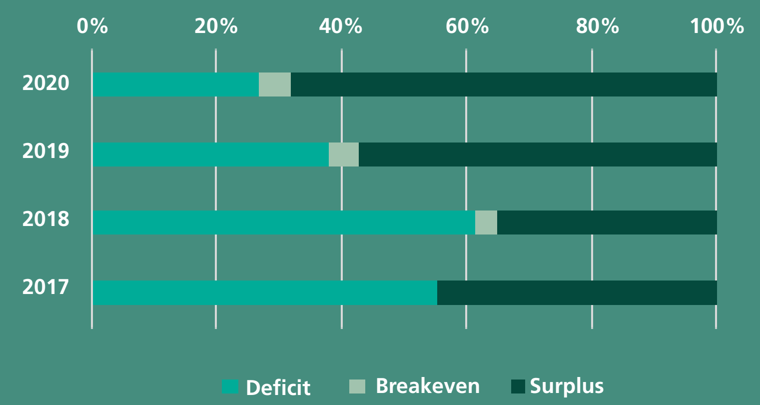
This year has seen a further steady rise in the number of primary academies reporting an in-year GAG surplus with two in three reporting a positive movement.

GAG result : secondary academies



68% of single secondary academies reported a GAG surplus in 2019/20, a large leap from the preview two years.

GAG result: MATs



The MAT results are similar to the secondary academies, and MATs were very slightly the least likely trust to experience a GAG deficit.

So, what is the reason for such a large number of surpluses in 2019/20? It is clear that, for many academies, the March to August period was a very positive one for them financially. Many clients reported outturns far in excess of their budgeted figures, with savings in premises costs and supply teacher costs the main savings for many. It is considered unlikely that the number of positive outturns will continue into 2021 and we expect to see far more deficits later this year.

Coronavirus support

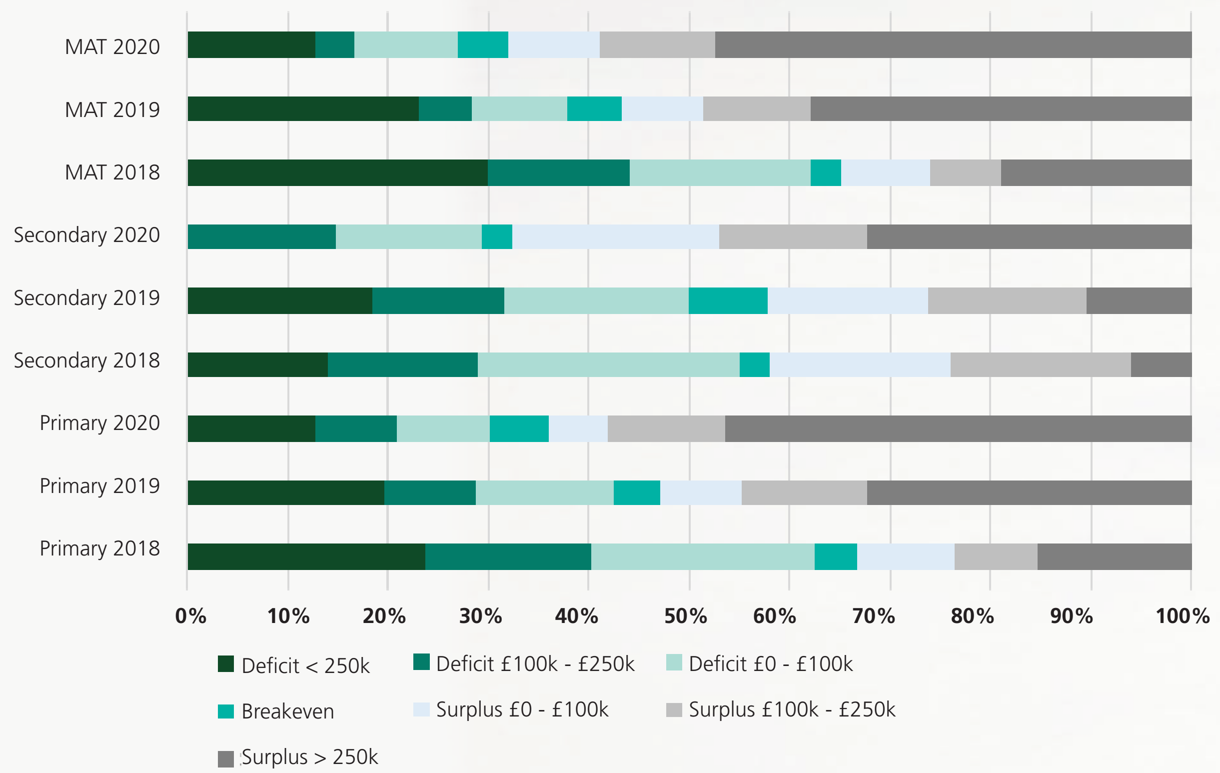
We have spoken about government coronavirus support already in section 4. There was a great deal of confusion when the funding was announced, but the terms and conditions do make it clear that funding was only available to academies that did not expect to add to their historic surpluses during 2019/20.

This meant any academy expecting a surplus for 2019/20 should not have claimed unless it brought forward a cumulative deficit at the start of the year.

Many academies that claimed found that their final outturn was a surplus and this means that, potentially, they should not have claimed. We say potentially because there is an argument, perhaps, that at the point of making the claim some academies may have expected a deficit and something then changed. This argument would be difficult to use if the final outturn was significant. Further confusion reigned because claims were allowed at individual academy level, meaning an academy expecting a deficit could claim even if the MAT of which it is a part held significant reserves.

We understand the ESFA is continuing to monitor claims and will be undertaking a review of claims later this summer. This may mean some trusts that have received support funding will have this clawed back, most likely to be dealt with by deducting from 2021/22 funding.

Range of GAG results

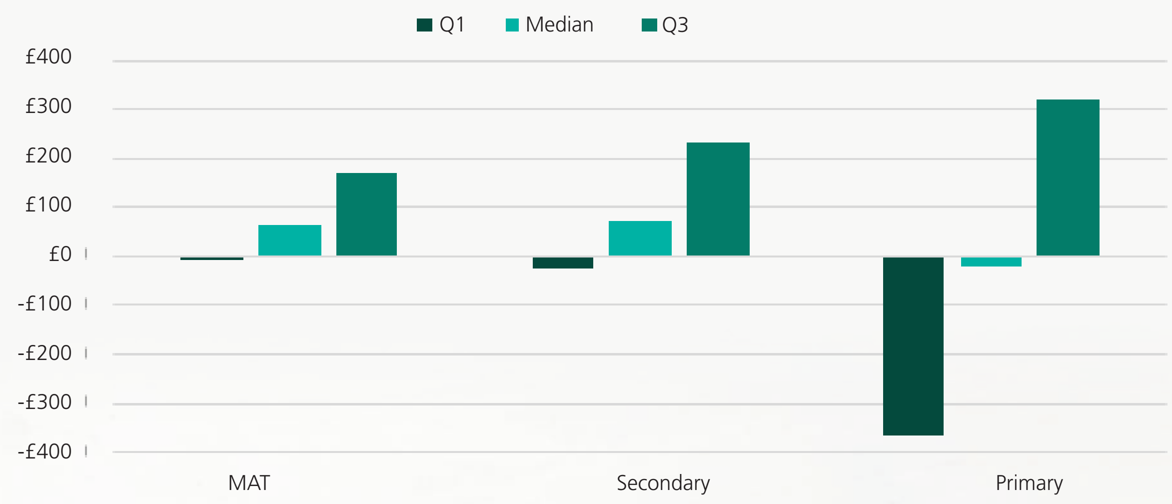


The chart above breaks down the deficits and surpluses further to reveal the extent of these results.

There are a significant number of trusts at the opposite end of the scale – particularly MATs and primaries – which achieved a 2019/20 in-year surplus of at least £250k.

For the MAT figures it is worth remembering that the largest MATs can post extreme results, meaning these can influence the MATs' results when we look at actual results. We therefore also look at the per pupil GAG results on the next page:

Per pupil GAG result



It is very clear that on a per pupil basis there is a huge range of results for primary academies. For other types of trust, whilst the bottom 25% below the lower quartile result do show a per pupil deficit, the amounts involved are small. Primary schools also report a slight median deficit result.

9. Governance and audit findings

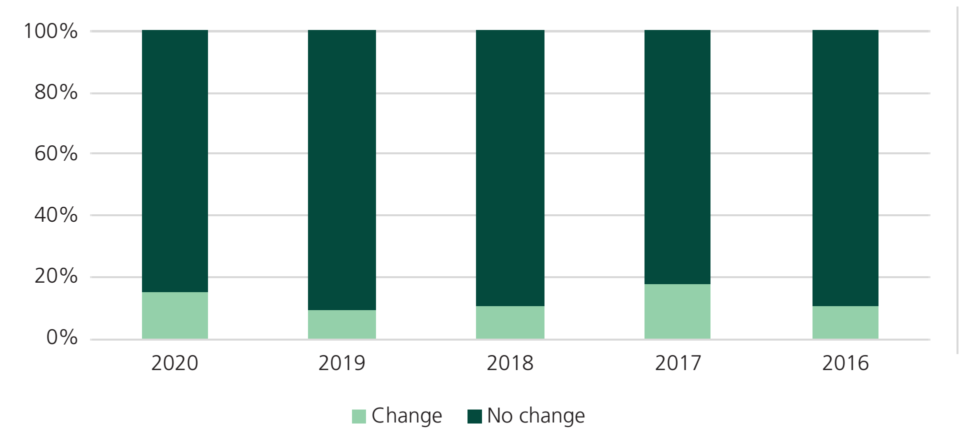
Within our annual benchmarking reports we review various non-financial areas, including governance, as well as taking a look at the results of our analysis of the audit findings reports of our clients, to add further depth to our findings.

Changes in staff

It is perhaps inevitable that there will be a certain amount of turnover in key roles, and we have seen in recent years a relatively consistent low number of trusts experience a change in Accounting Officer.

Accounting Officers leave for a number of reasons; retirement, after being headhunted or sometimes due to poor performance. It is much the same to report this year, albeit with a slight increase to 1 in 6 trusts changing their AO during 2019/20.

Academies with Accounting Officer change during the year

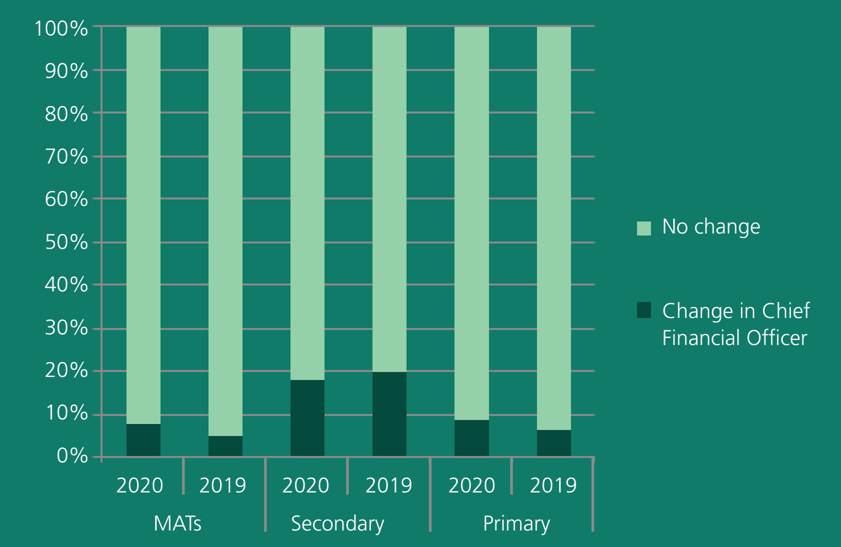


A similar number of CFOs tend to leave their positions each year and, in our experience, trusts seeking a new CFO are still finding a shortage of good candidates that have both the experience of working in the education sector and the accounting technical expertise required to work in some of the larger trusts. Many CFOs have challenging responsibilities that go much further than finance but the ESFA have highlighted in recent years, particularly for those working in larger trusts, the value of a relevant financial qualification.

All CFOs should maintain continuing professional development and undertake relevant ongoing training regardless of whether they are qualified accountants.

Interesting that the ESFA suggests that by a larger trust it might mean one with over 3,000 pupils, but there is no precise

Academies with CFO changes during the year



The audit process and audit findings report (management letter) points

A good audit will often raise observations and recommendations, although a well-run trust with strong control systems would expect to receive a fairly clean report. Sometimes a change of auditor can result in an above average number of issues being identified, with the new pair of eyes, and perhaps a different approach, spotting issues the predecessor firm did not.

This is not to say trusts should necessarily change auditors more regularly. Trusts do need to demonstrate value for money when procuring audit services, in the way they would when buying other goods or services, but cost should not necessarily be the driving factor. The quality of the audit itself, the firm's communication and reporting is all important and needs to be weighed up carefully.

A few years ago the ESFA produced a good practice guide aimed at helping trusts choose an auditor. Some trusts certainly go out to tender more often than others. Doing so too frequently, however, is not the best use of management and trustee time, and is also time consuming for audit firms who at certain times of the year can receive large numbers of invitations. Trusts should only go out to tender if they are genuinely considering a change and not just to benchmark their audit fees. There are other ways of confirming fees are reasonable by researching and looking at fees paid by other local and/or comparable trusts. This might be harder for larger MATs but there is still much data out there.

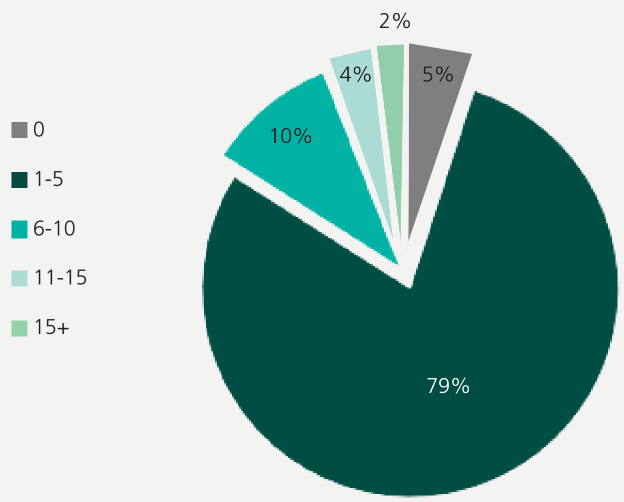
Tender invites can sometimes be very prescriptive and contain rigid scoring systems. Again these have their place but are more suited to the procurement of goods than an audit service which needs to be very relationship driven. When they do go out to tender, we would encourage all trusts to think about what they are asking for and the best way of assessing audit firms.

There is no right or wrong time for an academy trust to go out to tender. The best practice guide explains that good auditing requires a good understanding of the audited entity, so it can be counter-productive to change auditor too often. To set this in context, the largest 350 listed companies in the UK (the FTSE 350) are required to tender for audit services at least once every ten years, so fairly infrequently.
Trusts do need keep the relationship with their auditors under review in terms of ongoing quality and value for money but the main thing is to ensure you are getting the best out of your auditor for your needs.

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 desire to be seen as 'Outstanding' or at least 'Good'. We are therefore often asked whether the issued findings report is a good one' and how it compares to other trusts we act for.

The number of issues arising this year is broadly unchanged from the previous year with the vast majority receiving between 1 – 5 recommendations, although there were more in this category than in previous years. Slightly more trusts (5%) achieved a completely clean findings report with no recommendations. A small number of trusts did receive a findings report highlighting a significant number of issues.

No. of audit findings report (AFR) points 2019/20



	2019/20	2018/19	2017/18
No issues raised	5%	3%	5%
1 – 5 issues	79%	68%	66%
6 – 10	10%	15%	18%
11 -15	4%	12%	8%
15+	2%	2%	3%

The audit process should be an invaluable tool that helps build efficiencies and system improvements that can benefit the trust as a whole, and audit recommendations can be an important part of maintaining and developing control systems.

There is an obvious distinction between lower risk points, where any necessary action is not time critical, and more serious issues where there is a risk to trust funds or there has been a significant breach of the Academies Financial Handbook.

Trusts should ideally aim to address all issues arising from audits, but we do understand this is not always practical. More serious issues should certainly be resolved in a timely manner and it is never good for an auditor to see points reoccurring year after year. If they do, the trust risks the grading of the issues being elevated further.

The recent change in internal scrutiny requirements has forced many trusts who until now have engaged their external auditor to provide an internal audit service throughout the year to appoint a new firm for this work. This brings opportunities for a new pair of eyes, possibly looking at different topics, and for the internal scrutiny provider – free from any ethical constraints – to perhaps get more involved in helping the trust develop its systems.

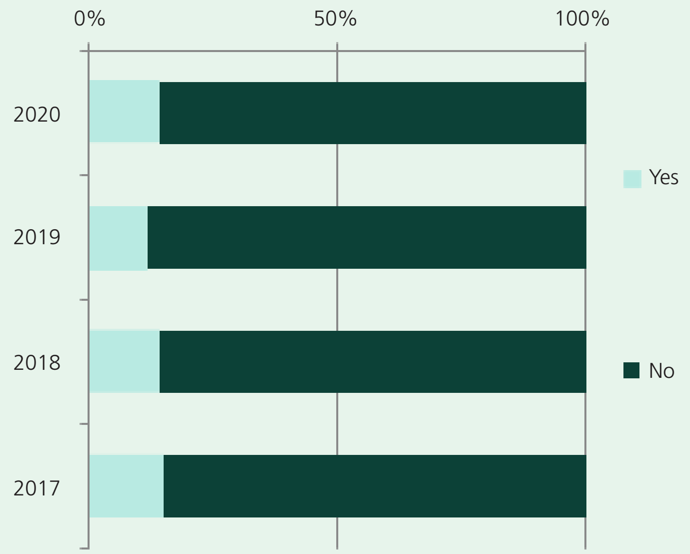
Although we have noted the small increase in trusts achieving the ‘holy grail’ of no issues in their findings report, this remains rare because of the complex AFH rules and regulations which trusts must adhere to.

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. In our experience, 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.

Trusts often have far better systems and controls in place than we would expect to see in a comparable by size corporate entity but then, with the public nature of trusts, finding this is the way it should be.

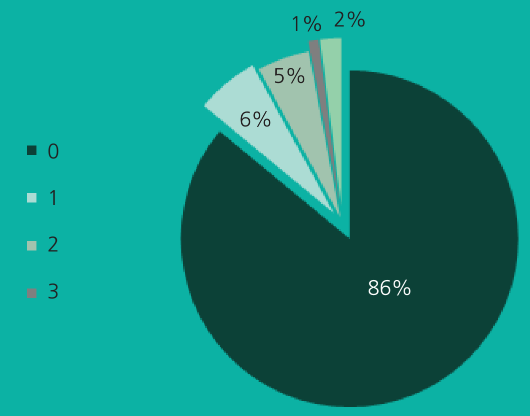
Fortunately, the number of trusts making the headlines for the wrong reasons remains very low but, as is usually the case, it is easy for all forms of the press to make lots of noise whenever there is a high profile case and too often an isolated issue is made to sound like it is a widespread sector issue.

Trusts with high risk / priority audit findings report points



The proportion of trusts whose findings reports contained a high risk/priority point has been remarkably consistent in recent years and it is reassuring to know that it remains relatively rare for a trust to receive even one ‘red’ traffic light.

Trusts with high risk points



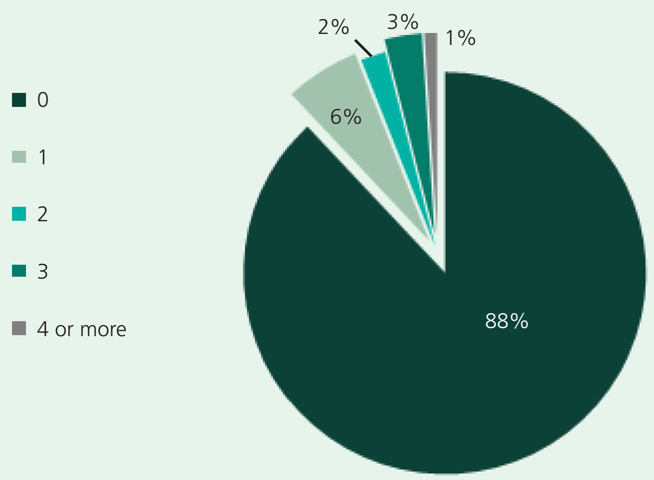
The sorts of issues we identified during our 2019/20 audits were the same common ones we have found in recent years, including:

- Not fully complying with related party transaction rules, often by not notifying the ESFA before entering into a transaction
- 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. recent 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.

Number of high risk or priority AFR points

Of the 12% of trusts that did have a significant issue raised, half of these received just the one high risk point so it really is rare for trusts to have multiple issues that warrant such a severe rating. However, with some trusts receiving three and even four or more audit findings reports there does seem to be a risk that a trust with one breach is more likely to suffer another.

The high risk points we identified 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.



Related party transactions

Our previous report covered a financial year, 2018/19, in which two different sets of related party rules applied following the requirement changes in April 2019. The rules have settled down since then and there have been no further changes. The rules are complex but one overriding principle is clear:

"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."

Trusts who do not comply with the rules should be held to account because they are there for good reason and to protect trusts from individual with less than honourable intentions. Often technical breaches of the RPT rules occur when there is nothing fundamentally concerning about the underlying transaction. Related party transactions are not necessarily 'bad' despite the media sometimes portraying them to be so. Often related party transactions are entered into for good, legitimate reasons where the related supplier is able to provide the trust with goods or services. It seems counterproductive to invite business orientated people into the trust and then not let their companies assist where they can, but this is often what the related party rules seem to do. As a result, many trusts do shy away from entering into related party transactions altogether because they just see it as simpler that way.

The 2019 Academy SARA reported that the number, and value, of payments to related parties decreased once again. Total payments to related parties in 2018/19 was £93m (at an average of just over £42k per transaction) but again trusts received almost the same, £77m (this time at a much higher average of £72k). It is clear that trusts continue to receive 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.

Finance staff working in academies and all trustees need to be familiar with the related party section of the AFH. If you have not read this recently we recommend that you do.

The statistics from our own data show that the number of trusts reporting transactions rose significantly during 2019/20 to the extent that 2 in 3 trusts reported a related party transaction. We are not quite sure why this would have been.

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.

If appropriate, a trust's systems and controls should act as a barrier and deterrent to any less than honest related party transactions. Culture is equally as important. Often, when an issue does arise, there has been an overbearing individual in a senior position. Trusts should have appropriate whistleblowing policies in place so that all staff feel comfortable flagging any concerns that they may have.

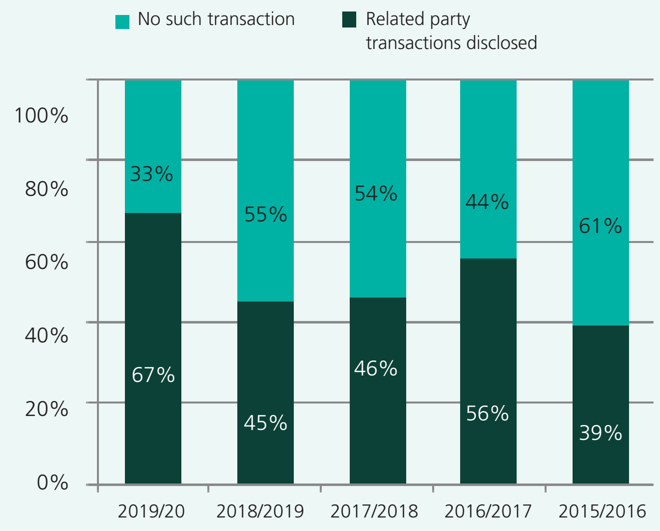
Around a half of trusts which did report entering into a related party transaction did so at a relatively low level, beneath £10,000. A small percentage of trusts reported some high value related party transactions but these often include donations from a related entity, costs paid to sponsors for rent 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.

As we have said in previous years, 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.

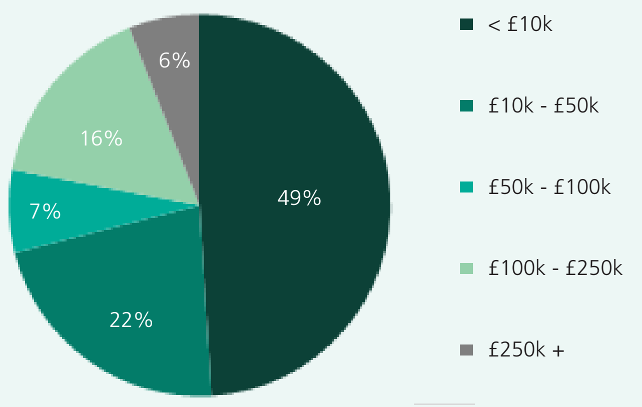
As the number and size of MATs increases more trusts form subsidiary companies for trading activities. The related party rules for group situations do still require further clarity since often a trust will procure services from its subsidiary or vice versa.

This is inevitable due to the reasons the subsidiary is often established. Trusts do need to think about how they can justify choosing their subsidiary as the supplier and be sure to demonstrate why the subsidiary does provide value for money. The rules rightly require trusts to disclose these group transactions in the interests of transparency, even though non-academy groups are exempt from providing that level of detail.

Related party transactions



Value of highest related party transaction



10. 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 43-44 to enable you to compare your academy trust against similar trusts. We would be pleased to plot your key data on to graphs against the averages if you would like us to.

We again close our report with some top tips since we believe it never hurts to be reminded of these:

For 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.

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.

For 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...

Hopefully we can look forward to the remainder of 2021 with Covid-19 restrictions starting to be relaxed and some return to normality, even if this is the "new normal".

Take care.

Where does your academy fit within the results?

	Your academy	MATs Average 2019/20	Secondary academies Average 2019/20	Primary academies Average 2019/20
Non financial data				
Number of teachers		Not included as highly dependent on number of academies in the MAT	67	18
Number of admin and support staff			55	37
Number of management staff			7	3
Number of pupils			1096	342
Pupil to teacher ratio		19	17	19
Income				
Total revenue income per pupil		£6,323	£6,401	£6,251
Grant income per pupil		£5,987	£6,027	£5,967
Grant income % of total income		94%	96%	95%
GAG income per pupil		£4,743	£5,281	£4,428
GAG % of total revenue income		77%	85%	76%
Other income per pupil		£240	£246	£246
Other income % of total income		4%	4%	4%
Capital grant funding per pupil		£194	£33	£52
Capital grant funding % of total revenue income		3%	1%	1%
Expenditure				
Total expenditure per pupil		£6,936	£6,664	£6,752
GAG expenditure per pupil		£4,620	£5,191	£4,405
GAG % of total expenditure		69%	79%	69%
GAG result		Not included	£79,087	(£4,044)
GAG result per pupil		£66	£74	(£20)
Staff costs per pupil		£5,161	£5,026	£5,266
Staff costs % of total expenditure		75%	76%	78%
Teaching & ed support staff costs per pupil		£4,061	£3,906	£4,218
Teach & ed support staff % of total staff costs		78%	78%	79%

	Your academy	MATs Average 2018/19	Secondary academies Average 2018/19	Primary academies Average 2018/19
Support/Non-teaching staff costs per pupil		£1,084	£857	£1,023
Non-teaching staff costs % of total staff costs		21%	17%	20%
Supply teacher costs per pupil		£124	£87	£58
Supply teacher costs % of staff costs		2%	2%	1.1%
Light and heat costs per pupil				£79
Light and heat % of total expenditure		£85	£92	1.2%
Buildings & grounds maintenance per pupil				£91
Maintenance % of total expenditure		£62	£74	1.2%
Cleaning and refuse per pupil				£53
Cleaning and refuse % of total expenditure		£261	£260	0.7%
Educational supplies and services per pupil				£298
Educational supplies and services % of total		£24	£98	4%
Examination fees per pupil				£3
Examination fees % of total costs		£16	£20	0.0%
Staff development per pupil				£25
Staff development % of total costs		£73	£61	0.4%
Technology costs per pupil		£73	£81	£71
Technology costs as % of income		1%	1%	1.2%
Balance sheet				
Total reserves held		£1,419,905	£698,709	£364,812
Total reserves held per pupil		£524	£668	£895
Unrestricted reserves held		£1,024,000	£449,224	£160,242
Unrestricted reserves held per pupil		£269	£331	£502
LGPS deficit per pupil		£3,118	£2,449	£3,028
Capital expenditure per pupil		£436	£182	£347
Cash and bank balances held per pupil		£976	£1,270	£1,312

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.

https://www.uhy-uk.com/insights/academies

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