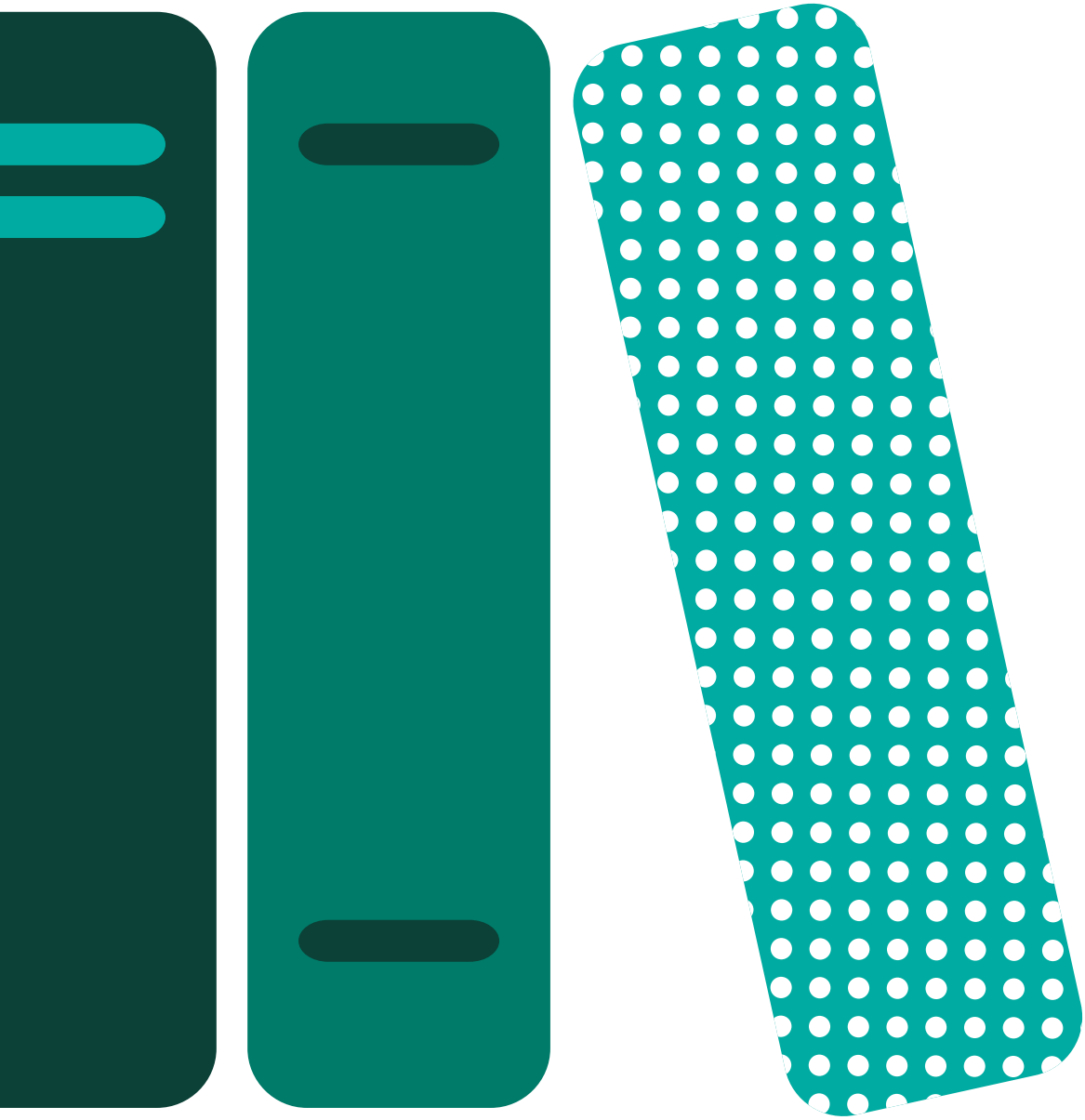
UHY Hacker Young
Chartered Accountants

UHY's 2017 academies benchmarking report

FOR ACADEMIC YEAR 2015/16

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

www.uhy-uk.com/academy-schools



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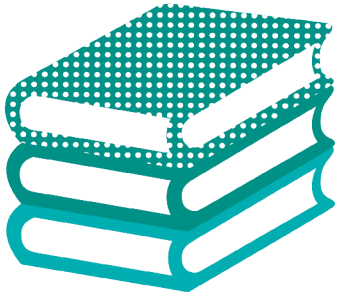


OUR ANNUAL BENCHMARKING REPORT

Allan Hickie
Chair of UHY's national academies group

Our fifth annual benchmarking report for academies comes at a time of huge financial pressures, a change in funding and an increased focus on MATs. It is a time when benchmarking your academy and understanding the issues facing the wider sector could unearth areas for improvement which make all the difference.

Well, it has been an eventful year since I sat down to pen my introduction to last year's report.

The number of academies has continued to rise rapidly, with approaching 6,000 academies and nearly 3,000 academy trusts open at the time of writing. This is the third year in a row that around 1,000 schools have converted.

We have seen Nicky Morgan backtrack on her programme of 'forced academisation' in response to the huge swell of opposition to this policy, before she left office to be replaced by Justine Greening. The number of schools who have converted, many of these voluntarily, does indicate that there remains a genuine wish to take advantage of the freedoms available. More and more Local Authorities (LAs) are buckling under the strain of operating fewer and fewer schools, and this means that, ultimately, the number of academies will continue to rise as schools become disillusioned with their LA.

We have also seen some advance with the National Funding Formulae. We now know that this will come into force from 2018/19 and are currently in the second consultation period. If you have not already checked out your academy's indicative funding on the DfE website, then we recommend that you do.

ADDING VALUE WITH OUR REPORT

Our report is designed to bring together information which you can use to benchmark your academy against others in a number of areas, both financial and otherwise. This year our benchmarking report has expanded to cover 200 academies in total, comprising a mix of primary schools, secondary schools, free schools, special schools and Multi-Academy Trusts (MATs). As before, our sample includes a mix of UHY Hacker Young clients and other academies, whose information has been sourced from their websites and/or Companies House, which ensures our report is based on a wider spectrum.

We thought long and hard about including MATs in their own right this year, as some other sector reports do, but shied away from doing so. MATs remain notoriously difficult to benchmark; they vary so greatly in size and mix of schools that it is hard to compare like with like. We have, therefore, again opted to break our MATs down to include the component academy data in our report.

Our report focuses on the same key areas as in previous years, and we feel that providing some key non-financial data sets our report apart from others we have seen. Alongside the facts and figures, we provide our insight based on the findings of this year's study as well as reviewing some of the most topical issues in the sector. One new area we have looked at this year is senior leadership team remuneration. This was a new disclosure requirement in academy trusts' 2016 accounts and, with a focus in the press on the amount some trusts are paying to higher earning staff, we are sure the results will be of interest. We are already aware that many academies have started their review of what other local schools pay their senior leadership teams (SLTs).

As usual, we have included a benchmarking page at the end which contains space for you to add your own school's data alongside the average results in key areas. We would encourage you to make use of this. If it is of interest, we are able to produce a graphical representation of your results, so please contact us if you would find this useful.

WHAT ABOUT THE YEAR AHEAD?

It promises to be interesting, as we receive more clarity over fairer funding. Academy trust finance staff and their auditors have been struggling throughout January with the Education and Skills Funding Agency's (ESFA - formerly the EFA) new online August Accounts Return (although we did manage to get a high number submitted before the original 31 January deadline, before this was extended!), and there are further changes to financial reporting to come.

The ESFA announced before Christmas that trusts will be required to submit two Budget Forecast Returns in 2017, though we are still awaiting further details, and there are rumours that the Teachers' Pension Scheme End of Year Certificate (TPS EOYC) will move to an online platform.

Last but not least, we are sure academy finance staff will be working hard to achieve balanced budgets in spite of the financial pressures facing the sector in 2017.

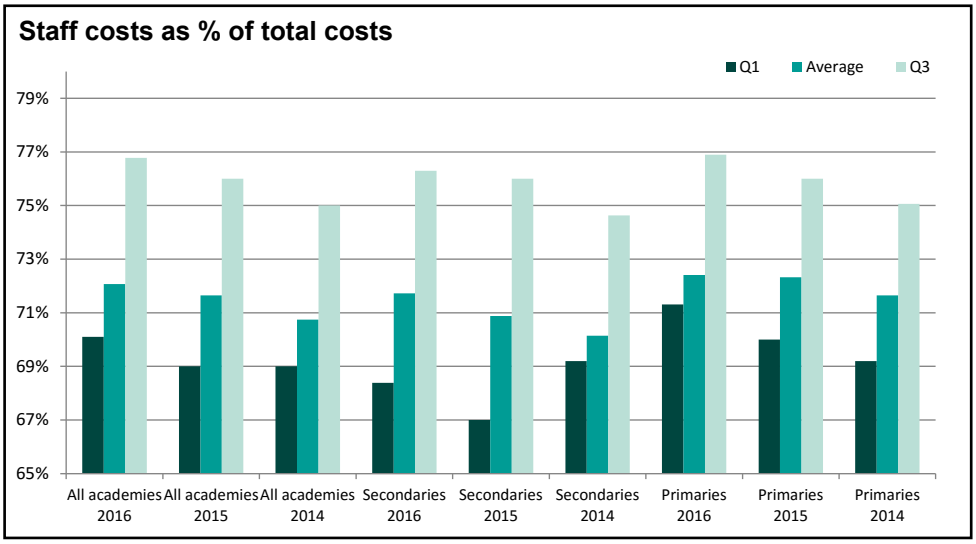
I hope that you enjoy our report and find it both interesting and useful. If you have any questions after reading it I would be pleased to answer them. We are always keen to improve our benchmarking report; we would be pleased to receive suggestions for areas to look at next year. Happy reading!

STAFF COSTS, NUMBERS AND TEACHING STAFF TO PUPIL RATIOS

Staff costs remain the largest part of an academy's annual budget. It is a constant challenge to balance rising staff costs with the need to maintain educational standards. One might expect spending on staff costs to be similar in two academies that are of the same size, however this is not necessarily the case. There are naturally lots of reasons for this, and factors such as demographic and the number of higher needs pupils can impact on the pupil-to-teacher ratio, which in turn affects overall staffing costs.

It is clear that some academies operate on a much tighter staffing budget than others and are still able to achieve excellent academic results, relative to the type of school. As the DfE strive to make all schools more efficient, it is a valid question to ask how some are managing to come in on budget and achieve results at the same time. There are undoubtedly many contributory factors, such as geographic location and pupil demographic, but there will be lessons that can be learnt from those schools which perform 'the best'.

The key ratio to consider is the proportion of staff costs as a percentage of either total costs or total income. This is depicted below, indicating the upper and lower quartiles and the average, for primaries and secondaries individually and all academies as a whole, and comparing these to last year's results:



The chart above shows the consistency across each of the last three years, with all academies maintaining staff costs at around 72% of total costs. We had expected the figures to reveal an increase in 2015/16, as academies begin to feel the impact of rising pension and National Insurance Contribution (NIC) costs; however, this is not yet coming through. This time next year, it is likely that the impact may be more obvious.

	Average staff costs as % of total costs		
	2015/16	2014/15	2013/14
Primary	72%	72%	72%
Secondary	72%	71%	70%

Whilst the great majority of academies have staff costs around this average level (over half are between the first and third quartile results, 70% and 77% respectively), there are some where staff costs are much higher or lower.

There should be an increased level of concern if staff costs exceed 75% without a good reason or without appropriate restructuring plans in place. A total of 15 academies in our sample had staff costs in excess of 80%.

High staff costs can occur for a number of reasons. Usually, the very highest ratios are explained by specific circumstances; for example, the pupil demands in a special school will result in a high pupil-to-teacher ratio. We have also seen some academies deliberately increasing staffing levels this year in core academic subjects in response to a poor Ofsted report.

If an academy trust is forced into making cuts, staff costs are inevitably the first to be reviewed. Wages and related costs represent such a large proportion of the budget that there is usually more scope to make savings in this area than all of the other cost areas combined.

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THE APPRENTICESHIP LEVY… A HIDDEN COST FOR MATS

Many academy trusts will find themselves having to pay the apprenticeship levy from April 2017, which will add further to staff costs. All employers with an annual wage bill of more than £3m will pay the levy, charged at 0.5% of wage costs over the £3m threshold. For an academy trust with a £4m wage bill, this will suddenly add £5,000 to the annual cost. For some of the larger MATs with 20+ academies, the total apprenticeship levy charge will easily run into hundreds of thousands of pounds. For example, a MAT with 20 secondary academies could easily have a total wages bill of more than £60m and, at this level, the apprenticeship levy charge would be an enormous £285k! Yes, this is spread across many academies, but it remains a significant extra cost. The £3m threshold applies to each employer; therefore, since the MAT is the employer, individual academies effectively lose their £3m exemption threshold, costing each academy up to £15k per annum.

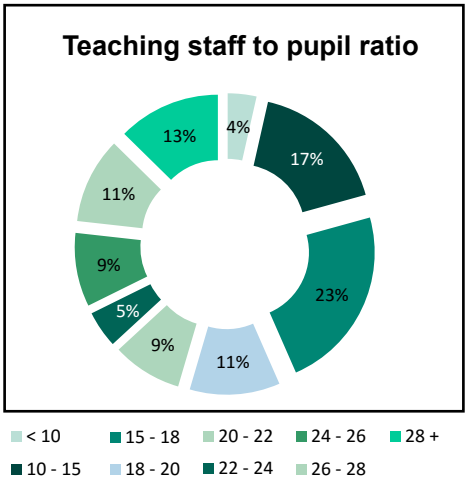
TEACHING STAFF TO PUPIL RATIO

An important part of efficiency can be the pupil-to-teaching staff ratio.

4 in 10 academies in our sample had a teacher to pupil ratio of 1:10 – 1:18. This has fallen from last year, when 43% were in this range, and further still from 2013/14, when over 54% reported a ratio within this range.

The very lowest ratios, with 4% reporting less than ten pupils per teacher, would be impressive at top independent schools. At the other end of the scale, 13% of academies reported more than 28 pupils per teacher. Most of these were primary schools. We have seen two or three secondary schools, including one grammar school, increase some class sizes to 40 pupils to reduce costs. From talking to our client, we know that this decision was not taken lightly and that they considered various other options, before agreeing this was the best available.

The management team were sceptical about the response this decision would receive from pupils and parents, but have been pleasantly surprised at how well the system has worked and how little opposition there has been.



SUPPLY STAFF

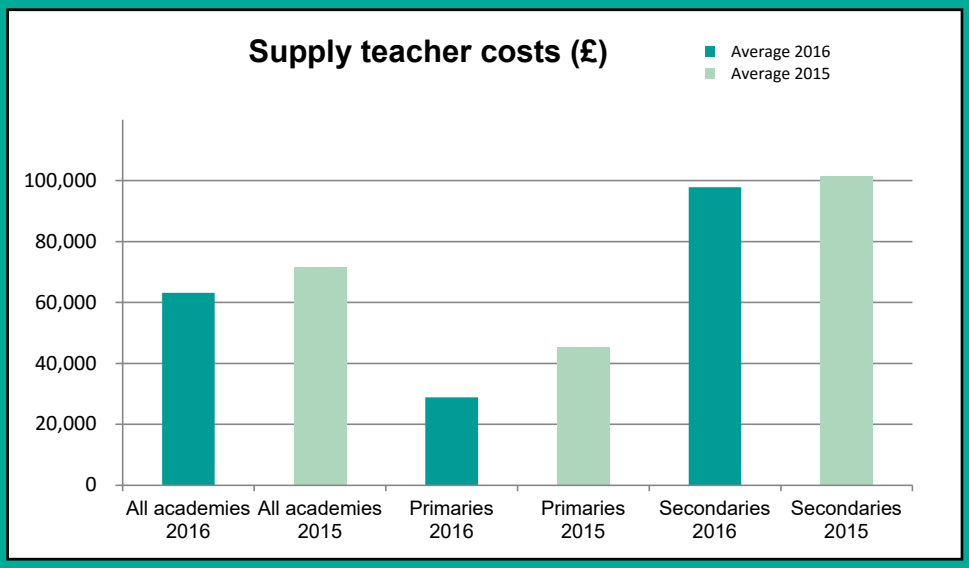
Supply costs can sometimes be crippling for academies. Many academies do take out insurance to cover themselves from the effects of absenteeism arising from sickness or maternity, but others opt to 'self-insure'; working on the basis that they may have an 'unlucky' year one year, but will save a considerable sum in other years by not paying an insurance premium.

Interestingly, the average spend on supply costs has fallen across all types of academy between 2015 and 2016. The effect is not large in the secondary sector but, on average, primary schools spent 63% less on supply staff this year than they did in 2014/15. This may be circumstance, but it may also be that tighter budgets have led to schools relying more on their existing staff; for example, asking teaching assistants to take more classes when teachers are off.

25% of secondary academies paid out more than £114k on supply cover and the same percentage of primaries spent £44k. One secondary school, albeit a large one, incurred an eye-watering £710k of supply costs which, thankfully, impacted in a relatively small way on the averages.

Like last year, a minority of academies had zero or virtually no supply costs. It is an enviable position to be in, to manage to survive with such little additional cost for supply cover. One of our clients has been able to manage their costs in this efficient manner partly due to their size, as they were able to manage much of their supply cover internally. However, they also made use of annual contracts to cover known areas of supply needs, which helped them to keep agency supply costs to a minimum.

	Lower quartile	Average	Upper quartile
All academies	7,000	63,162	82,646
Secondaries	26,500	97,822	113,658
Primaries	2,904	28,844	44,000



Though their use of internal staff and annual contracts will have been reported differently in their accounts, so there would still have technically been costs involved for the supply cover, their approach will have enabled them to lessen the overall cost burden.

SENIOR LEADERSHIP TEAM REMUNERATION

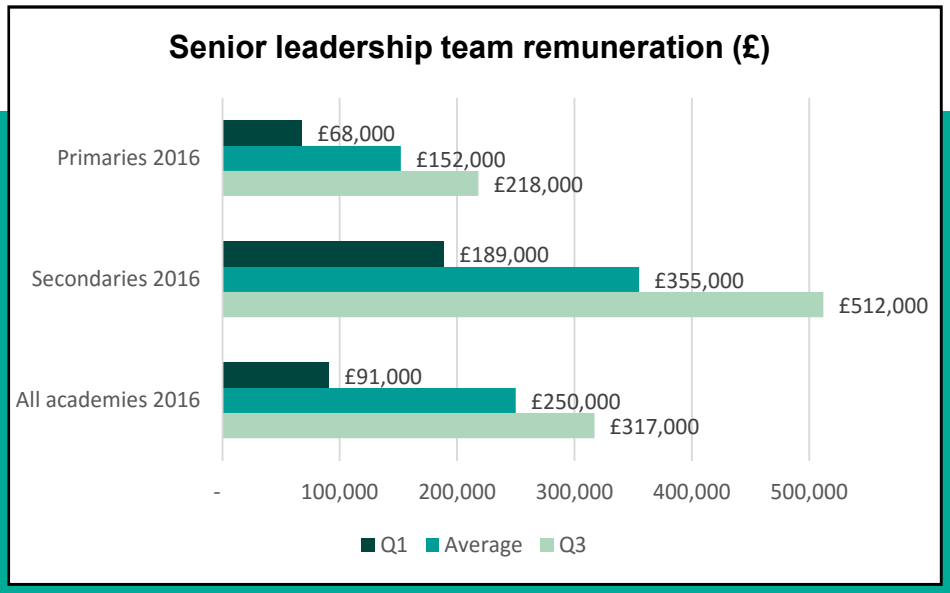
Within staff costs the Senior Leadership Team (SLT) will often be a significant proportion of the overall budget by nature of the highly qualified, experienced staff on high pay spines.

It is therefore important to regularly assess whether or not your SLT are delivering value for money. Most SLT positions will involve far more than face-to-face interaction with pupils; however, it is still wise to question whether your SLT are spending sufficient time directly influencing the education of the academy's pupils. Staff working in the education sector will be familiar with the number of meetings they have to attend; but are these meetings providing value for money or do they involve non-essential or irrelevant discussions around issues that would be better discussed separately or not discussed at all?

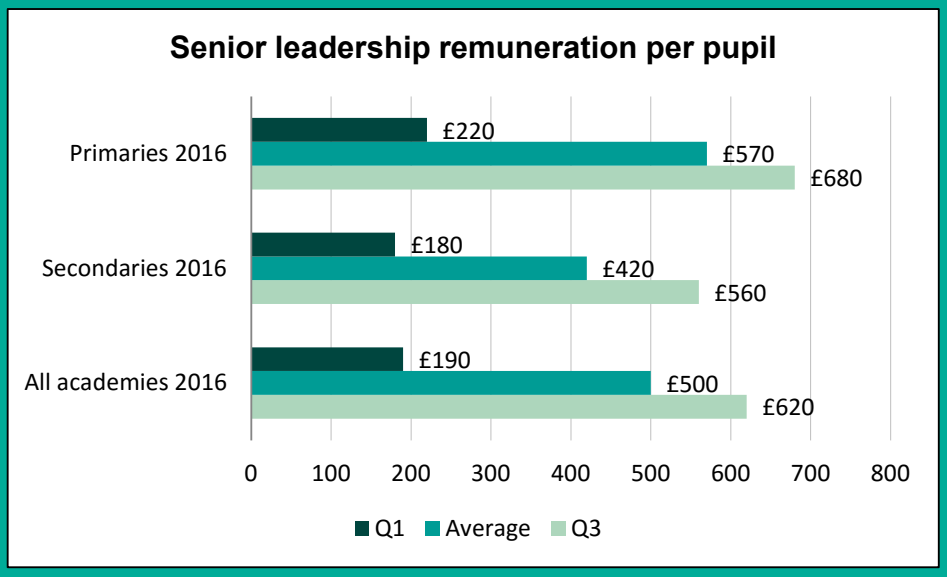
For the first time, academy trusts had to disclose the total remuneration paid to SLTs in their financial statements for 2015/16. Information explaining how the remuneration was set was also required in the narrative of the Trustees' Report. These additional disclosures are all in the name of 'greater transparency'.

Our clients were understandably interested in how their SLT remuneration figure compared to other academies, not wishing to see themselves exposed as paying more than average. The difficulty is comparing like with like. In a standalone primary or secondary academy there is a fairly typical SLT structure, but the set up in a MAT can be very different.

staff costs are by far the largest expense for an academy, and are often where cuts have to be made.



This graph shows the range in total SLT remuneration and also reveals the average of £152k for a primary and £355k in a secondary academy. The size of the academy inevitably impacts on the overall SLT remuneration, so it is helpful to view this data on a per pupil basis.



The graph to the right shows that the academies paying the highest SLT remuneration paid more than three times, on a per pupil basis, than those paying the least. This suggests that some academies are operating far more efficiently at SLT level than others, which inevitably impacts on the overall financial results.

The importance of direction from the very top should never be overlooked, since the whole ethos and philosophy will be driven by the CEO or equivalent.

CEO/Headteacher/Principal salaries

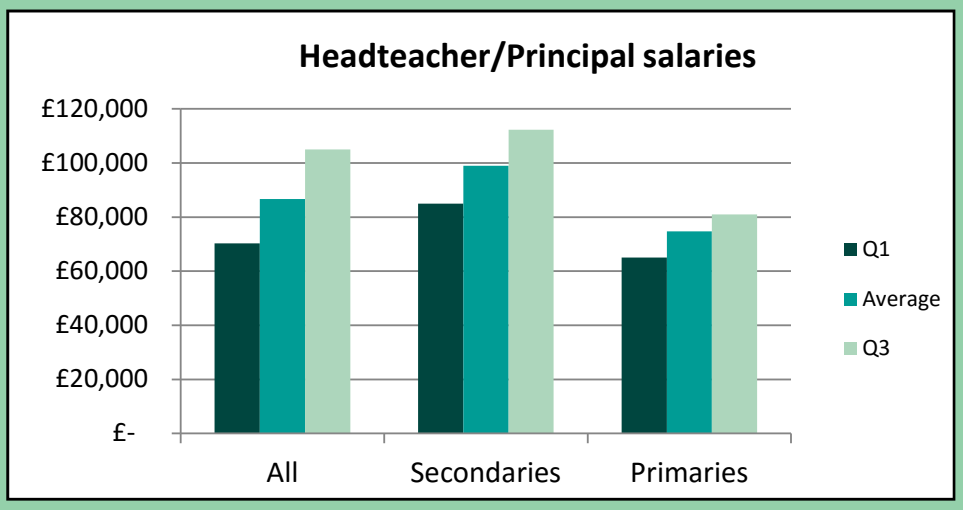
It is inevitable that the remuneration paid to the very highest earners comes under the greatest scrutiny.

Many headteachers in standalone primary academies earn relatively modest amounts, perhaps less in some cases than people would believe they are paid. Heads or principals in charge of much larger, complex education establishments justifiably earn much more. There has increasingly been a focus on the remuneration paid to the Chief Executive Officers (CEOs) of the very largest MATs. This is understandable at a time when schools are facing greater funding pressures and making difficult decisions, such as teaching staff redundancies.

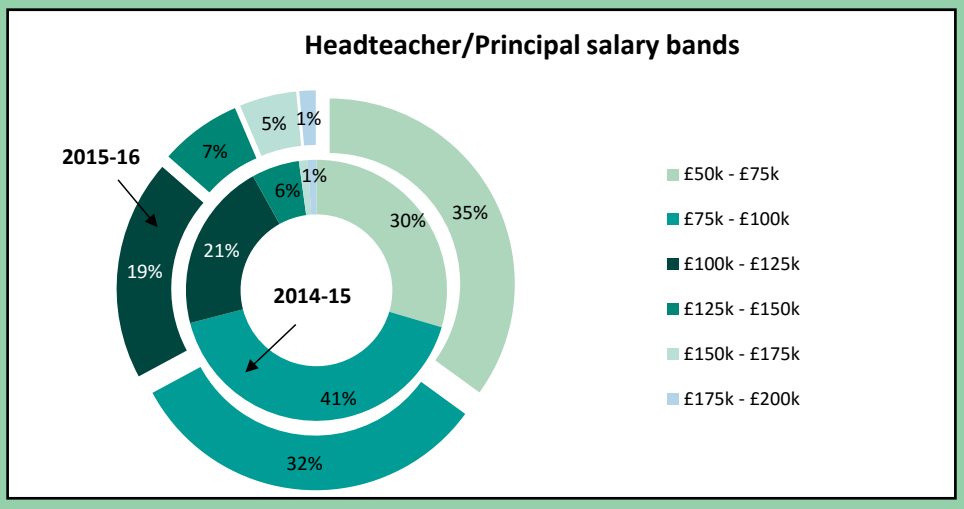
It is right that the remuneration paid to all CEOs or headteachers is both transparent and challenged. The remuneration paid is disclosed in the financial statements, so it is easy for comparisons to be made.

It is, at first, perhaps hard to justify high salaries to education leaders in such difficult times. However, the importance of direction from the very top should never be overlooked, since the whole ethos and philosophy will be driven by the CEO or equivalent. Increasingly, MATs can be responsible for 20+ academies, so one CEO has the potential to influence thousands of pupils. The very best individuals are headhunted and rewarded accordingly. If the trust is successful and its academies are achieving outstanding or good Ofsted reports then it is easier to justify the salaries; although the public will always have difficulty reconciling the use of 'money that is meant for the children' being spent in this way. Most people would agree that there is too much reward for failure or, at best, lack lustre performance. Maybe there should somehow be more of a performance-related element to the remuneration of CEOs and headteachers.

The adjacent chart shows the average, and the upper and lower quartile results of salaries paid to the headteachers of academies within our sample.



The graphic to the right shows the distribution across various ranges for both 2015/16 and the previous year. Around two thirds were paid less than £100k in 2015/16, down from 71% in 2014/15. 1% of the samples in both years were paid between £175k and £200k, although far more were paid in the next band, £150k - £175k, than in the previous year.



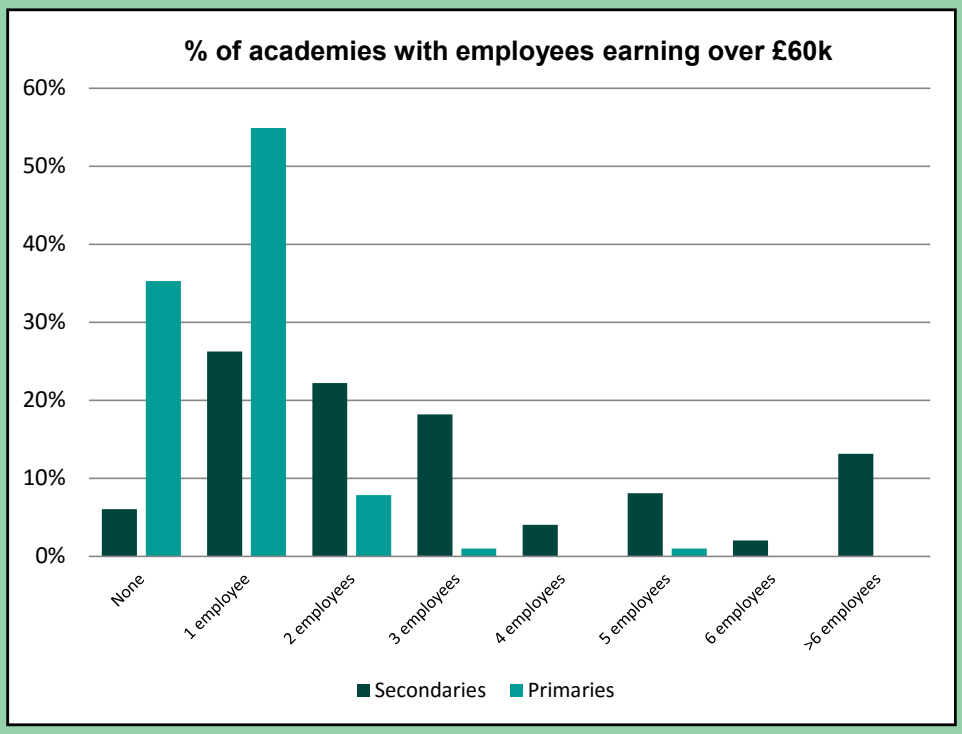
STAFF SALARIES

The remuneration paid to CEOs and headteachers has to be disclosed, because these individuals are usually staff Trustees. In addition to this information, academy trusts must publish, anonymously, the number of employees who received remuneration in excess of £60k.

The chart reveals, as you would expect, that secondary schools are far more likely to have high earning employees.

Many secondary schools have two or three deputy or assistant headteachers supporting the CEO or main headteacher, possibly explaining why 45% of secondary schools employed three or more members of staff earning in excess of £60k.

In the primary sector, 90% either paid just the headteacher or no staff at all more than £60k.

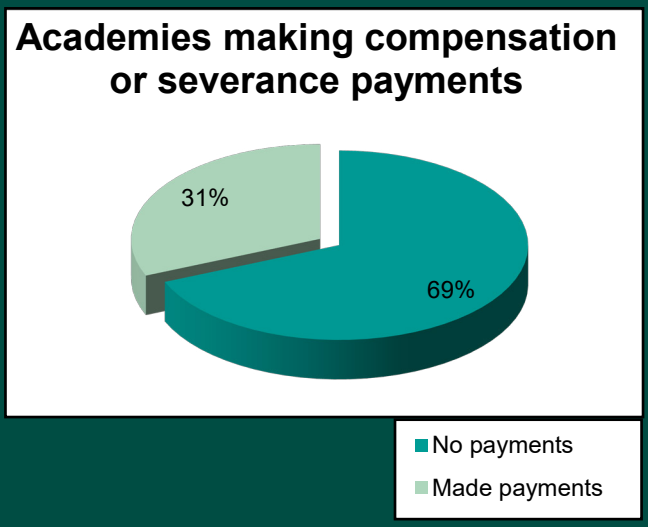


COMPENSATION AND SEVERANCE PAYMENTS

We have discussed how staff costs are any academy's greatest expense. When restructuring is required this often leads to short term costs, such as redundancies, compensation settlements and severance payments, and these settlements can be expensive! It is important that planning is undertaken sufficiently early so that the trust has funds to cover costs that may arise.

Special staff severance payments are paid to employees outside of normal statutory or contractual requirements when leaving employment in public service, whether they resign, are dismissed or reach an agreed termination of contract.

In 2015/16, 31% of academies made at least one compensation or severance payment, up from 27% in 2014/15. This may be a subtle indicator of the restructuring taking place to reduce staff costs now, before financial pressures tighten further.



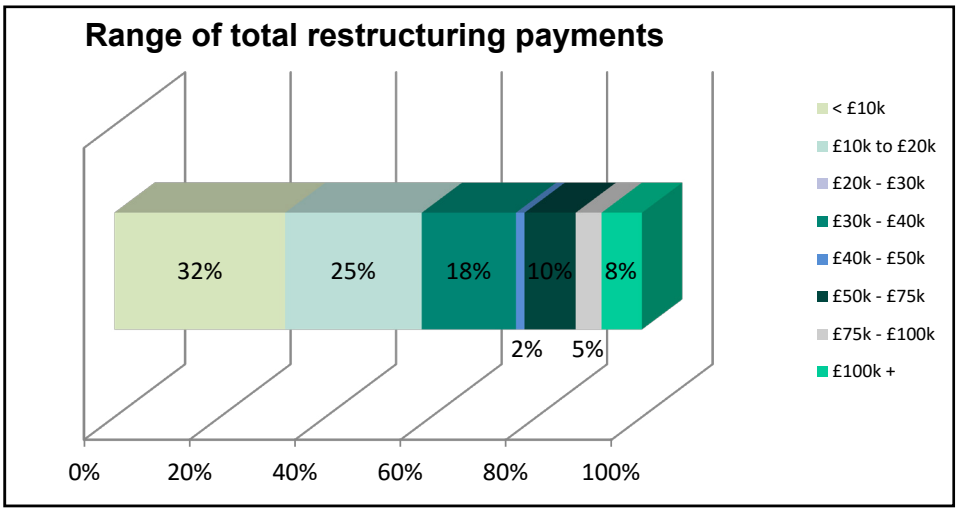
Trustees should remember that restructuring payments need to be made with the interests of the trust in mind; they need to represent 'value for money'.

RANGE OF TOTAL RESTRUCTURING PAYMENTS

In the past, our analysis has shown that where academies have made payments to staff during a restructuring process, the amounts are generally relatively low.

This is once again the case, with 32% of the academies that made a payment paying no more than £10k in total. This is less than the 39% in the bottom category last year, although, like last year, 75% paid less than £40k.

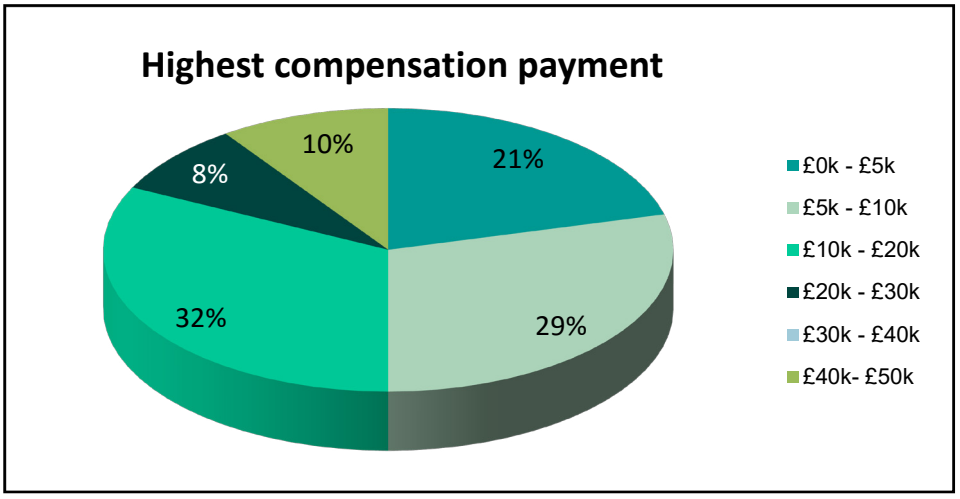
At the other end of the scale, there were a number of much higher payments. There was a marked increase in trusts paying more than £100k for a restructuring project, with 8% making payments above this level in 2015/16 compared to just 2% in 2014/15.



COMPENSATION PAYMENTS

Trusts are required to list individual compensation, severance and non-statutory redundancy payments made, in addition to disclosing the total payments of this type. For 21% of academies, their highest individual compensation payment fell within the £0 – £5k range, with a further 29% in the £5k-£10k range. 10% of trusts paid between £40k-£50k to an individual, demonstrating again how expensive payments of this type can be.

Trustees should remember that restructuring payments need to be made with the interests of the trust in mind; they need to represent 'value for money'. Payments need to be justified, based on the legal assessment of the chances of the trust successfully defending the case at employment tribunal. Remember that compensation or several payments over £50k, and any ex-gratia payments, require prior approval from the Secretary of State.



2 PENSION COSTS AND LIABILITIES

Pensions are a particularly hot topic for academies. Trustees tend to focus more on the Local Government Pension Scheme (LGPS), since the usual deficit in the trust's share of the scheme appears in financial statements. It is understandably concerning for Trustees to see a large 'liability' on the balance sheets of their trusts.

TEACHERS' PENSION SCHEMES

Let's focus on the Teachers' Pension Scheme (TPS) to begin with. The TPS is an unfunded scheme, which means an academy does not need to include its share of the liabilities on the trust balance sheet; indeed, quantifying an individual share would be very difficult. The issue with the TPS is that it has historically been severely underfunded for years, resulting in an enormous deficit. The change a few years ago to move the scheme to an average salary basis, rather than a percentage of final salary, is very slowly helping to address the issue. However, the years based on final salary have resulted in the current 'ticking time bomb' where pensions being paid to current pensioners and those due to retire shortly cannot be funded without serious change. It has long been known that pensions in the education sector, indeed the public sector as a whole, are very attractive, but they do need to be paid for somehow.

The TPS rates are national, so all academies currently pay an employer rate of 16.48% of each individual's pensionable earnings. The current rate last increased in September 2015, rising from 14.1%, and will apply until April 2019. Pension experts and actuaries are predicting at least the same rise again, if not by as much as 3-4%, to something closer to 20%. This will be a substantial increase as shown below by the indicative additional costs arising for a range of academies:

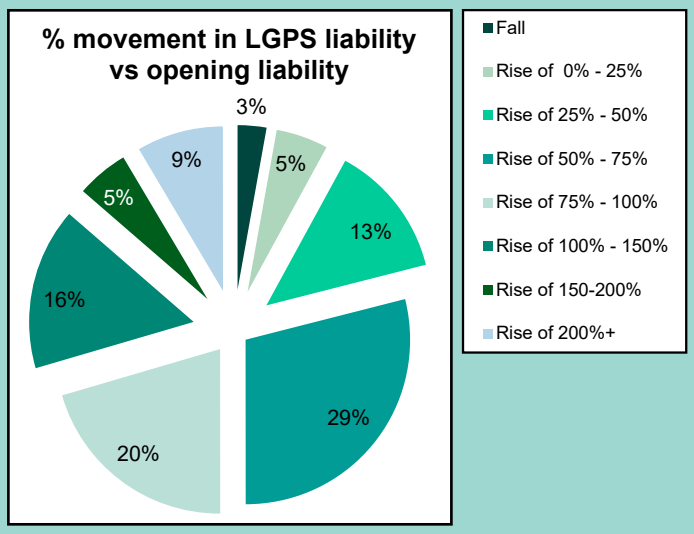
		Current TPS annual contribution		
		£300k	£400k (Ave. secondary)	£500k
Indicative additional cost of rising TPS employer rate by:	1%	18,000	24,000	30,000
	2%	36,000	48,000	60,000
	3%	54,000	72,000	90,000

LOCAL GOVERNMENT PENSION SCHEME

Back to the LGPS. The deficits in academy trust accounts are undoubtedly concerning; however they do not have short-term implications for many academies, since the deficits quantified and disclosed in the accounts do not directly influence the LGPS employer contribution rate.

On average, academy trust LGPS deficits have doubled during the course of 2015/16, with some rising by more than 200%. Nearly half (49%) of deficits have risen by between 50% and 75%.

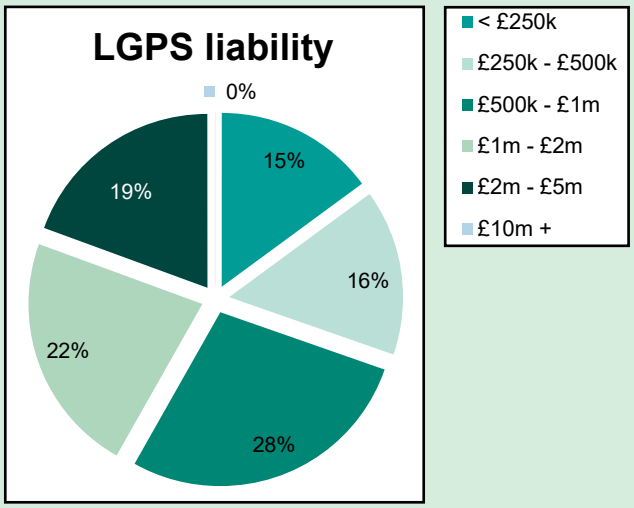
The large movement in the year has been caused by a change to the underlying assumptions used by the actuaries when they re-calculate the liabilities each year. Brexit has had a huge detrimental effect this year because the uncertainty following the UK's decision to leave the EU has seen government bonds and yields fall, which in turn has hit longer term investment forecasts. UHY audited a number of academy trust accounts for short periods ending before Brexit (where the academy trust was transferring activities to another trust) and the LGPS movements to 31 March 2016 actually showed small surpluses.



The LGPS liability is, therefore, little more than a snapshot in time and, if the UK markets improve and general uncertainty reduces, we may see some of these deficits begin to reverse. Nevertheless, the LGPS schemes remain heavily in deficit due to years of underfunding.

The key difference between the LGPS and TPS is that academies in different LAs pay different contribution rates. Rates from April 2017 have recently been announced and, despite the Balance Sheet deficits, academies in some LAs will actually see a small reduction in the rate they will be paying. Academies in other LAs can expect to see rises such as 1% per annum for the next three years, alongside substantial increases to the lump sum annual contributions they are required to pay. So it really is a mixed bag.

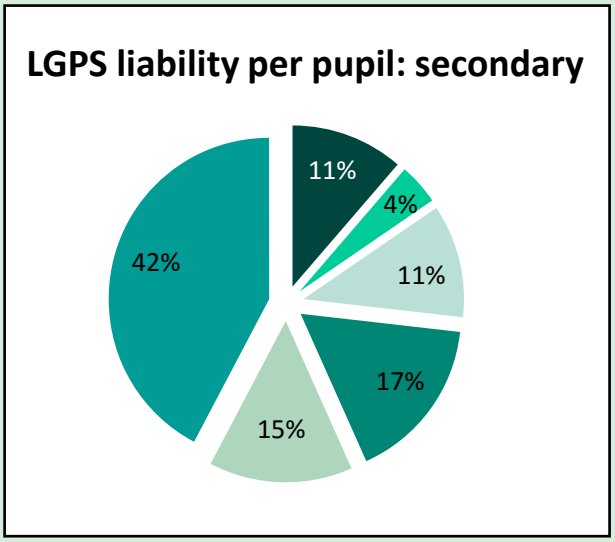
Often, where two otherwise similar academies have very different movements in the LGPS liabilities it is due to the individual staff profiles. The age of staff, for example, can have a significant impact. The liability included in the year-end financial statements is based on a detailed FRS 102 report, prepared by a qualified actuary. The actuary assesses specific data for your academy, such as staff profile and number of active members, and calculates a liability looking at stock market performance of assets and using various assumptions, such as life expectancy.

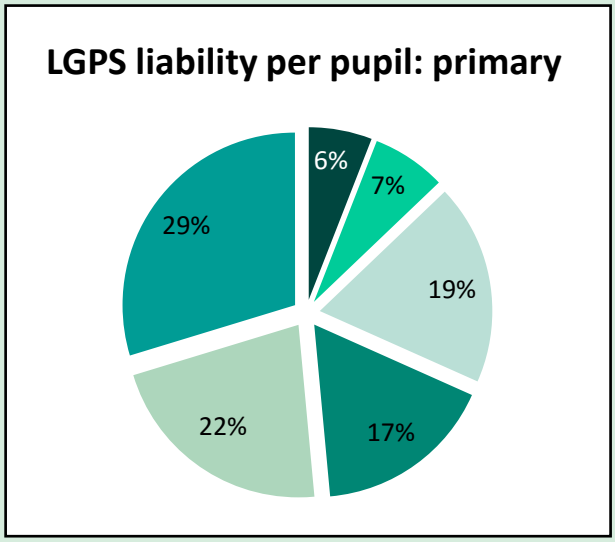


The size of the LGPS liabilities in some academy trusts' financial statements is quite frightening. In our sample, 1 in 5 academies (remember our data is based on individual academies and not trusts) had an LGPS liability of between £2m and £5m.

Of course, the size of LGPS liability usually bears some resemblance to the size of the academy. That said, we have seen numerous examples of similar sized academies holding very different liabilities, so size is not everything.

The charts below show the average LGPS liability on a per pupil basis. This illustrates that whilst fewer primary schools have large deficits of over £2,500 compared to secondaries (probably because primaries generally have fewer support staff) there is perhaps not as much of a difference between secondaries and primaries as one may expect.

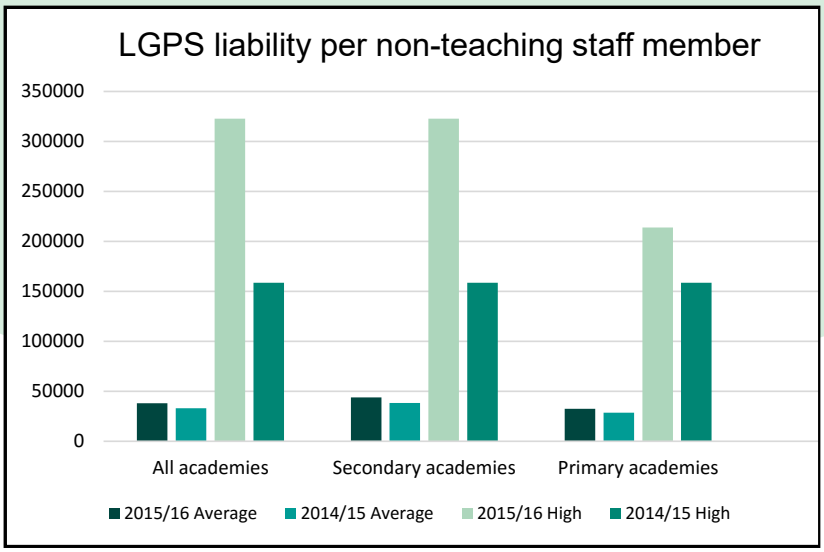




< £500 | £500 - £1,000 | £1,000 - £1,500 | £1,500 - £2,000 | £2,000 - £2,500 | £2,500+

LGPS LIABILITY PER NON-TEACHING STAFF MEMBER

The bar chart below shows that there is also little difference between secondary and primary academies when you compare the ratio of LGPS deficit to non-teaching staff. Whilst the average LPGS liability per non-teaching staff member is around £38k (up from £34k in 2014/15), some academies have much higher liabilities per member of staff; although the primary school with a liability of £158k and secondary school with a liability of £183k per member of support staff may be more to do with the allocation of staff between categories.



The size of the LGPS liabilities in some academy trusts' financial statements is quite frightening.

3 INCOME

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

THE NATIONAL FUNDING FORMULA

Of course, the current hot topic when it comes to funding is the National Funding Formula (NFF). The long awaited decision to redistribute the overall funding pot more fairly across the country is the talk of most academies. At the time of writing this report we are in the second consultation stage, which aims to determine the practicalities of how the NFF will be rolled out from 2018/19.

Academies in lower funded LAs have been hoping that the NFF will be the saving grace to cover rising costs and generally ease financial pressures. The DfE have released indicative funding tables during the second NFF consultation stage and it is clear from these that many academies may not benefit to the extent that they had hoped. Though the DfE tables only provide an indication of the impact NFF could have had on 2016/17 funding had the NFF applied, they do give each school an indicative plus/minus percentage on base funding. Academy finance staff should by now have reviewed their academy's indicative funding and contacted the DfE if they have any questions on how this has been determined. It is vital that finance staff and Trustees understand how the NFF is likely to impact on their academy and start to build the new funding into forecasts.

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

We continue to see academies develop other sources of income and, in some instances, the funding these additional streams can generate can be significant.

	Top 5 most poorly funded LAs in 2015/16	£ per pupil
1	**Wokingham**	**4,158**
2	**Poole**	**4,194**
3	South Gloucestershire	4,196
4	Stockport	4,206
5	West Sussex	4,206

	Top 5 best-funded LAs in 2015/16	£ per pupil
1	**City of London**	**8,595**
2	**Tower Hamlets**	**7,014**
3	Hackney	6,680
4	Lambeth	6,384
5	Hammersmith and Fulham	6,248

	Top 5 best-funded LAs in 2015/16 (outside london)	£ per pupil
1	**Nottingham**	**5,309**
2	**Birmingham**	**5,218**
3	Manchester	5,088
4	Liverpool	5,048
5	Slough	4,862

WHAT IS THE IMPACT OF THE NFF IN FINANCIAL TERMS?

The top five LAs standing to gain the most based on the percentage change in funding in year one* are Derby (2.7%), York (2.4%), Torbay (2.4%), Somerset (2.4%) and Barnsley (2.4%).

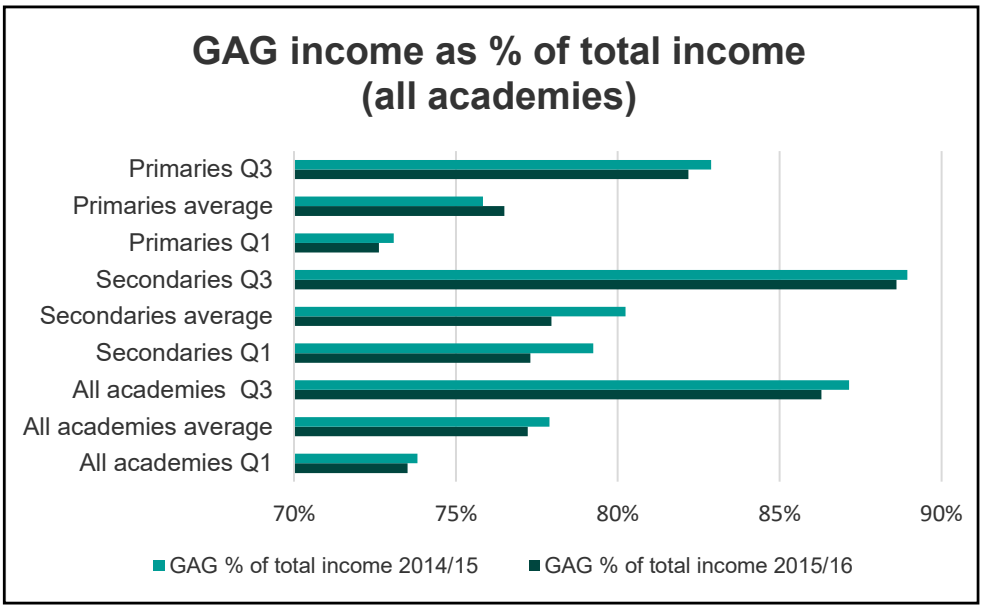
A number of areas, including nine London Boroughs and one in Manchester, are set to lose 1.4% of funding at the other end of the scale.

Aside from location, we thought it would be useful to review how the NFF may impact on a range of academies of different sizes, which can be seen in the table below:

	Pupil numbers	GAG funding per pupil (£)	Impact of NFF 0.5% fall (£000s)	Impact of NFF 1% fall (£000s)	Impact of NFF 1.5% rise (£000s)
Q1 primary	203	3,490	(4)	(7)	11
Average primary	319	3,808	(6)	(12)	18
Q3 primary	410	4,359	(9)	(18)	27
Q1 secondary	513	4,570	(12)	(23)	35
Average secondary	792	4,931	(19)	(39)	59
Q3 secondary	1,027	5,557	(28)	(57)	85

Based on the above data, the 'average' secondary would gain £59k with a 1.5% increase or lose £39k with a 1% fall in funding. The 'average' primary could gain £18k or lose £12k using these same percentages. In the grand scheme of academy finances, the numbers are not substantial in either direction; hence, despite the furore, the impact of the NFF for most academies will not be 'make or break'.

The overarching problem is that the pot from which the funding is taken remains unchanged. The Government have been unable to throw additional funding at the education sector, so the exercise is essentially just moving funding from one school to another.



GAG

The overall trend, which can be seen in the graph to the side, shows that the % of income derived from GAG has fallen compared to 2014/15.

The average secondary generated 78% of its income from GAG, down from 80% the year before. This followed a fall from 82% in 2013/14, suggesting that secondaries are becoming less reliant on GAG income as the years progress and seem to be utilising their skills and resources to generate other sources of income instead, as discussed further next.

*as reported in Schools Weekly

OTHER INCOME

Most academies generate some other income; even the very smallest primary academies tend to at least have a nominal amount of lettings income from hall hire to a local community group.

The way certain income streams are presented in academy trusts' financial statements means that 'other income' usually incorporates educational income from school trips and other similar income that might pass through the academy's voluntary fund.

But Trustees have a responsibility to maximise their academy's income where they can by utilising the resources at their disposal, since this maximises the funds available to spend on the trust's pupils. Many have been able to generate these, often substantial, additional funds through hiring out their sports fields or selling services, such as catering or headteacher consultancy, to other schools. We have seen several MATs generate funds from educational consultancy work to a school in the year before the school joins the MAT.

Trading subsidiaries

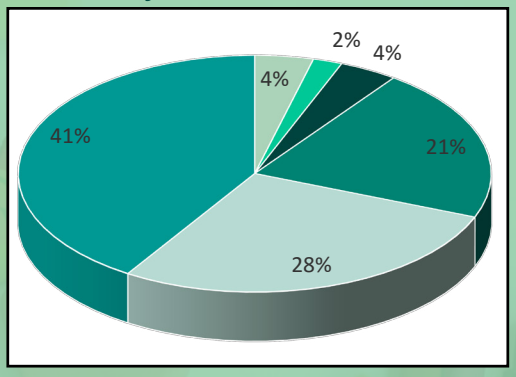
As income from trading or business streams increases, academies need to carefully consider the advantages and disadvantages of establishing trading subsidiary companies. These are often used to isolate any risk or to mitigate corporation tax and VAT liabilities; however, care is required since structuring activities in the wrong way can actually create a VAT cost. Remember as well, that many academy trusts' articles prohibit them from carrying out what are often referred to as 'significant trading facilities'.

We therefore recommend that you always take professional advice before embarking on any new activities, or substantially increase the level of existing activities, to ensure you have the most appropriate structure; be that trading subsidiary or not. Complications and unforeseen additional costs can arise if sufficient thought is not given to this from the outset.

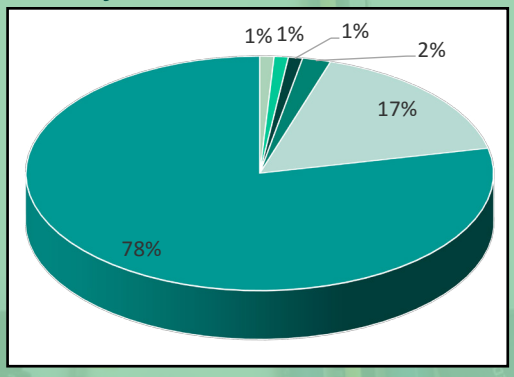
The charts below show the range of other income generated by secondary and primary academies in 2015/16. By 'other income' we mean all non-grant income, excluding assets inherited in the year of conversion or other large one-off sources of income; such as the donation of an extension building from the LA.

The charts show the inevitable result that far more secondary academies are generating significantly more other income than primary academies. 10% of secondaries were able to generate other income of more than £500k, with 4% achieving over £1 million, whereas only around 1 in 5 primaries have other income of more than £100k; although 1% did achieve over £1 million.

Other income % of total income: Secondary academies



Other income % of total income: Primary academies



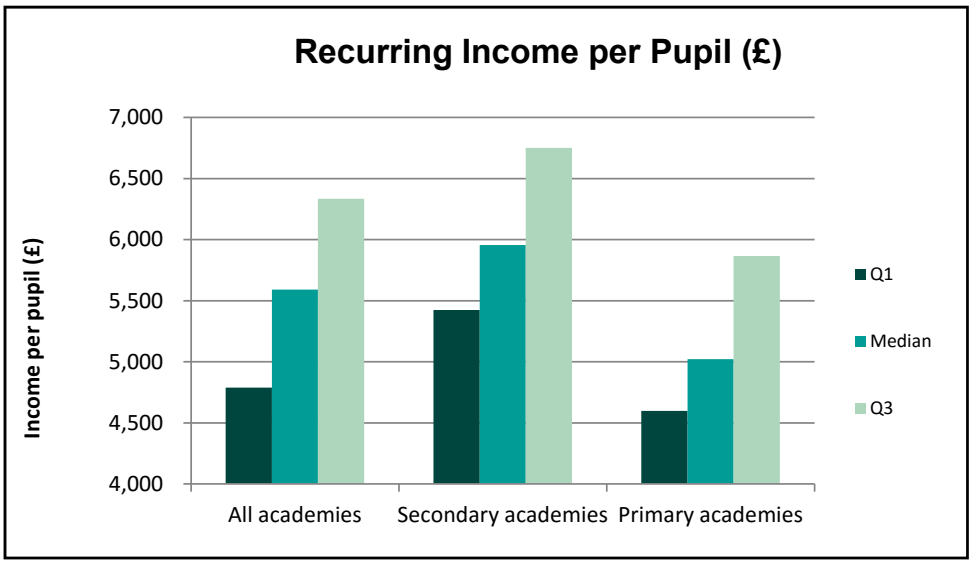
> £1m | £750k - £1m | £500k - £750k | £250k - £500k | £100k - £250k | < £100k

TOTAL INCOME PER PUPIL

Income per pupil is always a key ratio for schools to consider. As we have already discussed in the context of the NFF, there can be a large disparity between academies.

The chart below visualises the variations, looking at the lower and upper quartiles as well as the average.

With such a significant difference between even the lower and upper quartiles, before even considering the schools at the very lowest and highest end of the data, it is clear why fairer funding has been inevitable.



> With such a significant difference between even the lower and upper quartiles, it is clear why fairer funding has been inevitable.

CAPITAL FUNDING

With increasing pressure on academies' revenue income, it is vital that capital income is maximised. Academies are often able to supplement core devolved capital funding by applying for funding for specific projects through the Condition Improvement Fund (CIF).

The trouble with this is that each round of applications is so heavily oversubscribed it seems to be becoming increasingly difficult for academies to gain access to this important funding. As a result, only the highest priority projects, with health and safety concerns, and those that address significant building condition issues, were likely to be successful in the latest round.

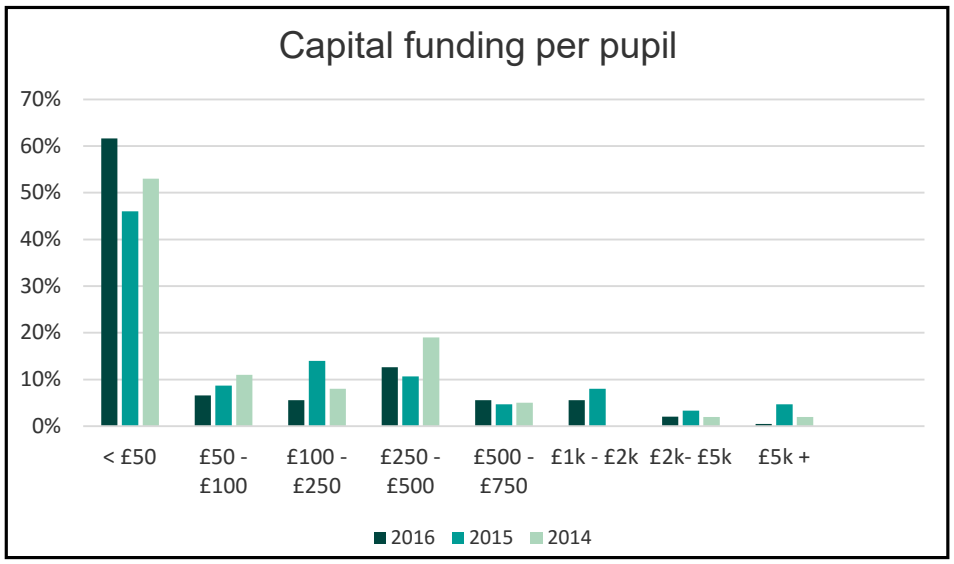
The outcome of the CIF for 2016 to 2017 was published last year. The ESFA received over 3,500 applications, with total funding of over £435m made available for 1,276 projects across 1,030 academies and sixth-form colleges. The year before, CIF funding of £383m was given to 1,127 academies.

It undoubtedly takes some time to write a successful CIF bid, so a number of clients utilise the services of an external specialist to both increase their chances and to free up staff time. Watch out for when the ESFA announces the opening date of the 2018/19 CIF bidding.

Capital funding for larger MATs

Largely, MATs (currently those with five or more academies and over 3,000 pupils) continued to receive their capital funding via a different system. These trusts receive a set allocation of capital funding, centrally, which they are free to deploy across their constituent academies as they see fit. The guarantee of funding that this brings is very attractive and enables trusts to plan and budget more effectively. It is often easier to achieve procurement efficiencies, as the guaranteed funding allows for bulk ordering etc, and trusts do not have to spend lots of time preparing and submitting funding applications that may prove unsuccessful.

The chart below clearly shows that the number of academies receiving at most £50 of capital income per pupil (around the 50% mark), far outweighs any other banding, with a further 10% receiving between £50 and £100. This leaves only 40% of academies receiving above £100 funding per pupil. Those academies receiving considerably more are those that received significant CIF funding.



4 GAG EXPENDITURE AND NON-STAFF COSTS

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

One of the attractions of academy status is the option to break away from the LA and find alternative service providers, often at preferential rates.

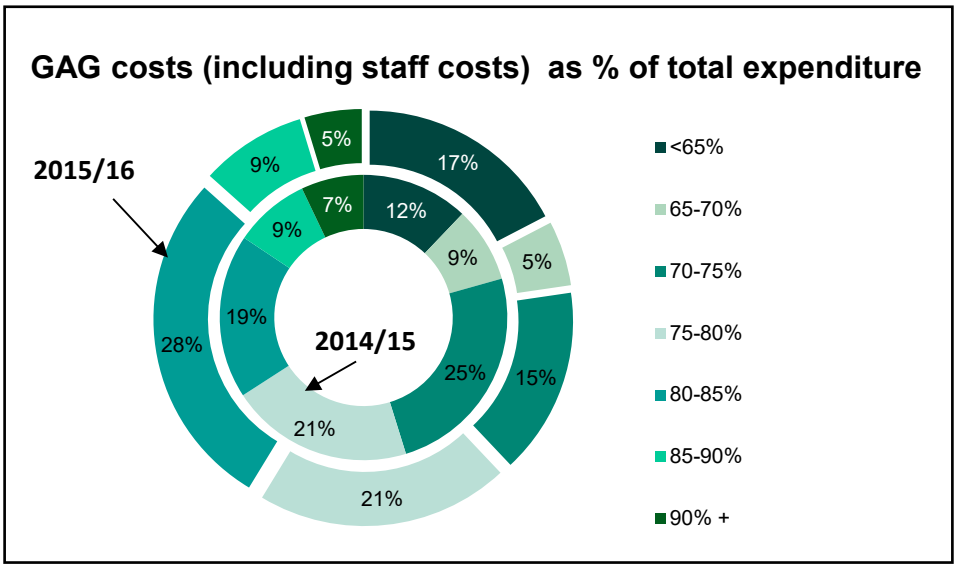
We have seen many of our academy clients, and particularly the larger MATs, secure significant savings on key contracts, such as catering, grounds maintenance and cleaning, which together make up a high proportion of non-salary costs.

GENERAL ANNUAL GRANT COSTS

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

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

49% of academies fell in either the 75-80% or the 80-85% range, up from 40% in these categories in 2014/15. GAG expenditure represented more than 90% of total costs in 1 in 20 academies, typically smaller primary schools. At the opposite end of the scale, 17% of academies had GAG costs of less than 65% of total costs; these are generally the academies with high levels of other DfE or LA grants.



BREAKDOWN OF NON-STAFF COSTS

Our report has already reviewed staff costs in detail, showing how payroll costs can account for as much as 80% of an academy's annual budget.

Much of the remaining spend goes on premises costs, such as insurance, light and heat, grounds maintenance, repairs and also catering for pupils.

Insurance – Risk Protection Scheme

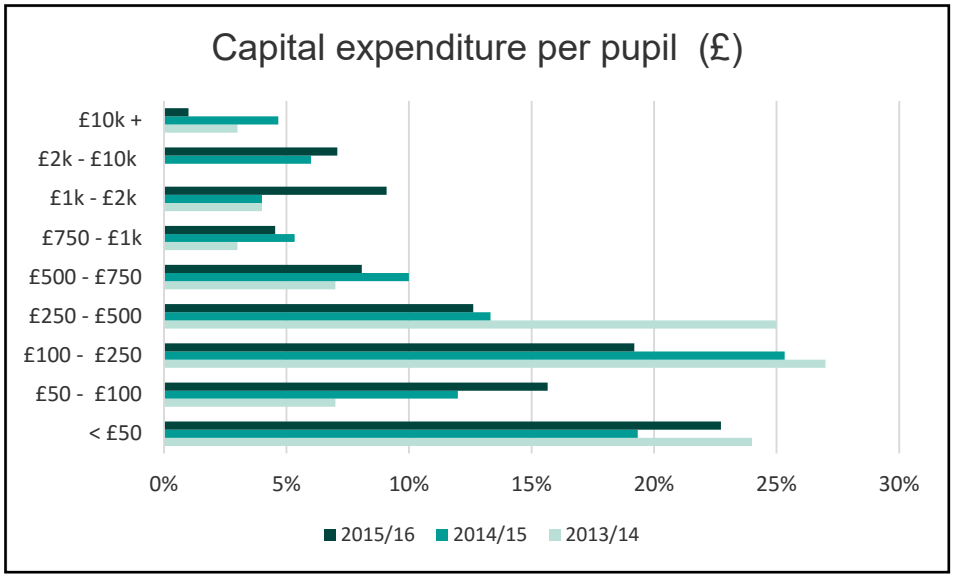
We are seeing more and more academies join the ESFA's Risk Protection Arrangement (RPA) scheme, after some initial hesitation. The cost of joining the scheme fell from £25 to £20 per pupil from September 2016, which we know has encouraged more academies to join. It seems the more academies that join, the cheaper the RPA may become, making it harder for commercial insurance companies to compete. Having said that, we are aware of some larger MATs that have been able to use their buying power to buy commercial insurance at a competitive rate less than RPA rates; we even have one two-school MAT client which also achieved this with some hard negotiations. Though likely the better option for many, if you are considering the RPA, do remember that this scheme does not cover some items such as motor vehicles and overseas travel and that you may still find a cheaper rate elsewhere.

5 CAPITAL EXPENDITURE

Capital expenditure inevitably follows from capital grant funding, which we have looked at in section 3, although many of our academies have supplemented their grant funding by making revenue contributions to capital. We also have academies which have received restricted capital donations, often from a related organisation such as the school PTA or an entity connected to one of the Trustees.

There remains a large variation in the approach to the capitalisation of assets. Some trusts have a relatively low threshold of £500 or £1,000, whereas others apply a much larger minimum of around £10,000. There is no right or wrong answer here; each trust's policy should reflect its own circumstances. Do remember that it is often beneficial to clarify whether the same threshold applies to both single items and bulk purchases on one purchase order. Many of our academy clients now apply a higher capitalisation threshold for group purchases, which are often ICT related; for example, where an academy buys a large number of desktop computers or tablets.

Nearly 1 in 4 academies spent less than £50 per pupil on capital items during 2015/16, with a further 1 in 6 spending £50-£100. Interestingly, at the top end of the scale, far fewer academies spent more than £10k per pupil on capital, although a lot more spent £1k-£10k.



It seems academies are cuttings costs, perhaps due to the lack of funding, with more academies at the bottom end of the scale spending less than £100 and the bigger spenders at the top end seemingly reducing spend to between £1k and £10k compared with last year.

DEPRECIATION

Depreciation continues to be a source of confusion for Trustees. The main element of depreciation is usually related to school buildings. The idea of capitalising the value of the buildings and then writing this off over a period of time is hard to comprehend and seems to bring little benefit.

Undoubtedly, depreciation does make an academy trust's accounts harder to understand, but it is generally tracked through the restricted fixed asset fund and so is kept away from day-to-day revenue expenditure. Nevertheless, we have seen many academy trust accounts show an overall deficit because of the depreciation charge, so it would perhaps be simpler if this charge did not need to be included. It is standard accounting practice, however, so it is here to stay.

Church land and buildings

We commented last year that there had been a lot of confusion over the treatment of church academies' land and buildings. The debate raged as to whether or not they should be included within the financial statements, with the ESFA's Accounts Direction saying one thing and a number of the faith bodies encouraging member academies to do another. Some sources were even suggesting the exclusion of the premises from the accounts. Things in this area have not moved on as much as observers may have hoped and so again this year some academies have recognised the buildings and others have opted not to.

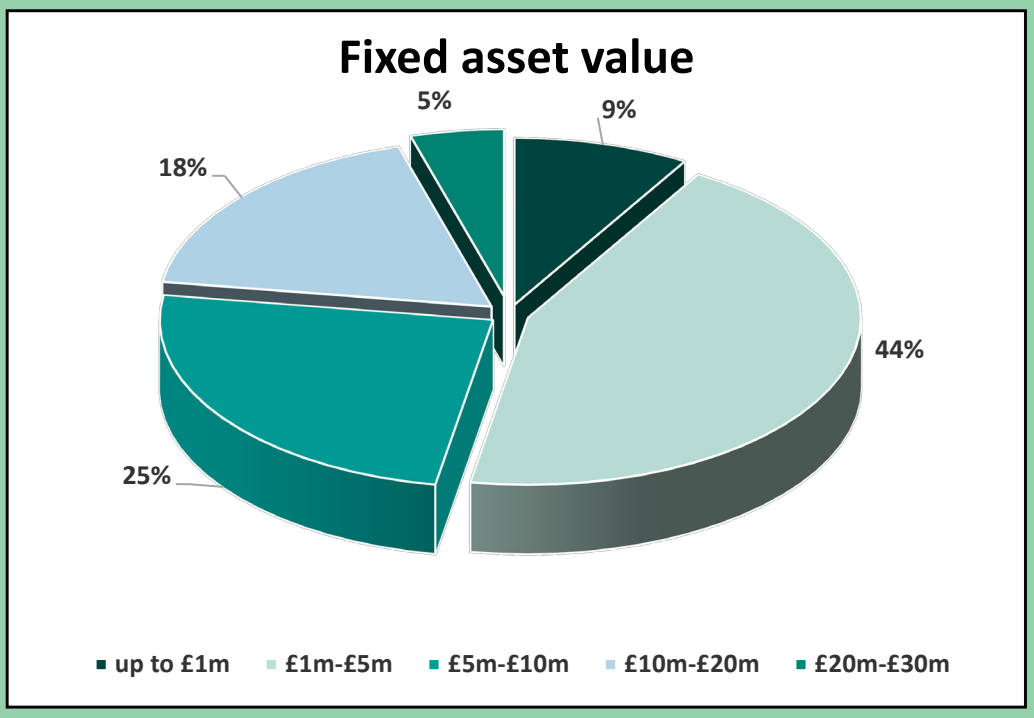
Fixed assets

Our final graph in this section shows the differential in the value of fixed assets. The largest component of fixed asset value is generally land and buildings (assuming these have been capitalised) with the valuation based on a mixture of a formal valuation performed by a qualified surveyor, the ESFA commissioned 'desktop valuation exercise' available to new converters, and other methods such as discounted insurance value.

45% (up from 40%) of academies' accounts contained fixed assets valued between £1m and £5m.

The 5% reporting fixed assets with a net book value of less than £1m are those that did not include the value of buildings at all; for example, some of the church academies or free schools occupying short-term buildings whilst they await the construction of their long-term buildings.

Some academies received free revaluations from the ESFA during 2015/16, most of which opted to update the value of their land and buildings to these latest valuations. The academies affected were generally older converters which did not receive an initial funded desktop valuation.



6 CASH BALANCES

In our report last year, we noted there had been much negativity in the press surrounding the level of cash balances held by academies (and by this we refer to all cash and bank balances). We have been asked on several occasions during the past year whether or not we feel an academy client needs to be concerned (yes, there are some academies with cash balances!).

Timing

Academies will hold cash balances for a number of reasons. It should be remembered that the accounts are merely a snapshot in time, so timing can be an important factor. If an academy has received significant capital funding, but has not spent this at 31 August, its cash at bank balance will be inflated from its true position. Where this is the case we have encouraged our clients to pre-empt questions they may receive by adequately explaining their reasoning in the financial review section of the Trustees' Report.

Reserves

The appropriateness of a cash balance will depend on an academy's own circumstances. It is preferable to hold revenue reserves, or funds, equal to four to six weeks of operational costs and this will often equate to the cash balance. Trusts should be disclosing their reserves policy and how they determine and monitor the reasonableness of the funds they hold in their financial statements.

Many of the academies in our sample that find themselves in a strong financial position, with higher than average cash balances, had converted with high cash balances.

The charts below show the split of cash balances held by academies in our sample.

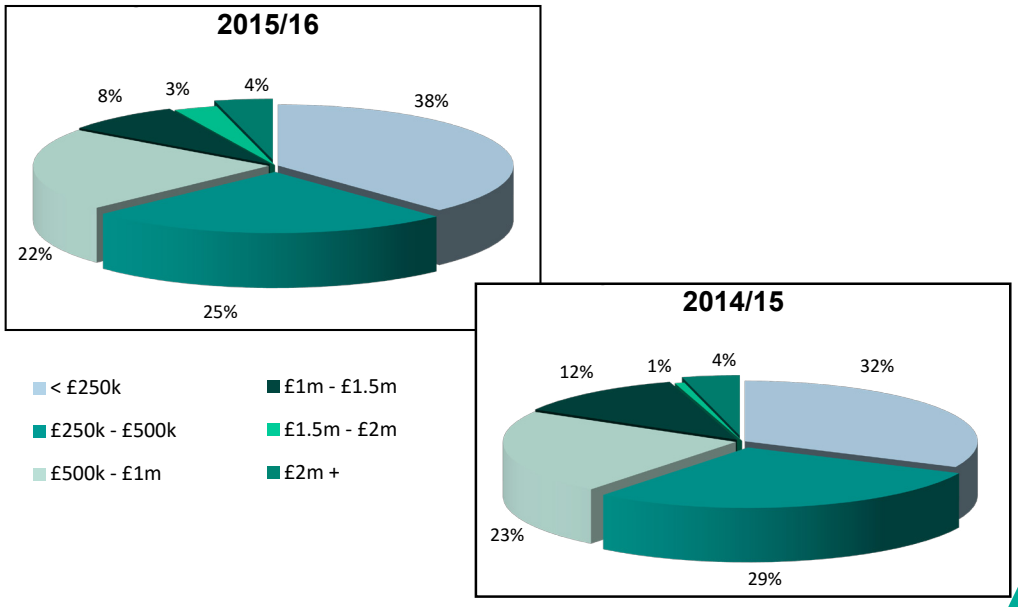
The number of academies holding between £1.5m - £2m has increased by triple, whereas those holding £1m - £1.5m has decreased to 8% and those holding £500k - £1m also saw a decrease.

At the other end of the spectrum, there was a rise in those holding less than £250k. With a reduction in the £250 - £500k bracket, it seems maybe those academies at the lower end of the spectrum are holding even less than before.

Generally speaking, although there is still a similar split between those with high cash balances compared to those with low cash balances, the downward trend appears to be gradually continuing, with 63% of academies holding less than £500k (compared with 61% last year and 50% the year before) and only 15% holding more than £1m (compared to 17% in 2014/15 and 25% in 2013/14).

With a reduction in the £250–500k bracket, it seems maybe those academies at the lower end of the spectrum are holding even less than before.

Range of cash balances held

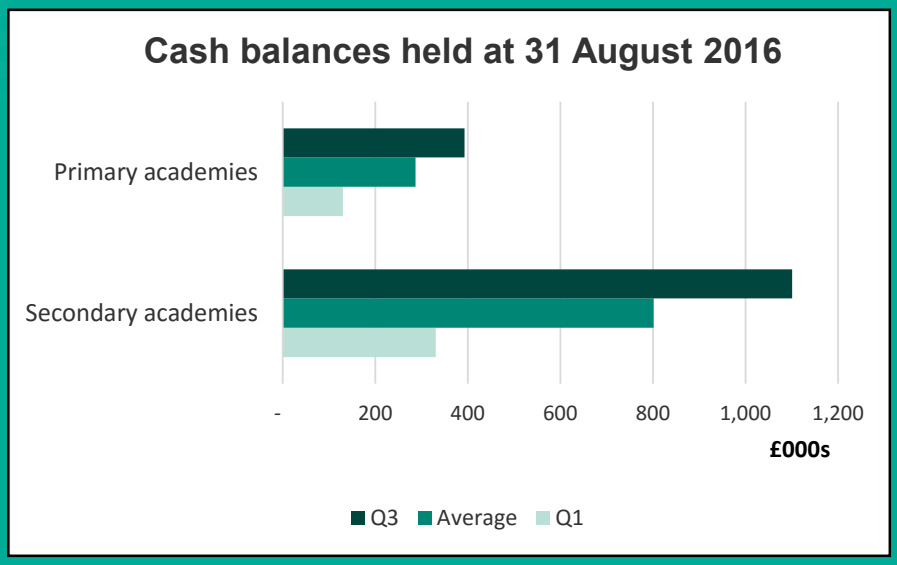


SPEND IT NOW OR SAVE?

The issue of holding funds remains a sensitive one. There is a fine balance between holding and building funds for the academy to use in the future and spending the funding on current pupils. Every academy's Funding Agreement talks about spending on current pupils, but it is vital that academies also plan for the future, and holding a reasonable level of reserves is part of this.

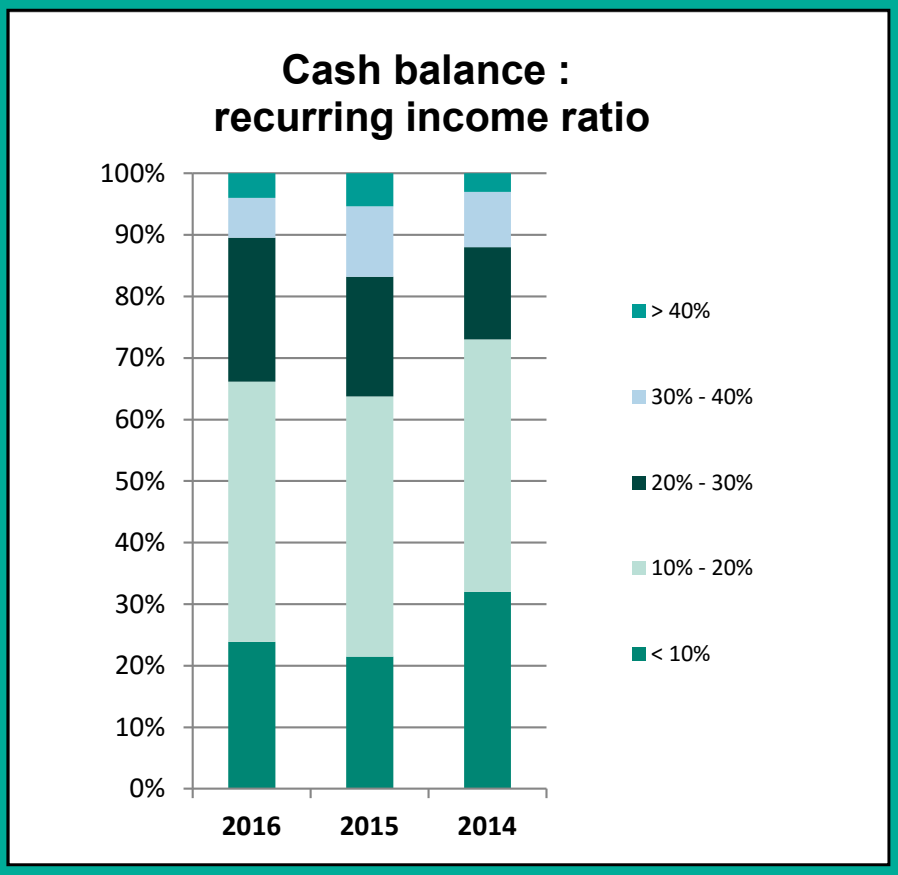
As a general rule, academies with higher cash balances appear to require less intervention. This suggests some correlation between strong financial management and general governance. The ESFA published some data on the financial statements submitted to them in December, which revealed that there was an increase in the number of modified audit reports where the auditor felt the need to draw attention to some concern over the trust's financial health. Auditors use an 'emphasis of matter' paragraph in their audit report to cross reference disclosures about going concern or financial issues that the Trustees themselves have explained and, out of a total of 64 emphasis of matter paragraphs, almost all of these (59) were in relation to going concern. This still represents a minority out of the circa 2,700 academy trust accounts the ESFA have received, but it does show there is an issue within some trusts.

As depicted in the graph below, it is not surprising to see that secondary academies generally hold more than primaries, considering the average respective size of the schools. There are, however, some primaries which are holding cash reserves almost at the same level as some secondaries, and the upper quartile figure for primaries (£392k) is above the lower quartile for secondaries (£330k).



Cash compared to income

An alternative way of reviewing cash balances is to compare against recurring levels of income. The graphic below shows that, at 31 August 2016, 24% of academies held cash equivalent to less than 10% of their annual income, compared to 21% in 2014.



CASH FLOW

Monitoring cash flow is vital to highlight the ebbs and flows of cash and to highlight periods of the year where there may be surplus balances that can then be invested safely.

So what should you be doing?

To help answer this question, we list some of the key points for you to consider:

- Proper use of the purchase ledger can enable you to post your purchase invoices and review an aged creditor report to see which invoices are due, and how old these are. A management decision can then be made to pay certain key suppliers earlier, whilst there may be other suppliers who are happy to negotiate extended credit terms.
- If you are using the special section 33 VAT reclaim scheme then you have the flexibility to process reclaims periodically, as long as each claim covers whole calendar months. We have witnessed some academies make only one or two reclaims across the whole academic year, but we would recommend that you make your reclaims at least quarterly, and indeed monthly if cash flow is particularly tight.
- If your academy generates significant sources of other income, such as from lettings, you should engage someone with the task of regular credit control, to ensure that invoices are paid within their due dates. Outstanding balances should be followed up immediately as they become overdue.
- Monitor actual spend against budget regularly throughout the year. The Budget Forecast should not just be an Annual Return that is submitted and then not looked at, reviewing actual spend against budget can highlight areas where you need to tighten up. In our experience, most academies are pretty good in this area, but there is always room for improvement. Have you reviewed where you are against the Budget Forecast Return for 2016/17 submitted to the ESFA last July?
- You can predict with reasonable certainty when capital expenditure is likely to be required, and a lot of this may take place in the Summer break. However, capital expenditure should be considered alongside cash flow forecasts to ensure that such expenditure takes place at times of the year when cash flow is strong.

Cash flow tips

- Use your purchase ledger properly
- Ensure VAT claims are made regularly
- Ensure regular credit control if you have significant sources of other income
- Regularly monitor actual spend against budget
- Predict when capital expenditure is likely to be required

CASH FLOW DIFFICULTIES?

If your academy finds itself in the position where it is predicting a deficit, with resulting cash flow worries, it is vital that you react quickly.

The ESFA will expect you to produce a recovery plan, but they also look far more favourably on academies which recognise they have a problem and, in particular, contact them at an early stage. Unfortunately, the ESFA have seen too many academies approach them too late in the day, at the point that the cash has, or is about to, run out.

Emergency funding is available, although this is generally given by way of an interest free loan, with repayments taken from future GAG funding. This does provide the academy sufficient time to restructure, however, funding is usually only provided in the more extreme circumstances, since the onus is on academies to manage their own finances. If you have a relatively small shortfall, the ESFA are more likely to suggest you find a way to resolve the problem internally.

If you are experiencing problems and require financial assistance, there is a strong chance that the ESFA could look to impose a Financial Notice to Improve (FNtI). Again, this is less likely if you have approached them in good time rather than 'burying your heads in the sand'. So the lesson here is: do not be frightened to talk to the ESFA!

If you are part of a MAT there is an expectation that the trust will support ailing member academies. It is certainly less likely that the ESFA would consider providing financial support to an academy if others in the same trust are holding significant cash balances. This is something that academies should be aware of when joining a MAT and, likewise, MATs ought to consider when taking on new schools.

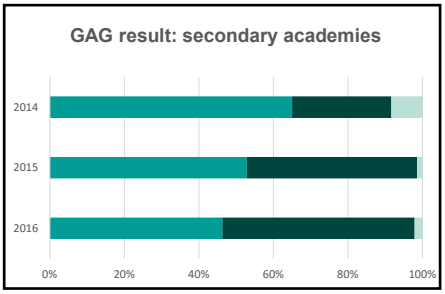
We highly recommend seeking a professional financial due diligence examination of prospective MAT members to ensure you are aware of the financial implications from the outset. We have supported a number of our MAT clients in this way, enabling them to financially assess the current and longer-term financial position of a school; something many MATs surprisingly overlook.

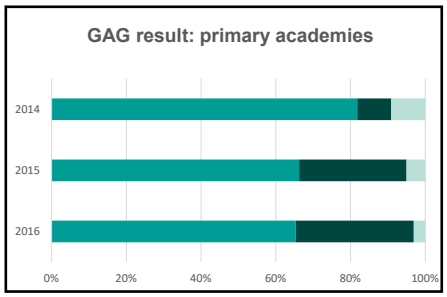
7 SURPLUS OR DEFICIT

In this section we look at whether academies have achieved a surplus or deficit and the issues surrounding why, and what it means. The overall result is affected by various factors outside an academy's control, such as depreciation and LGPS charges, and also by any one-off exceptional income, such as high capital grants. It is, therefore, preferable to look at the revenue result, but we have gone one step further by focusing on the GAG result since, as we have seen, this is the main fund used for running the school. In our experience, most other restricted revenue grants which fall outside of GAG, such as pupil premium and Universal Infant Free School Meals (UIFSM), are fully or largely spent in the year they are received.

It is also worth noting that the GAG results do not include any revenue contributions to capital, shown as fund transfers in the accounts, and many academies that have made a GAG surplus have opted to spend some of this on capital. This was their choice and, for the purpose of this review, we have decided to exclude these capital contributions on the basis that they were discretionary.

We have helped our academy clients to write their financial reviews to ensure that they adequately draw out and explain the revenue result for the year, which is otherwise hard to see from the statement of Financial Activities. It is little wonder that even Trustees with financial knowledge can sometimes find academy accounts difficult to understand.





Surplus
Deficit
Breakeven

The charts above reveal the increased financial pressure on both secondary and primary academies, with a slow reduction in the amount of surplus (shown in blue) and increase of deficit. As the fall from last year is not that vast the change is perhaps not as marked as one might imagine, but just two years ago the figure was up at 65%; nearly two thirds of secondaries making a surplus.

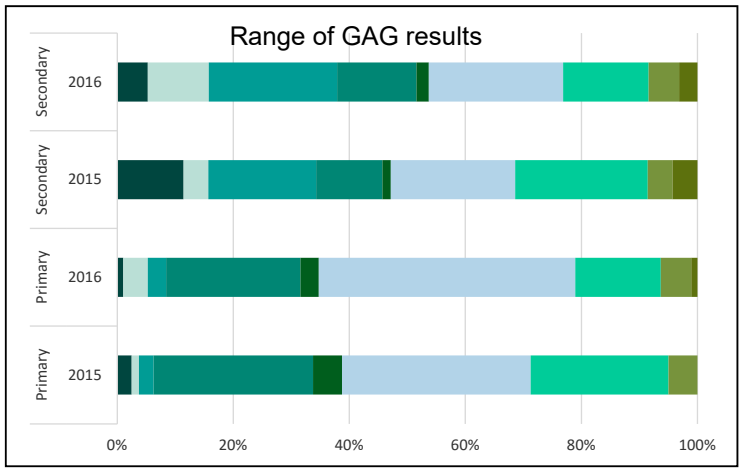
That said, and although for the first time the number of secondary academies achieving a surplus fell below half, it is worth remembering that 46% still did.

The primary school chart is very similar, with a marked increase in the number of deficits in 2015/16 compared to two years ago, but almost 2 in 3 primary academies did make a surplus last year.

It is worth commenting on the academies reporting a 'break-even' GAG result. This usually happens due to the way they have chosen to allocate expenditure across different funds.

When we delve deeper to explore the extent of the surplus or deficit, the trend is for smaller surpluses and higher deficits. 38% of secondary academies had a GAG deficit of more than £100k compared to 34% the previous year. There are fewer large deficits of over £500k, however.

Around two thirds of the primary academies reporting a surplus fell in the 'less than £100k' band, whereas, in 2014/15 almost 1 in 4 primaries achieved a GAG surplus of £100k-£250k.



8 GOVERNANCE AND AUDIT FINDINGS

Once again, the ESFA required academy trusts to submit an Accounts Submission Form alongside their accounts and management letter. The ESFA use this form to quickly draw out key information from the document submitted, enabling them to assess the risk areas at the point of submission. For example, the form has to state whether the auditor's report is modified in any way, confirm the number of management letter points raised and provide financial information, such as net assets.

We have decided to look again at governance areas and compare how academies fared in areas such as changes in staff and management letter points.

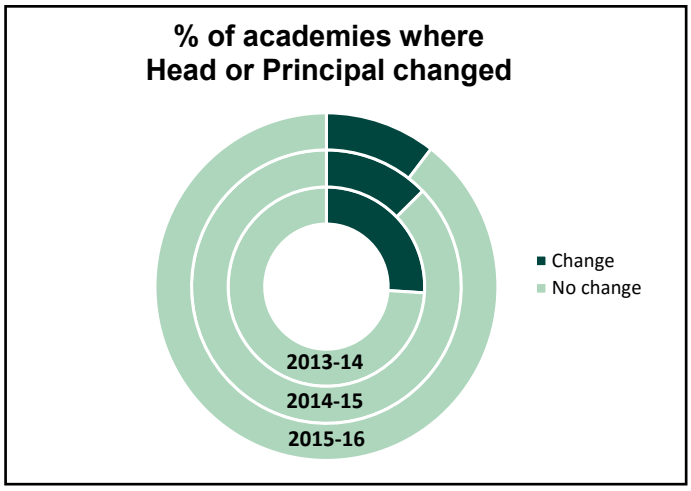
CHANGES IN STAFF

Headteachers

Interestingly, the percentage of academies where the Headteacher or Principal has left during the year has fallen further. In 2013/14 nearly 1 in 4 headteachers from our sample left, this fell to 13% last year and in 2015/16 the percentage has fallen again to just 1 in 10.

We have already discussed, in section 1, that a number of significant compensation payments have been made to higher earning academy staff, and many of which will have been to headteachers leaving their post. Of course, headteachers leave for various reasons. We understand from speaking with our clients that there is a potential 'gap' caused by a large number of headteachers approaching retirement and it may not be easy to replace them all with individuals with the necessary experience and skills. There has been an increase in headhunting the very best leaders as the growing number of MATs seek to employ the headteachers with a proven track record of excellent educational results or turning around poor performing schools.

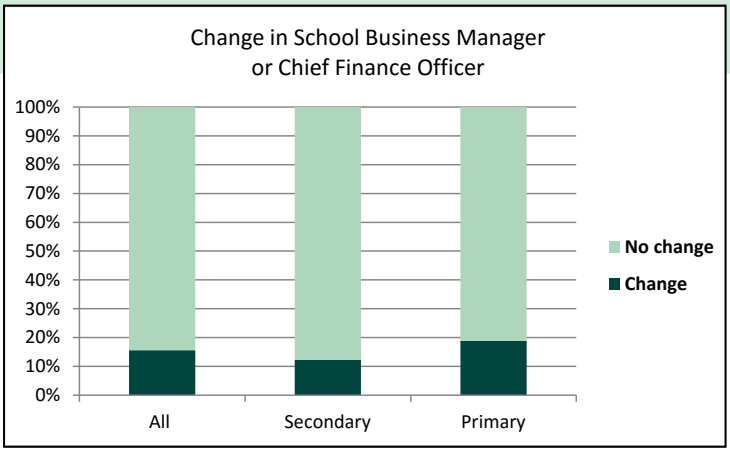
There will be examples of headteachers who consider retirement earlier than they might have otherwise, owing to the changes in pension legislation in recent years. The lifetime allowance permitted in an individual's pension scheme stands at £1m and, due to the way the pension value is calculated for defined benefit salary schemes like Teachers' Pensions, it is fairly easy for higher and long serving teachers to reach this level. It is therefore important that headteachers and other higher earning academy staff understand their position.



Finance staff

There remains a fair turnover of finance staff, with 1 in 6 academies experiencing a change during 2015/16; a very similar figure to 2014/15. The figure for primary schools was higher at 19% than for secondaries which was 12%. There can be various reasons for this. Often the changes will stem from restructuring after academies join or form MATs and others will be natural changes.

Some finance staff in primary academies start in a general administrative role during the school's pre-academy days and are 'thrown' into the more challenging environment of academies. Many are doing an excellent job, but we do get the feeling that, after a few years and with ever increasing workloads, some individuals decide that their future lies elsewhere.



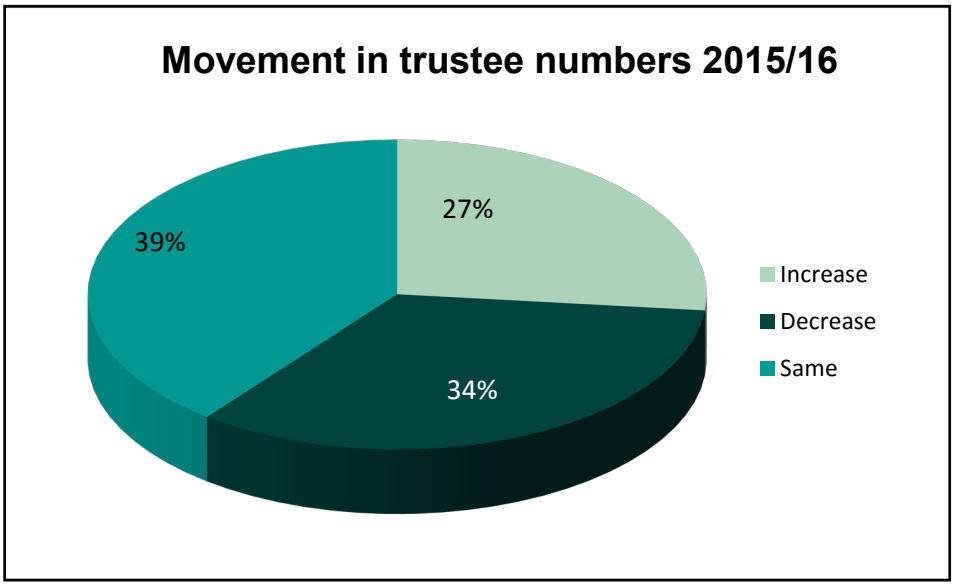
CHANGES IN TRUSTEES

Though there will always be a reasonably steady turnover, it is also interesting to note the number of changes within the Boards of Trustees. Whilst some of our academy clients have Trustees who have been Governors at their schools for 20 or more years, many people stay in the role for only a few years. Staff Trustees will come and go and, although the number of parent Trustees is falling as the number of MATs grows, other individuals do get involved because of the self-interest if they have children at the school.

The composition of the Board of MATs is beginning to change. To begin with, small MATs, perhaps almost inevitably, formed their Boards by taking two or three Governors from the constituent schools to give a fair representation. This model does not, however, ensure that the Board adequately comprises Trustees with the necessary skills, and the required spread of skills, that a MAT ideally needs.

Finding Trustees with the necessary skills, as well as the commitment and time, is not easy. There continues to be a particular shortage of Trustees with finance skills; perhaps because finance professionals feel, and rightly so, that more would be expected of them. We have seen more of our academy clients attract qualified accountants and other individuals with finance skills in the past year, some of which have been found via the Academy Ambassadors; a not-for-profit organisation set up to support academies in finding senior figures from the world of business and the professions to join the Boards of MATs.

We reviewed the financial statements of each of the academies in our sample and noted the number of Trustee appointments and resignations during the course of the year, looking to see whether or not there was a trend. Last year, there was no obvious pattern; although 43% of academy trusts did report an increase in Trustee numbers. This year the number of Trustees remained unchanged throughout the year in 39% of trusts, with far fewer (27%) seeing an increase. This may be because most Boards are more established and, where there is a change, the trust tends to seek a straight replacement for anyone leaving.



AUDIT MANAGEMENT LETTER POINTS

As mentioned above, the Accounts Submission form requires academy trusts to confirm the number of management points included by their auditor in the management letter and to indicate the number of high risk or priority points.

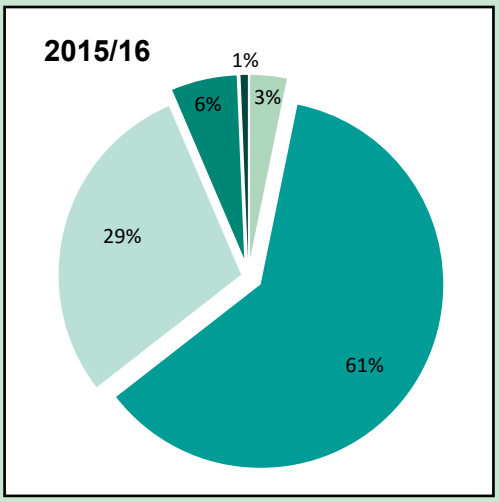
We are often asked by academy clients how they compare to other academies, presumably partly out of interest and partly because they do not wish to be seen as 'below average'.

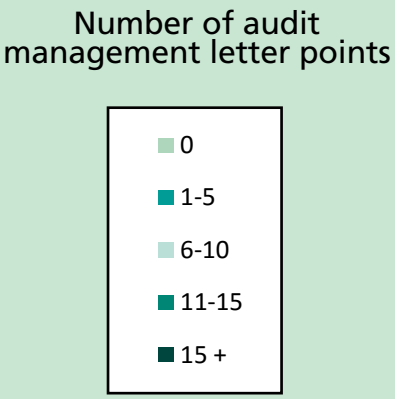
The number of management points raised will, to some extent, depend on the audit firm as well as the systems and controls in place at the academy. Most academies do have a strong internal control system and, in our experience, many management letter points relate to technical issues rather than weaknesses in the systems.

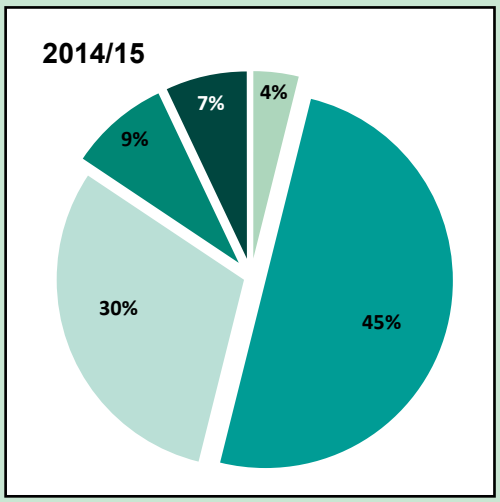
UHY are members of the ESFA's auditor forum, which brings many of the leading audit firms together several times a year to discuss issues in the sector. An ESFA representative at the meeting in January 2017 revealed that 753 management letters (28%) reported no issues whatsoever. This figure is, to be honest, somewhat surprising to us. Whilst we understand academies desire a clean report, we find it slightly hard to believe that this many trusts are doing everything perfectly. The audit process has to be robust and we believe, here at UHY, that we have the balance right. There are a large number of different firms signing academy audit reports and some of these act for just a few academies. It must be difficult to keep up-to-date with the numerous technical and seemingly ever-changing requirements of the Academies Financial Handbook for firms that do not have many academy clients and do not have academy specialist partners and managers.

> The audit process has to be robust and we believe, here at UHY, that we have the balance right.

The ESFA also revealed that of over 2,600 management letters received for 2015/16, 165 reported more than ten issues/recommendations and around 4 in 10 reported three or fewer issues.







An opportunity rather than a threat

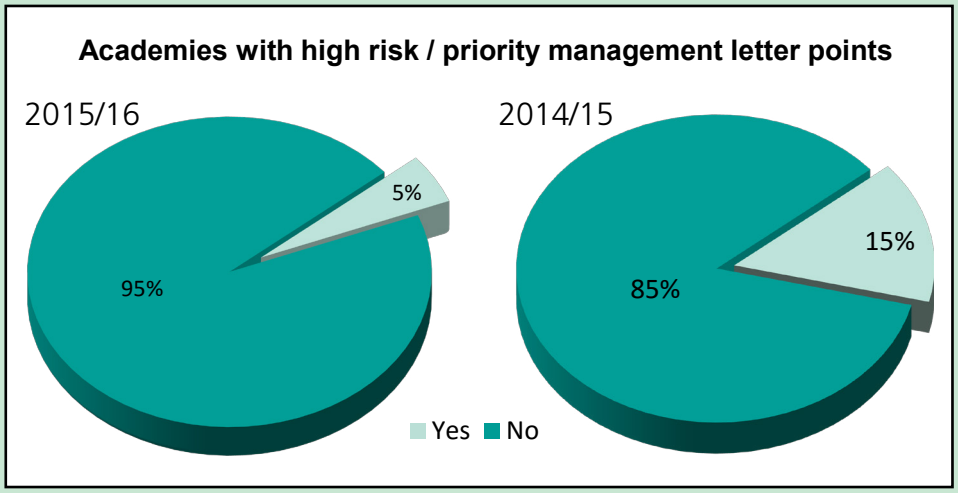
Bearing in mind the ESFA data revealed that 28% of management letters contained no issues or recommendations, the figure for UHY's own academies was much lower, with just 3% of our management letters reporting no problems. Whilst you may be thinking that getting a report showing no issues whatsoever sounds perfect, we would suggest that the data from our management letters shows how robust a UHY audit is. The management letter should not only be a document to address weaknesses, but also an added value tool which highlights areas where improvements and efficiencies can be made. We always try to explain to our academy clients that there is no need to be defensive or anxious about management letter points and that, instead, our letter should be seen as an opportunity to make improvements.

The charts above show that the great majority of our management letters contained between 1-5 points and that, in 2015/16, nine out of ten academies were in either the 1-5 or 6-10 ranges. Interestingly, the number of trusts at the higher end of the scale fell this year. We believe that this is partly because many trusts are now more established and partly because the governing legislation has settled down in the past year or so.

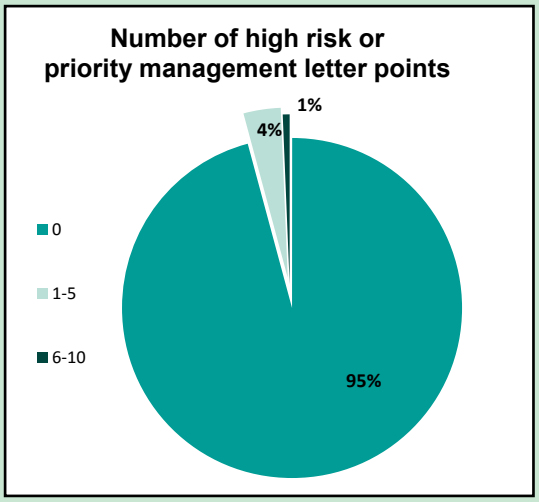
The management letter should not only be a document to address weaknesses, but also an added value tool which highlights areas where improvements and efficiencies can be made.

High risk or priority

The ESFA rightly distinguish between high risk or priority points and other recommendations. There was a marked reduction in the number of high risk points this year across our sample, with only 5% reporting any high risk points, down from 15% in the previous year. The ESFA data revealed that five management letters they received contained more than ten high risk issues – one can only imagine that these trusts have a number of serious issues and that the ESFA will be looking very carefully at how they are managed. Fortunately, these kind of problems are the exception rather than the norm.



It is not uncommon for an academy to have more than one high risk point, since failure to comply with all necessary legislation or its own internal processes often indicates general, more widespread weaknesses. Thankfully, only 1% of our academies have six or higher risk management letter points.



Naturally, we have only seen the detail for our own clients, but the common issues we saw during 2015/16 audits were:

- improvements required to fund accounting;
- poor controls over invoicing;
- failure to disclose the business interest register on the academy website;
- failure to keep EduBase up to date during the year or notifying changes within 14 days;
- failure to follow capital and revenue tendering procedures;
- no 'at cost' statement provided to support connected party transactions;
- failure to obtain prior approval for a finance lease;
- VAT incorrectly reclaimed; and
- a few occasions where we had to make some reference to mild finance concerns given the size of deficits and depleting reserves.

RELATED OR CONNECTED PARTY TRANSACTIONS

They are not always bad...

There has been considerable media interest in related or connected party transactions in academies of late, however, there appears to be a general misconception that all related party transactions are bad. This undoubtedly stems from some of the high profile cases where, for example, a CEO has syphoned academy funds off to a trading company of which they or close family members are involved, or numerous family members have been employed by the trust.

There can, however, be valid and perfectly innocent related party transactions, such as payments to other educational or not-for-profit organisations which trustees are involved with. There is also a distinction between receiving something, for example a donation from the school PTA, and making payments to another entity.

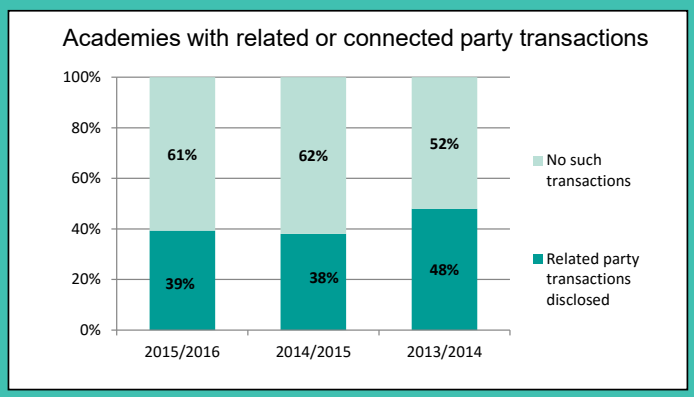
The number of academies reporting related party transactions during the 2015/16 was remarkably consistent with the previous year, with both years less than 2013/14. We know that many of our academies have decided on a strict 'no related party transaction' policy, to avoid falling foul of the rules, which will have contributed to the 61% of academies with no transactions whatsoever.

...just ensure you follow the rules

Where an academy does engage with a related party to purchase goods or services, there are very clear rules in place to ensure that the academy achieves value for money and that the connected party does not unduly benefit from the relationship.

Transactions need to be conducted at arm's length and without profit to the supplier. The Academies Financial Handbook requires academies to ask the related supplier to provide an 'at cost' statement confirming that they are providing the goods or service without making a profit. This rule is understandable, but can result in a scenario where an academy has a Trustee with particular skills, who can provide a service cheaper than any other supplier, but would still be prohibited from doing so unless they can confirm there is no profit. This would appear counterproductive because the academy may then be forced to engage a different supplier, for additional cost; hardly value for money!

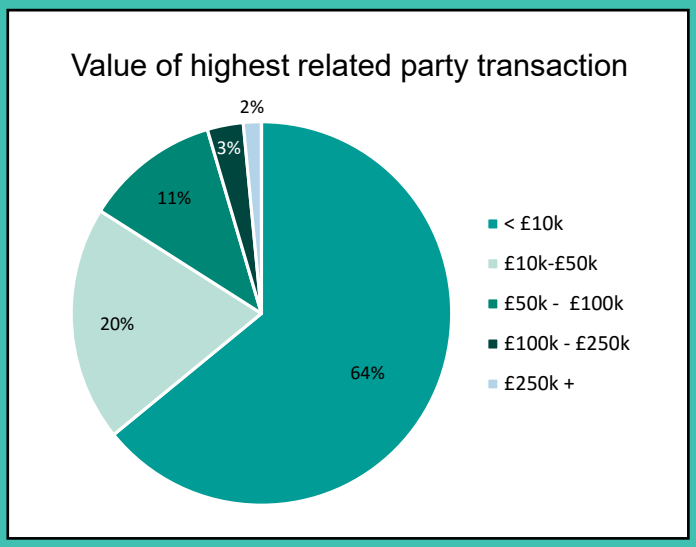
The focus on related party transactions is driven by the, thankfully rare, high profile cases. It is unfortunate that academies in general get tarnished by these examples, when almost all would never entertain the idea of anything untoward.



Close family of members or Trustees

We commented earlier about trusts employing family members. A subtle change in the financial reporting process for 2015/16 meant that trusts were required to disclose, within the related party note, any close family of members or Trustees working at the trust. Technically, it was a requirement to disclose the individual's name and the salary paid but this, probably understandably, was met with a great deal of opposition. In most cases, we were able to be pragmatic about this disclosure and, as long as the payments were in line with pay spines and the normal remuneration for the role and experience of the individual, just reference the employment without disclosing the actual amount paid.

The chart below shows that for the vast majority of the academies reporting related party transactions (and remember this applies to only 39% of the total), the highest level transaction was less than £10k. Nevertheless, 1 in 5 academies did report a transaction between £10k and £50k, and some had much higher transactions, including 2% disclosing something over £250k. These highest level transactions were for management fees to related not-for-profit entities for providing support services, such as recruitment, finance and governance.



Other related party transactions reported in our academy clients' accounts included:

- donations to a related charity;
- project management services;
- educational result from the Diocese (a member);
- external teaching services;
- recharges to schools joining the trust during or shortly after the year; and
- remuneration paid to close family of Trustees.

UHY'S FINAL THOUGHTS

We do hope that you have found value in our benchmarking data and in reading our surrounding commentary; we certainly found it fascinating analysing the increasingly large amounts of data that came through our UK wide offices.

If you take a few key things from our report, then perhaps they should be these:

- do ensure you take into account future pension cost rises when budgeting;
- consider whether your senior leadership team (SLT) is providing value for money and whether your SLT per pupil cost is reasonable compared to similar-sized schools;
- if you are not already part of a multi-academy trust (MAT) then do consider the benefits and economies of scale this could bring.

OUTLOOK FOR 2017

The year ahead will also be interesting for academies. We should hopefully get some clarity on fairer funding and how the National Funding Formulae will redistribute funding across the UK on a more even per pupil basis. There are also changes coming up with the Budget Forecast Return, with two returns required this year; though we don't yet know when each of these will be required, so hopefully this is confirmed sooner rather than later in order for academies to plan well in advance. Finally, it sounds like the Teachers' Pension Return is going online like the August Accounts Return (AAR). We all know what hassle that was this year, so one hopes the issues we faced will be ironed out in time for a smoother transition come the submission deadline for the AAR. No doubt, knowing the rate of change in this sector, there may be more in store this year.

BENCHMARKING YOUR ACADEMY

Please do use the average data sheet on pages 29-30 to help you compare your academy against others, and do not hesitate to get in touch if you would like us to plot your key data onto graphs against the averages for a more detailed perspective, as we would be delighted to do so.

Do remember that benchmarking in the education sector is not easy, since it remains very difficult to compare on a like for like basis. Comparisons are best made if as many differentials as possible are removed, but no two schools are the same so we are left with comparing against similar types or similar sizes of schools. The DfE will release their own benchmarking data later in 2017, which will enable academies to drill down and pick the criteria they wish to benchmark against, whether this is pupil number, schools with a sixth form, by gender or geographical location. Unfortunately, by the time this data is released each year, it is usually approaching the end of the following academic and financial year. That said, it is still worthwhile looking at, perhaps with improvements in the next year in mind, so we do recommend you read it. We will, of course, update you when this is released, providing as best a succinct summary as one can on such a significant amount of data.

UNTIL NEXT TIME

As we publish this report we are already halfway through the 2016/17 year and before we know it we will be looking forward to the year end, arranging planning and closing meeting dates and producing our report on 2016/17 year ends! We hope that the rest of the year treats you well and that the financial pressure on your academy does not become too great. Plan wisely, make the best of the resources you have and maybe, with some careful and clever financial management, things might not become as bad as they might first appear. The next few years will be challenging for school business managers and academy Trustees, but at least they will be interesting – and we will be here to help!

What our clients say...

The UHY team have always delivered our audit ahead of time and to a consistently high quality. In addition, UHY are hugely supportive on our journey to becoming a Multi-Academy Trust and are always available to discuss strategic as well as minor matters. I have no hesitation in recommending them.

Mary Rouse, New Generation Trust Schools

Our UHY team are responsive, supportive and always on hand to help and advise. The staff are well trained, courteous, polite and have excellent technical knowledge to give best practice advice. I would certainly recommend UHY to other academies.

Carole Orford
Park Hall Academy School

UHY have been invaluable during our early months as an academy. We are able to raise any query or concern and will receive a prompt and reassuring answer making us feel our custom is valued and important to UHY.

Jean Simmons
Dane Court Grammar School

WHERE DOES YOUR ACADEMY FIT WITHIN THE RESULTS?

Use this sheet to compare your own school's data with the averages from our sample. Alternatively, contact your local UHY academies contact, details at the back, who can plot this information on your behalf from your annual accounts.

	Your academy	All academies Average 2015/16	Secondary academies Average 2015/16	Primary academies Average 2015/16
Non financial data				
Number of teachers		32	49	15
Number of admin and support staff		33	42	23
Number of management staff		4	6	3
Number of pupils		552	792	319
Pupil : teacher ratio		17	16	24
Income				
Total Recurring Income		3,214,703	4,808,384	1,636,802
% of total income		100%	100%	100%
Grant income		2,981,547	4,401,313	1,575,838
Grant income % of total income		93%	90%	96%
GAG income		2,528,263	3,849,188	1,220,416
GAG % of total income		77%	78%	76%
Other income		154,035	228,686	80,863
Other income % of total income		5%	4%	5%
Capital grant funding		136,286	221,214	54,756
Capital grant funding % of total income		4%	4%	3%
Capital grant funding per pupil		257	354	159
Expenditure				
Total expenditure		3,470,622	5,292,599	1,666,683
% of total expenditure		100%	100%	100%
Staff costs		2,362,136	3,528,506	1,207,314
Staff costs % of total expenditure		72%	72%	72%
Teaching and educational support staff costs		1,900,732	2,871,664	939,413
Teach & ed support staff % of total staff costs		79%	79%	79%
Support/Non-teaching staff costs		404,619	607,729	203,520
Non-teaching staff costs % of total staff costs		18%	19%	17%
Supply teacher costs		63,162	97,822	28,844
Supply teacher costs % of staff costs		3%	3%	3%

NB: Average % figures stated are the average of individual data % results; they do not represent the average value in the rows above as a percentage of the relevant total.

	Your academy	All academies Average 2015/16	Secondary academies Average 2015/16	Primary academies Average 2015/16
GAG expenditure		2,586,928	3,980,640	1,207,154
GAG % of total expenditure		74%	78%	71%
GAG deficit		(15,018)	(61,866)	29,486
Total deficit		(255,918)	(484,215)	(29,882)
Total surpus ratio % of total income		- 8%	(10%)	(2%)
Light and heat costs		41,645	68,013	16,321
Light and heat % of total expenditure		1%	1%	1%
Buildings and grounds maintenance		59,837	83,831	36,793
Maintenance % of total expenditure		2%	2%	2%
Cleaning and refuse		26,297	41,534	11,663
Cleaning and refuse % of total expenditure		1%	1%	1%
Educational supplies and services		82,957	118,352	48,264
Educational supplies and services % of total		3%	3%	3%
Examination fees		31,488	63,487	122
Examination fees % of total costs		1%	1%	<1%
Staff development		17,073	23,216	11,051
Staff development % of total costs		1%	<1%	1%
Technology costs		36,930	55,018	19,200
Technology costs % of income		1%	1%	1%
Income per pupil		5,591	5,956	5,022
Balance sheet				
Fixed assets		6,795,124	10,364,337	3,261,249
Net assets		5,682,722	8,673,088	2,721,963
LGPS deficit as at 31 August 2016		1,158,472	1,709,549	618,307
Capital expenditure in the year or period		307,834	436,585	179,083
Capital expenditure per pupil		685	651	718
Cash and bank balances held		544,051	801,388	286,713
LGPS employers contributions		148,772	178,044	119,500

COMBINING NATIONAL EXPERTISE WITH A TAILORED LOCAL SERVICE

Our offices around the UK now act for more than 330 academies and free schools, including many large and growing MATs, many of whom we have supported through their growth.

OUR SECTOR EXPERIENCE

We work with numerous clients in the education sector, including academy schools, free schools and independent schools. Our education specialists have years of experience in the sector and have a particular expertise in academy schools - our offices around the UK now act for more than 330 academies and free schools, including many large and growing MATs, many of whom we have supported through their growth. As such, we understand that independence from your LA is likely to require improved internal controls for your school's finances.

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

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

DEDICATED ACADEMY SERVICES

Our services to academy schools and free schools include:

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

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.

FOLLOW OUR DEDICATED ACADEMY SCHOOLS BLOG

Our academy schools blog covers the latest issues that may affect you and your school. From Making Tax Digital updates and the latest Brexit news to VAT issues and diversification suggestions, our blog will keep you up-to-date with everything you need to know.

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

* Latest Accountancy Age and Accountancy Magazine league tables

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