KRESTON UK

CLIVE OWEN LLP
CHARTERED ACCOUNTANTS & BUSINESS ADVISERS

Academies Benchmark Report 2018

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Introduction

Welcome to the 2018 Academies Benchmark report.

The last 12 months has continued to see significant change in the sector. Following the General Election we have yet another new Education Secretary, Damien Hinds, a new Under Secretary of State for the School System, Lord Agnew, and new headteacher boards. Any change in strategic direction will mean more uncertainty for all schools with the current strategy of unlocking talent, fulfilling potential, and putting social mobility at the heart of education policy.

Our report continues to show worrying trends in the sector:

- Trusts continue to show deficits with a staggering 55% showing an in year deficit before depreciation for year ended 31 August 2017 .
- The data shows that single academies have seen their funding per pupil fall whilst for MATs it has increased albeit not from non-education sources.
- Interestingly cash balances have increased from the year ended 31 August 2016 levels, whilst free reserves have fallen. This demonstrates the danger of Trusts using cash as their measure of financial stability.
- Staff costs have remained steady at 72% of total costs, but there is increasing pressure due to the shortage of teachers and increasing pensions and benefits.

After the general election in 2017 we started to see more movement in the sector with schools being rebrokered and more financial deals being done, including loans, debt write-off and rebrokerage grants.

With a bigger focus in the sector now on Multi Academy Trusts (an increase of more than 25% of academies in a MAT) we have started our report this year with a section looking at MATs and some of the wider issues they face such as the organisation and funding of the central function.

We are also seeing a step change in the way some MATs are run with more of a focus on the business aspects of running a multi-million pound business responsible for significant amounts of public money. However, whilst the accountability framework is robust, we are sadly still seeing Trusts failing, in some cases due to poor financial governance. This cannot continue if the sector wants to retain its independence.

There are some big issues for the sector to address in 2018, and the continuing uncertainty over the national funding formula is increasing the risk of unsustainable deficits. Trusts will need to budget carefully to ensure they remain financially viable.

As the sector grows it will no doubt continue to lobby for fairer funding and a real terms increase in core funding to cover the pressure on salaries. The sector has done much to squeeze costs but this will never be enough to remove the inequality of reserves between Trusts. As the report shows, larger MATs are likely to be able to ride the storm more easily so we will continue to see Trust mergers and rebrokerage of academies to help those in the worst financial position.

Pam Tuckett
Chair of the Kreston Academies Group
Partner and Head of Academies, Bishop Fleming
January 2018

Bishop Fleming

Academies Benchmark Report
Key highlights

The last 12 months has continued to see significant change in the sector. Any change in strategic direction will mean more uncertainty for all schools with the current strategy of unlocking talent, fulfilling potential, and putting social mobility at the heart of education policy.

Funding concerns

£3billion
savings needed by 2019/20*

Income per pupil is falling

Capital funding falling...or is it?

Worrying trends

55% of Academies in deficit

Trusts are still failing due to poor financial governance

Financial governance

"Financial governance improves when the financial position becomes desperate

New trends

More centralisation of MATs

Rebrokerage deals on the increase

"Centralised MATs achieve better rebrokerage deals

People concerns

Pupil:Teacher
Pupil:teacher ratio is on the increase

12
Average number of Trustees down

Staff (hidden inflation in) Costs
72% of costs spent on staffing

Non-staff costs
Not much left to cut

Pensions
A ticking timebomb

Cash reserves

£ 2016 £ 2017

Cash reserves have increased whilst free reserves have fallen

The sector will run out of reserves in 2-3 years

"The increasing cash balance masks the position of falling reserves. This demonstrates the danger of Trusts using cash as their measure of financial stability.

Content based on comparison with the 2017 Academies Benchmark Report. * National Audit Office

Authors and Contributors

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David is a Partner at Bishop Fleming, who advise over 200 academy trusts, and audit the largest number of trusts in the country. He has been involved with education benchmarking for over 10 years and has co-authored this report for 5 years. David uses benchmarking to add value to his clients and help them to identify ways in which they can improve their financial performance. David advises over 30 academy trusts and independent schools, and at all stages of their development, from single unit academies, to large and rapidly growing MATs.

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Paul is a Partner with Mitchell Charlesworth, with over 25 years of experience in the sector. Paul is a member of the ICAEW Charity & Voluntary Sector Group and holds the ICAEW Diploma in Charity Accounting (DChA).

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“Centralised trusts are producing surpluses at a time when it is becoming more difficult to do so”

1. Multi Academy Trusts

It is clear from comments made by Sir David Carter, National Schools Commissioner (NSC), and Lord Agnew that they are looking for MATs to grow and to lead the academy sector. From discussions with our clients, trusts are looking to expand, however the statistics below show that whilst there is talk and some action it has not yet fed through into reality.

Table of Trust growth

	2017	2016	2015
Number of academy schools	6,899	5,841	5,065
Part of a MAT (excl. empty MATs)	5,206	4,140	2,801
Number of MAT trusts with more than one academy)	1,005	800	700

The number of MATs has increased by over 25%, but the number of single unit academy trusts (SATs) has only fallen by a tiny percentage, suggesting that the schools joining MATs are either new converters or have been rebrokered. The above data reflects the continued increase in the number of schools which are converting to academies with 64% of all secondary and 26% of all primary schools now converted. In many local authorities all secondary schools have converted.

Interestingly, in addition to the 1,005 MATs with more than one academy in them there were an additional 593 empty MATs – trusts which have converted to a MAT but only have one academy in them. Many of these trusts are gearing up for expansion either through taking on converting schools, schools being re-brokered or by recruiting academies wanting to transfer from one trust to another (cases of the latter are still extremely rare).

We are seeing a significant movement between trusts (SAT to MAT and between MATs) as a result of academies falling below academic or financial targets. Where this occurs the RSC are likely to 'ask' the academy to join a MAT which has the ability to help them achieve a better performance. In either situation the MAT that is becoming the sponsor of those 'failing' academies may need to invest significant resources to do so.

In 2016/17 fiscal year, 350 MAT trusts shared in £30m from the Regional Academy Growth Fund (RAGF) with the largest sum received being £360,000 and the smallest being £15,000. This funding was to assist MATs to build capacity and to help other converting/transferring academies.

In many cases the payments from the RAGF were dwarfed by negotiated settlements which were paid to MATs to take on failing schools. Given the financial pressure the sector is experiencing, it is no surprise that some MATs are requesting significant additional grants to cover the risk of assisting these poorly performing schools. In one instance a MAT was concerned about redundancy risks of a joining school and requested well in excess of £0.5m to ensure it did not impact on the rest of the Trust.

Some MATs clearly feel that they have developed a strong negotiating position, which may be because of the difficulty that the ESFA has finding homes for some academies. Following a Freedom of Information request by the Times Educational Supplement (TES), it has emerged that of 155 directive academy orders last year 42 academies had not been allocated to a MAT. In our opinion this would be largely due to financial reasons.

We are also aware that the ESFA is open to other methods of taking on failing academies. We know of one instance where a MAT has been allowed to set up a separate company into which the academy can be transferred.

This helps to ring fence the financial risks associated with the academy, so that it will not adversely impact on the rest of the MAT. This flexible approach from the ESFA may be needed going forwards to find homes for other academies in severe financial distress.

We recommended last year that given the financial pressure that trusts were facing, where they are seeking to expand they should undertake due diligence, and that this should be a two-way process, with the trust reviewing the academy joining and the academy reviewing the trust. This should be a comprehensive process including not only financial and teaching, but also estate management, human resources and procurement.

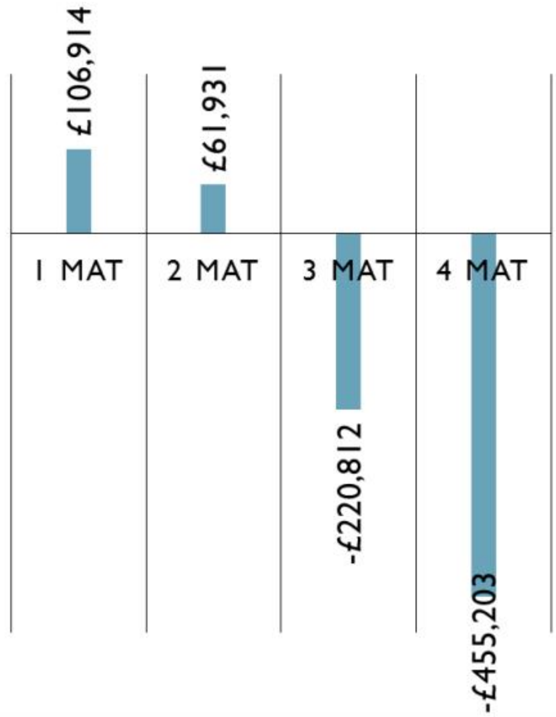
We are aware of several occasions where an academy has joined a trust without fully understanding the consequences, or what will happen to its reserves. We suspect some academies do not appreciate how the charge for central services will work, or understand that the methodology or top slice rate could be changed at any time by the Trust.

Our recent client survey enquired regarding plans for expansion in the next twelve months. The table below shows the number of schools they plan to take on in that period, and certainly shows an appetite for expansion within our client base.

Table of planned Trust growth over the next 12 months

	Response Percentage
0	48.1%
1	11.7%
2	14.3%
3 - 4	14.3%
5 - 9	9.0%
10+	2.6%

Surplus/Deficit (less transfers on conversion and depreciation) for MATs



In collecting the current year's data, we also looked at the degree to which the MATs have centralised their accounting function. We ranked the MATs from 1 to 4; with 1 being a fully centralised MAT where financial control is in one place; 2 - where they are moving towards a centralised or hub model; 3 - where there are a limited number of centralised functions and no immediate plans to change; and 4 - where each school maintains a significant degree of control within the MAT.

The graph above shows that the centralised (MAT1) and partly centralised (MAT2) Trusts appear to be performing significantly better financially than those with little centralisation, MAT3 and MAT4. Furthermore, the centralised MATs appear to be better at negotiating additional funds for taking on weaker schools. This gives a boost to income in the year the grant is given, which will be reflected in these results. The MAT 4 numbers are partly distorted by one decentralised MAT that incurred a substantial deficit, however the overall trend is clear.

Part of the reason for the large deficits in the decentralised MATs is that the numbers include some trusts which failed to control costs as they did not have an appropriate overarching finance team and costs were allowed to escalate without due control. This raises serious questions over the governance within those trusts. It also reflects the fact that where finance is not centralised, costs tend to be considered on an academy by academy basis rather than as a trust where the MAT should be able to maximise its buying power.

What becomes further evident within two graphs at the bottom of the page is that whilst centralised trusts are producing surpluses at a time when it is becoming more difficult to do, at the same time they have the ability to spend more on staff and other costs. This reflects the additional income sources that some MATs are able to access, e.g. grants to help expansion, better use of their sites, teaching schools and/or the ability to generate other income - including negotiated settlements from the ESFA and local authorities.

It will be interesting to see how the sector progresses. Lord Agnew (who was also the founder of the Inspiration Trust, a MAT which grew from one to fourteen academies under his leadership) told an Academies Conference in Gateshead that he believes that the 'sweet spot' for MATs is 'somewhere between 12 and 20 schools, or something like 5,000 and 10,000 pupils'. The DfE has put nearly 60 academy chains on pause in order to stop their growth and this, together with situations like Wakefield City Academies Trust which in September announced it was divesting itself of all twenty-one academies within its trust, means that what Ministers want to happen and what is actually happening are not necessarily the same thing.

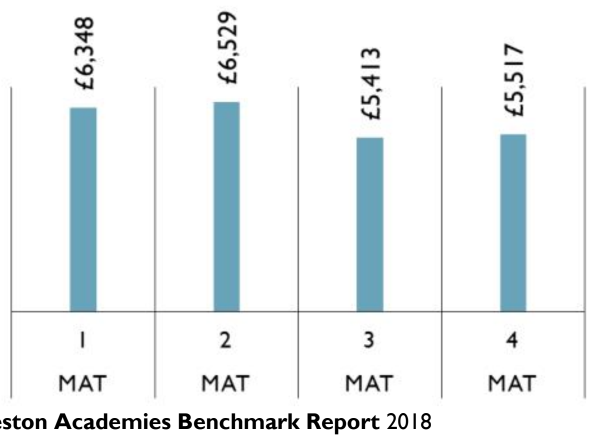
Funding central services

The MAT sector has evolved very quickly and therefore it is no surprise that many of our conversations with our MATs revolve around the key principles of how to fund the central services of the MAT, or alternatively how to fund the schools - should there be GAG pooling?

Taking GAG pooling first, which has become a hot topic in the sector. There have been many articles about the reasons for doing this and the benefits that it can bring to a MAT. Having said that, within our survey we only have one trust that is doing it. Whether this position will change only time will tell, but there are a number of significant barriers, notably local school politics.

If you were designing a MAT from scratch it makes complete sense for the MAT to receive all of the funding and for it to then allocate budgets to individual schools based upon need - and this would take account of pupil numbers, academic achievement, age of the estate etc. However when a school joins a MAT having previously had control of its budget, it is typically reluctant to give up this autonomy. There is often a reluctance to pay anything for central services, so to give up the entire budget is a tough sell for the MATs. Therefore these political considerations can get in the way of the right structure.

Total costs per pupil



Staff costs per pupil

The other alternative is that the schools receive their budget and then pay an amount to cover the central services. This payment can often form part of the decision-making process when a school is joining a MAT. Consequently, when the MAT is selling itself to prospective schools it has to explain what they will get in return for this payment. This can mean that some MATs do not charge enough to cover central services as they seek to be competitive.

The situation is somewhat different when a school is being brokered because it is financially failing. In these situations the boot is usually on the other foot and the MAT may be able to levy a higher charge. This will reflect the fact that failing schools will need more assistance, but also reflects the market conditions that these schools find themselves in, and that there is not a queue of trusts waiting to take them on.

Given these conflicting positions it is no surprise that we see a wide range of different methods of charging for central services, including top slicing, charges per pupil, charging for the time spent on each school, and a flat charge per month - as can be seen below.

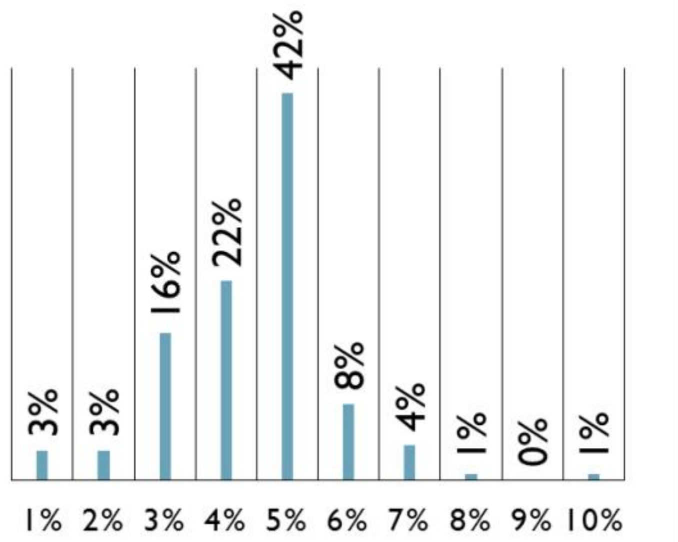
Table of central services charge

Percentage of income/top slice	60%
Amount per pupil	20%
Other	11%
Time apportioned	7%
Flat charge	2%

Based on the trusts in our survey, top slicing is by far and away the most popular method, but within that there is a wide range of percentages used and bases. Some charge a fixed percentage of GAG income, some charge a percentage of all income, and some charge different percentages to different schools.

In the table below we have looked at the range of percentages charged.

Top slice percentages



It is clear that most trusts charge 5% of their main income streams, and this has almost become the sector norm. However Trusts need to ensure they understand their central costs so that there is a clear logic behind what they are charging.

"How many Trusts know what the breakeven level of pupils is for their structure?"

2. Surpluses and Deficits

It will come as no surprise to anyone with knowledge of the academy sector that its financial circumstances are becoming increasingly challenging. Barely a week goes by without another article in the press highlighting the financial pressure that the sector is under. Last year we discussed the combined headwinds of less funding and higher costs from pensions and national insurance. Since then inflation has been increasing across the economy, which is putting academy budgets under further strain.

Last year we reported that the number of trusts with in year deficits, before depreciation, had doubled from 21% to 42% and that this was cause for concern. This year the percentage of trusts with in year deficit has increased yet further to 55% and the size of the deficits has also continued to grow. If you had a very optimistic outlook then you would say that in a sector that is supposed to have a balanced budget that 50% of trusts would be in surplus and 50% in deficit and therefore there is no need to worry excessively. However when you look at the combined picture, the size of the deficits significantly exceeds the surpluses. If you consider the position after depreciation then the figures are even more alarming, with nearly 80% of Trusts having recorded deficits.

The graph to the right shows that for each category the average in years result is a deficit, and also in every category the result has worsened compared to the prior year. This also means that in aggregate the whole sector is showing a large deficit, which is a position that cannot continue for long.

This is a different picture than has been painted in the Sector Annual Report and Accounts (SARA), which said that the whole sector has an in year operating surplus of £534m, averaging £90,000 per individual school.

This is not a position that many of our clients recognise based on the current year results.

Average surplus/deficit before depreciation

	2015	2016	2017
Primary	173,932	11,054	- 98,748
Secondary	241,566	110,327	48,600
MAT	899,092	704,968	14,907

When we look at the trusts within our survey they have a combined net deficit for the year of over £100m, however their combined reserves only total £240m. Therefore it would only take two more years like the one that they have just had to leave the entire sector on the verge of insolvency.

Given that we are already nearly halfway through the financial year and our clients are telling us that there is no evidence that the situation has improved then it is hard to draw any other conclusion than the sector will run out of money fairly quickly and will need further support from the Government. Clearly there are many individual trusts that are financially robust, but as our statistics show this is not the case for a great number of others.

This picture is particularly troubling given the efforts that we have seen our clients make to balance their budgets. Whilst it could be said in previous years that some in the sector were hoping that if they did nothing then additional funding would be available, this is no longer the case. Many of our clients have made tough decisions about staff numbers, the breadth of curricula, the number of school trips offered (and these are discussed later in this report), but even with these steps they have not reversed the financial decline.

Our data (in the table below) shows that 73.6% of primaries are making deficits, compared to 54.6% of secondary trusts and 44.3% of MATs. Therefore single unit academies are more likely to have in year deficits than MATs. This suggests that, from a financial perspective, there is safety in numbers, however MATs are still making a large collective net deficit. So although MATs may be able to make their reserves last a little longer, they are still not sustainable without further centralisation or increases in funding.

When we look at our clients that have comfortable reserves, many of these are still making in year deficits, so in many cases the trusts that appear to be more sustainable are only in that position because they started off with larger reserves at the point they converted. We discuss reserves policies later in this report, but one of the key headlines we have noticed is that far more trusts are holding reserves in line with their stated policies, but this is only because they have made large deficits that have brought them down to this level. This was not a planned decision to spend more money on the children that are at the school, but using reserves to simply keep the school running at the same level as before.

Commercial approach

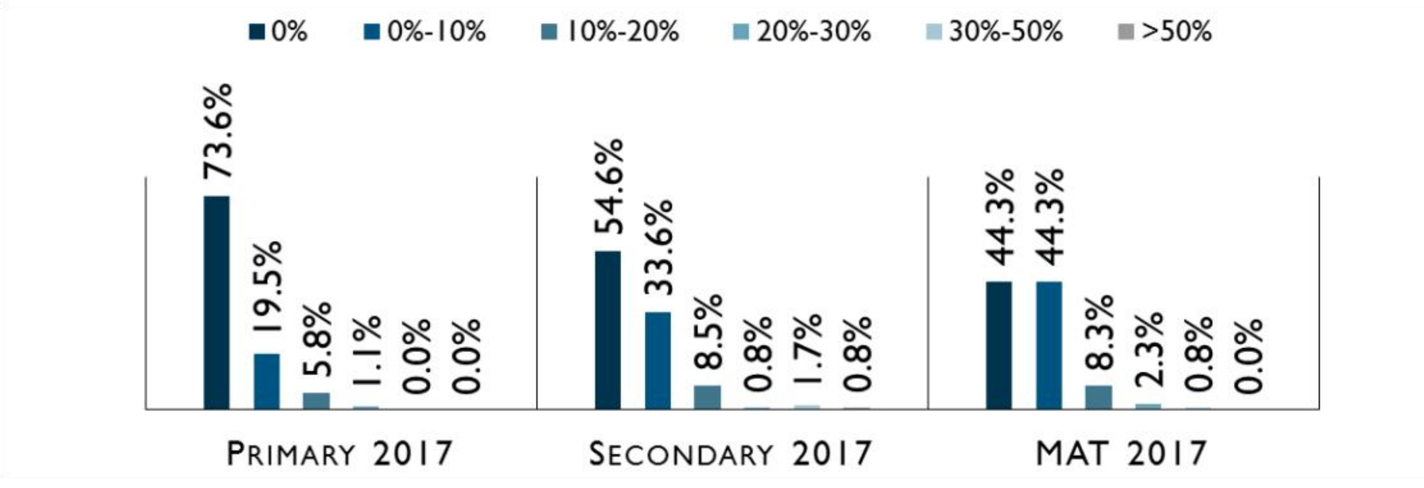
It is essential that as reserves get squeezed and deficits increase that trusts begin to think in a more commercial manner. One of the key differences between being a maintained school and an academy trust is that the trust cannot fall back on the local authority if it needs more money. The trust needs to be able to stand on its own two feet. The consequence if it cannot is that it will be pushed into another MAT and will lose control of its future.

For some trusts there is a plan to join a MAT, but for those that want to remain as a SAT or to run their own MAT they would do well to learn lessons from the corporate sector.

Most companies will know how many widgets they need to sell to break even, and if they are selling less than this they will have a plan as to how they can increase sales or reduce costs to avoid going bust. How many trusts know what the break even level of pupils is for their current structure? If this is known then it can make decision making a lot clearer.

Most companies will also have high quality and clear management reporting, and this will be scrutinised to ensure it is reliable, and that any decisions that need to be taken can be done quickly. We have seen improvement in the quality and timeliness of management reporting at many trusts, however this is by no means universal. What we do often see in deficit making trusts is that the level of scrutiny of management information is weak, and only improves when the financial picture starts to get desperate. So although the overall picture is one of improving financial oversight, there is still some way to go.

Surplus/deficit, before depreciation, as a percentage of total income by academy type



3. Income

As discussed in section 2, the financial situation that trusts find themselves in is increasingly challenging. As the number of trusts with in year deficits grows and the level of reserves in the sector declines then the financial viability of more and more trusts will be brought into question. We are also seeing more Trusts that are in an overall deficit - where all of their reserves have been spent.

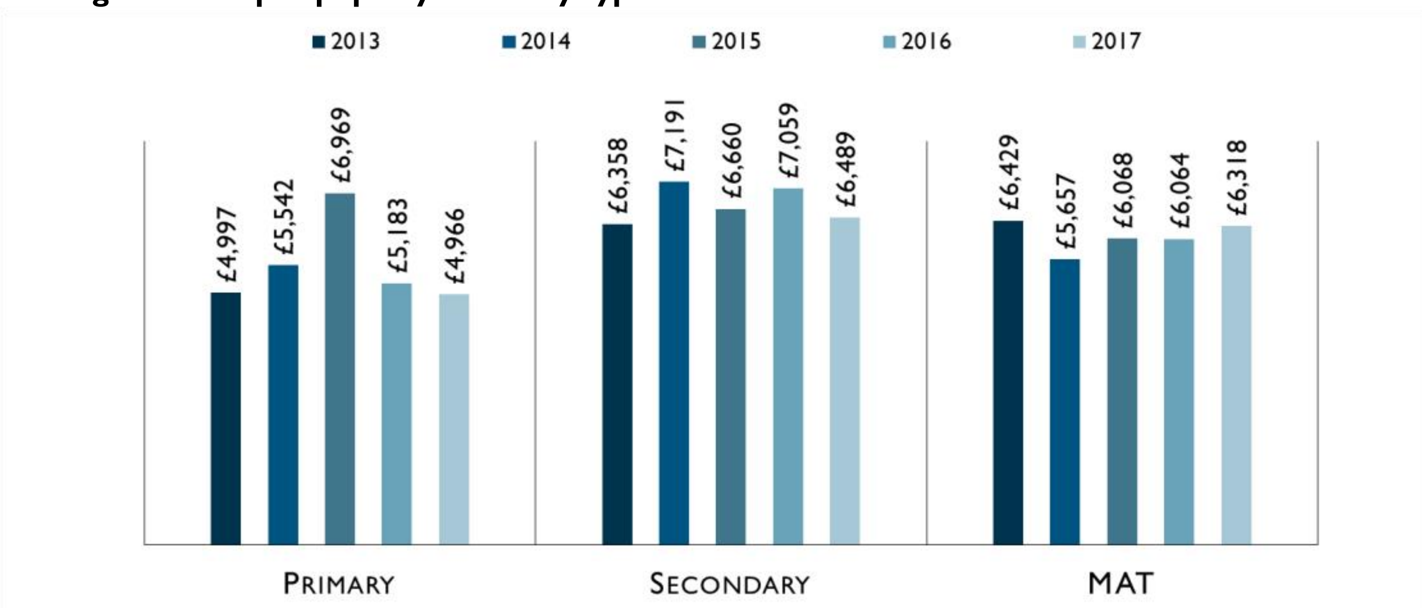
This creates an interesting dilemma for trustees as they would be held responsible for any financial losses incurred if they allow a charity to continue to trade whilst insolvent. However in all the cases we have seen, these deficit trusts are allowed to continue to operate (at least in the short term), either under Financial Notice to Improve, or with the support of the ESFA or the local authority.

There have been several instances of trusts failing financially, however it seems unlikely that the ESFA will let any schools close, as there is clearly a need for the vast majority of the schools in their current locations. So although individual trusts can fail, the ESFA needs to do something to ensure that the academy sector as a whole does not get itself into the same situation as other public sector services, needing to be supported by additional central government funding.

Academies are not technically allowed to borrow money (although more on that later) and therefore the ESFA needs to take steps to help Trusts to balance their budgets. This either means more income, less costs, or a combination of the two. The costs facing the sector are discussed later in this report, with this section focussing on the total income received and the trends that we are seeing.

The graph below helps to explain why many trusts are struggling financially. When budgets are extremely tight the situation is exacerbated if income is also falling - and this is the position that the sector finds itself in. Both total income and GAG income per pupil have fallen for both primary and secondary schools. The fall in GAG funding is marginal and so may reflect increases in pupil numbers, whereas the fall in total income is more significant.

Average income per pupil by academy type



This reduction is made up of a number of components, notably reductions in Education Services Grant (ESG) funding, reductions in SEN funding and lower levels of capital income. Trusts are being squeezed from all sides, and very few schools have been successful at generating additional income to counter these falls. From our client survey only 10% of trusts were generating any significant amounts of non-educational income, and the prime determinant of this is the size, location and condition of the estate that the trusts inherited.

In our report last year we discussed the National Funding Formula (NFF) and that in all likelihood this was not going to significantly change the funding position of the sector. Although there have been some tweaks to the way in which this will be rolled out and some additional funding has been put into the sector, the overall position is largely unchanged.

In a speech on 14 September 2017 Justine Greening, the former Education Secretary, confirmed that the Government would push ahead with the NFF, and would be investing a further £1.3bn to ensure that there would be "a per pupil cash increase in respect of every school and every local area." However in real terms this additional investment will simply maintain funding per pupil. The outcome of this is that there is no planned increase in central government funding and, added to this, there are reductions in local authority funding.

Consequently, trusts need to continue to plan for, at best, flat funding levels, but more likely a reduction in real terms. What will further complicate funding is that for the next two years, as the NFF is transitioned in, funding will still be agreed at a local authority level, and it will be possible for local authorities to retain a percentage of this funding to cover their costs. From our discussions with clients, these local authority deductions are happening, and so it is creating a further drain on funding.

Whether all these changes result in a sustainable funding landscape hinges on whether SATs are able to reverse the increasing rate of deficits and whether MATs are able to generate the cost savings that the National Schools Commissioner hopes they are able to achieve.

As trusts look for additional sources of income we have seen instances of clever planning to maximize the income they receive from the Government. There have been a number of new converters bringing forward their conversion date from 1 September 2017 to 1 August 2017 to enable them to qualify for a higher level of Education Services Grant. As ESG income is progressively reduced, then this earlier conversion has enabled new converters to access tens of thousands of pounds that they would otherwise not received. Even with the additional administrative burden of producing a set of statutory accounts, AAR etc. this has still been considered to be a sensible option. It is difficult to imagine that this is the behaviour that was being encouraged, but it is hard to blame the trusts for thinking commercially.

The one area where we have seen income increasing is in negotiated grants with the ESFA and local authorities. The funding that follows failing schools into MATs is discussed further in section 1, but we have also seen a number of trusts enter into discussion with either the ESFA, local authority or both where money is needed for cash flow purposes or there are unusual circumstances.

There have been many trusts that have used up all of their reserves, or have financial pressures due to falling pupil numbers, that have been able to obtain additional money from the local authority or ESFA. Often there is further negotiation as to whether this funding needs to be paid back or can be treated as a grant. There does not appear to be a formula as to which it should be, so rather than funding being equitable the outcome can be down to the trusts' powers of persuasion.

"There are many Trusts that have used up all of their reserves"

So at a time where the official messages are that there is no further funding available, there appears to be a pool of money that can be accessed through skilful negotiation.

Another trend that we have seen is for trusts in financial difficulty to be allowed to be funded based on estimated numbers. For many trusts where they have growing pupil numbers, being funded based upon the prior year census can create difficulties as they are not being funded for the number of pupils actually in school at that time. So being funded based on estimated pupil numbers can have a significant cash flow advantage. Whether trusts are able to be funded this way, again, appears to be down to the skill of the negotiator rather than a fixed set of criteria.

We have also seen a marked increase in the number of trusts that have been asking for parental contributions to cover the running costs of the school. These contributions are not to cover trips or other student benefits, but are simply to help the trusts to balance their budgets. These requests were very rare previously but are now becoming more widespread, which suggests that some trusts have had some success in raising additional income.

From talking to our clients we have seen a range of outcomes, from raising almost nil and antagonising the parents, to generating tens of thousands of pounds, much of which is on standing order so will recur in future years. Undoubtedly there is a degree of skill in how the trusts go about asking for this money, but where we have seen it be most effective is in areas where many of the parents went to the same school and so already have a degree of affection for the school. Perhaps this makes the parents more sympathetic to their plight. These contributions can then also be topped up through the use of gift aid, so the total benefit to the trust can be significant.

UTC's and free schools

At a time when many trusts are struggling to balance their budgets it is interesting to note the cost of two of the recent education initiatives, University Technical Colleges (UTCs) and free schools.

UTCs have a specialised curriculum, often requiring a large investment in machinery and technology. This investment inevitably makes them expensive schools to run, but with the intention that they produce students with specific skills that our economy needs. However, they are receiving twice the funding per pupil compared to a typical academy.

Free schools are also costing significantly more per pupil, with an average level of funding of nearly 50% more than the typical academy. This discrepancy is due, in a large part, to the fact that these schools are growing and may be currently significantly below capacity. They attract additional funding in their initial growth phase to build the capacity they need.

Whether UTCs and free schools represent value for money will only become evident in future years.

Income per pupil by type of school

	Average income per pupil
UTC's	£13,887
Free Schools	£9,079
All Academies	£6,606

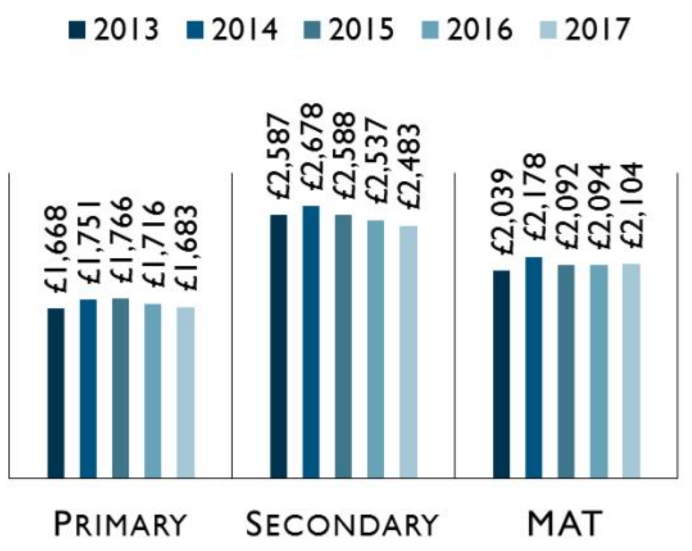
4. Staff Costs

Over the last year we have seen many trusts making tough decisions on staffing levels as they attempt to balance their budgets. Although funding has been tight for the last few years it has really only been in the last 12 to 18 months that trusts have moved their cost saving focus from things to people.

There have been noticeable reductions in non-teaching staff levels in recent years, but maintaining teacher numbers had been sacrosanct for many trusts. However as reserves become more depleted, trusts are increasingly looking at teaching numbers to save money. Trusts are also considering whether they are able to afford experienced teachers, and typically look to recruit cheaper staff should a teacher leave.

The graph below demonstrates this trend as it shows that there is a decreasing teaching cost per pupil for both primary and secondary academies - so academies are making do with either less, or cheaper teachers.

Teaching staff cost per pupil



The situation that trusts are facing is compounded by the difficulty in recruiting Newly Qualified Teachers (NQTs), and this is a situation that is likely to get worse. Based upon data published by UCAS at the end of 2017 the number of applications for teacher training posts was down by nearly one third. Lots of different reasons have been suggested for this decline, from workload and working environment, to pay levels and progression, but unless this situation changes very quickly the recruitment difficulties could turn into a full blown crisis.

Schools have tried to address this through offering incentives, such as private medical insurance and gym membership, and the Government are offering bursaries and Golden Hello's, but the statistics suggest that these measures are not enough. As anyone with a basic knowledge of economics will know, if the supply of something goes down then typically the price goes up. Therefore difficulties in recruiting teachers is likely to push up the salary cost at the time that trusts can least afford it. This is evidenced by a recent joint statement from the main education staff unions which said that to aid recruitment and retention there needed to be "a significant increase in pay for all teachers and school leaders, irrespective of their career stage, setting or geographical location."

We are aware of many instances where trusts are offering teaching posts at a more senior level than they would have wanted, and offering more TLR (Teaching and Learning Responsibility) points than the role justifies simply to be able to get a sensible number of applications. So although there has been a 1% pay cap in place for teaching staff, inflation is creeping into the system through the use of TLRs and other benefits.

Were the pay cap to be removed, it raises the question as to whether more trusts would look to come off the national pay scale, and amend terms and conditions, to either boost recruitment and retention, or to save costs. When we asked this question of our clients only 6% said that they would (although another 36% would not rule it out as an option). This either suggests that academies are not facing the same recruitment issues as the wider school sector, or that there is still an unwillingness to break away from the national scales and policies.

When we asked our clients whether they had unfilled vacancies at the start of the year, 20% of trusts said they did, and the majority of these were MATs, which due to their size, are best placed to manage these staffing gaps.

At the same time we are seeing many trusts trying to reduce staffing numbers, or reshape it so that they have less highly paid people to make the trust more sustainable going forwards. We can see evidence of this in the financial statements, as trusts need to disclose their total restructuring costs. The majority of this cost is settlement agreements with staff made on their departure, and this cost has been increasing in recent years.

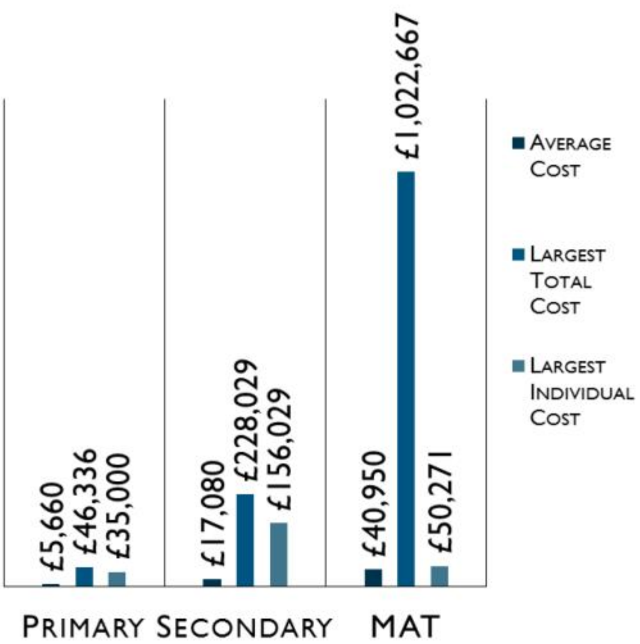
The chart below shows the average payment per type of school and also the largest payments, both in aggregate and individually. For each academy type there are some large settlement payments to individuals which, in almost all cases, are to Head Teachers.

There are a number of trusts that have had much wider ranging restructuring programmes and these have resulted in total payments in six figures, with the largest in our survey being over £1m. These costs help trusts to become more sustainable in the longer term, but it is not the most effective way to spend the education budget.

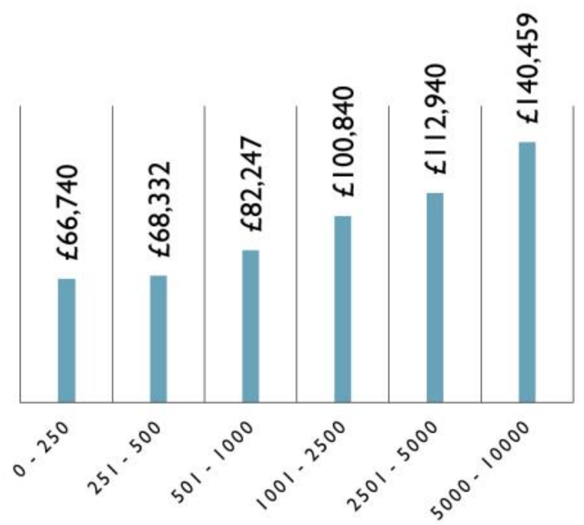
Although, as mentioned above there are inflationary pressures on teaching staff, these pressures seem to have been resisted at the Head Teacher and CEO levels. Average salaries for these positions are largely unchanged over the previous year. There have been lots of press articles about the level of Head Teacher salaries over the last 12 months, but clearly trustees have been showing restraint in the rewards they are paying to this key position.

The chart below shows that there is a very clear correlation between Head Teacher salaries and the size of the trust they are leading.

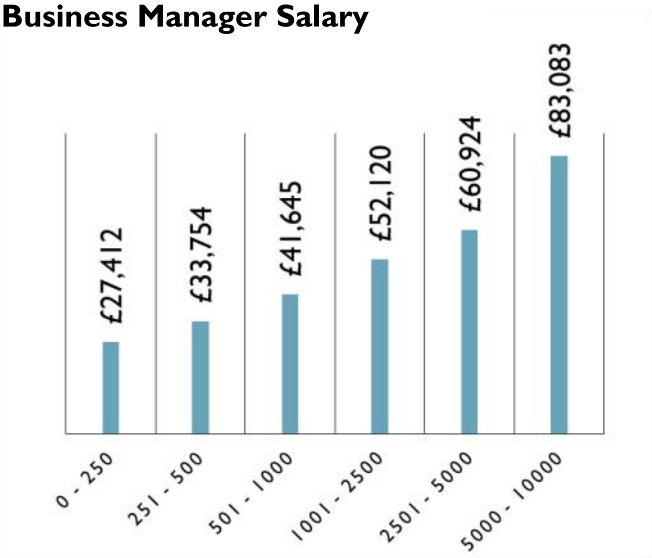
Restructuring cost by academy type



Pupil numbers and Head/CEO salary



Pupil numbers and CFO/School Business Manager Salary



The position is the same with Business Manager/CFO salaries, with an almost identical pattern. As can be seen above, the larger the trust in terms of pupil numbers, the higher the CFO salary.

The average salary is largely unchanged for single unit academies, however there has been some growth in the average for MATs. This is particularly apparent for the larger, and growing MATs. This may suggest that these larger MATs are paying more to enable them to attract the right level of skills needed to manage the finances of what are very large organisations.

"it cannot be over emphasised how important it is to get the staffing level right"

5. Teachers and Pupils

Given that trusts can spend upwards of 80% of their budget on staffing costs it cannot be over emphasised how important it is to get the staffing level right. If you get this decision wrong then trusts could be running up significant deficits, which will bring them to the attention of the ESFA.

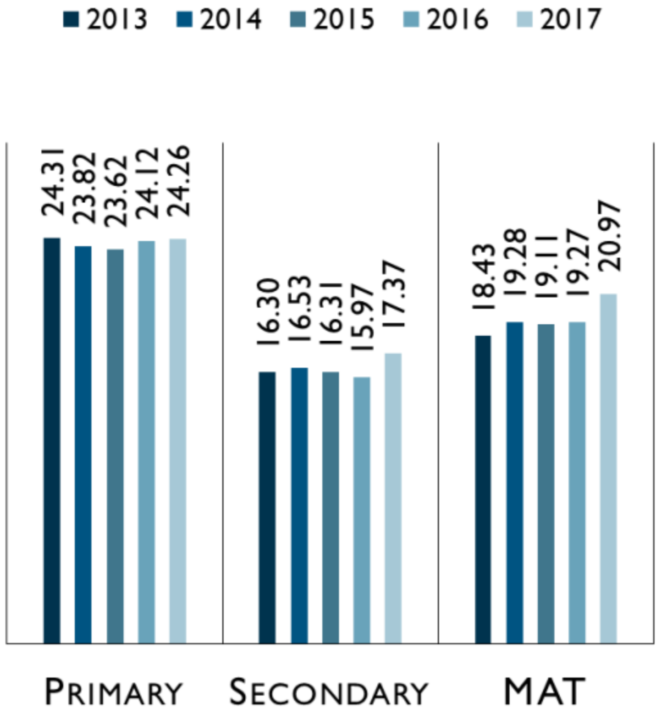
As finances have got tighter, the relationship between the Head/CEO and Business Manager/CFO has become increasingly important. There has always been a conflict between the educationalists and the finance team about how much money is available to be spent, but it is now critical that this relationship is working well.

We have seen many situations where it is the Head who has all of the power with the Business Manager carrying out their wishes. This was possible in times when budgets were more generous, but as they tighten and MATs get bigger it is important to have a Business Manager who is able to have influence over key financial decisions, including staffing levels. This may explain why we are seeing Business Manager salaries rising as the importance of getting the right person increases.

A good Business Manager will have close control on the trusts finances and be looking for areas where efficiencies can be gained. In recent years this has led to a reduction in the number of non-teaching staff, but there has been a reluctance to reduce the number of teachers due to the potential impact on educational quality. However this position is now changing and there is evidence that trusts are now being more flexible as to how they balance their staffing budget, and this can be seen in the graph to the right.

The pupil teacher ratios have increased across all academy types. This demonstrates that many trusts now have less teachers for the pupils they have. The graph also highlights one of the problems facing primary schools. While secondary schools have the ability to amend their curriculum, to enable them to make do with less teachers, this option is not available to primaries. They currently have a teacher for every class, and so the number of teaching staff will not significantly change. So whereas secondary schools can try and manage both teacher numbers and pupil numbers, primary schools can only really focus on pupil numbers.

Average pupil : teacher ratio

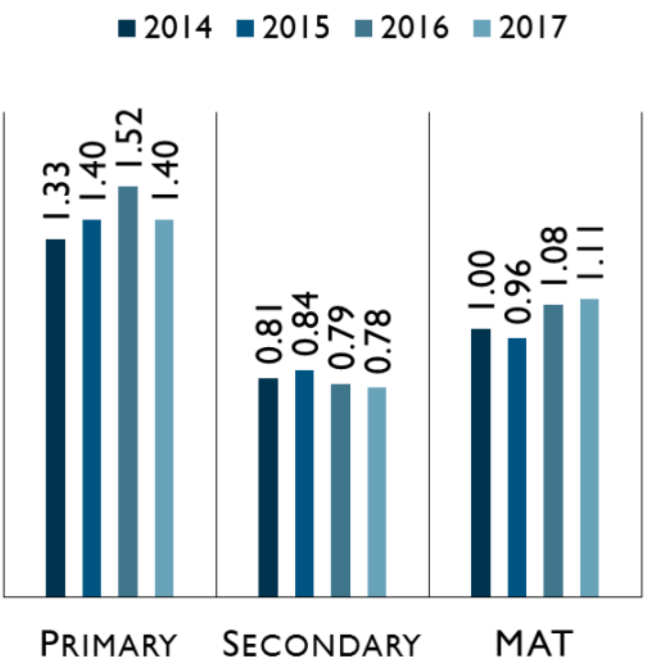


What we have been seeing in a few instances are primary schools considering whether they are able to manage without Learning Support Assistants (LSAs). The introduction of LSAs in the 1990s has been one of the key changes in education over the last generation, but it has come at a cost. The question that some trusts have been asking is whether this is still affordable.

Even if trusts are not considering such a significant step, then ensuring that they have the right balance between non-teaching and teaching staff has been getting much more attention. The ratio between these two roles has now become a key performance indicator (KPI) for many trusts.

It was difficult to predict the movement that we would see in this ratio in the current year as trusts try and reduce both teaching numbers and support staff numbers. Given the length of time that it can take to go through a redundancy round, and that trusts were focussing on support staff before teachers, it should not be a surprise that this ratio has fallen for primary and secondary academies. This can be seen in the graph below where primary academies are now showing an average of 1.4 full time equivalent support staff for each teacher. Time will tell if this ratio moves back the other way next year.

Teaching : non-teaching ratio



The overall ratio will be impacted by whether trusts have outsourced catering, ICT etc. but the numbers above provide a useful benchmark to assess your trust against.

6. Non-Staff Costs

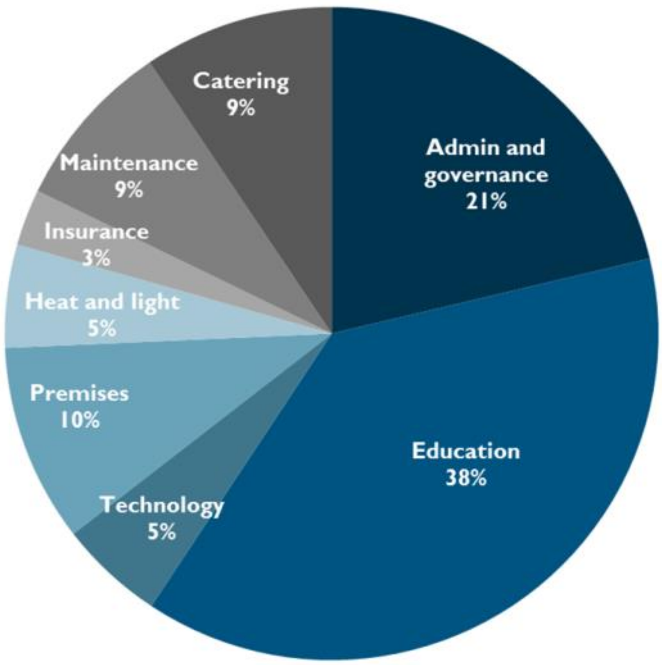
Although staff costs are by far the largest proportion of an academy's expenditure, it is the non-staff costs that many trusts have previously been focussing on to reduce the overall spend. Given that non-staff costs have received so much attention, is there any room for further efficiency gains?

The DfE clearly thinks so, but acknowledges that these may not be as easy to access. Consequently it launched a 'Schools buying strategy' in 2017 with the aim of helping schools to save over £1billion a year from 2019/20 on their non-staff spend.

In overview the scheme consists of the set up of a number of hubs to provide:

- Advice and guidance on cost savings
- Provide support with complex contracts
- Promotion of local collaboration and aggregation - to increase buying power and share best practices

All academy non-staff costs



There is a pilot scheme running in the North West and the South West for one year from February 2018 and so it will be interesting to see these results. Given the savings that need to be generated it is essential that this scheme does provide some benefit. However, from talking to our clients, many think they have already cut costs as far as they can. The results from the pilot will be eagerly awaited.

It will be interesting to see if the MAT sector is also able to generate savings through a similar approach. As some MATs become more centralised they should have the same opportunities that the geographical hubs do, and from the figures given in section 1 there is some evidence that this is happening.

When we have looked at the data from our survey it is clear that trusts have not been able to make significant savings this year, as the majority of costs are in line with last year. The "easy" savings have already been made and further savings are proving more difficult to achieve as expenditure is already at the minimum required to maintain services and supplies. Where they have had the ability to influence spend they have done so, but these savings may lead to longer term costs.

The breakdown of how trusts spend their non-staff budget is shown to the left, but there are only two cost headings where significant reductions have been made, being maintenance and insurance, and these are discussed below.

Maintenance

Whether to spend money on the upkeep of the school estate is an area where there can be significant discretion. In many cases maintenance can be put off - it is not until the roof falls in that you have to spend money! This is what we have seen this year and was confirmed in our recent client survey.

We asked our clients if they had delayed maintenance spend, capital spend, or both, and the results were startling.

It showed that 22% of trusts had put off capital spend, 6% put off maintenance work and 46% had put off both. From those who responded to our survey only 26% said that they were keeping up to date with this type of expenditure. It is clear that many academies have stopped all but absolutely essential maintenance on both buildings and equipment. This impact is shown in the graph below where the proportion of the budget spent on non-staff costs has been falling for each category.

This must give rise to concern that there could be an increase in the future when any work deferred becomes essential, or there will be a significant deterioration in the quality of the capital assets.

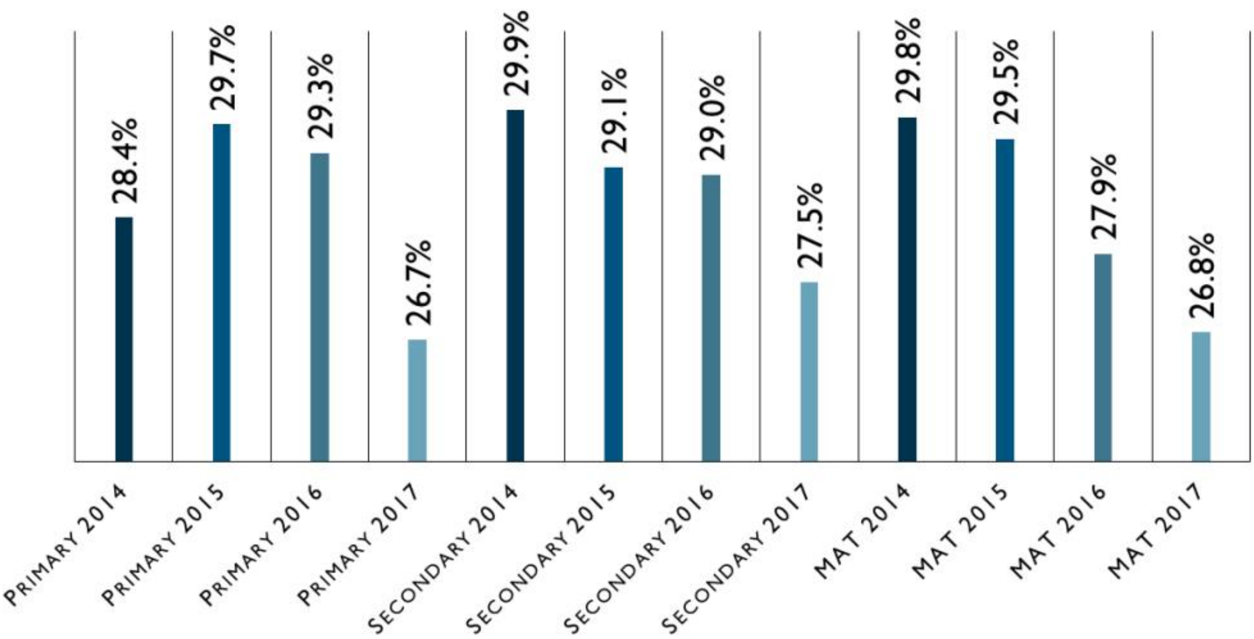
Insurance

Last year we reported on the effect of the first year of the ESFA's Risk Protection Arrangement (RPA) on the costs of insurance for academies. In this, the second year of the RPA, 46% (last year 37%) of our clients have taken this up.

The average insurance cost for academies taking advantage of the RPA is £34,939 whereas the average cost for those still insuring in the general market is £52,600. So there is a very clear saving to be made, however this comparison does not take account of the relative size of academies. Many of those still outside the scheme are, on average, larger academies which would also pay higher premiums if included in the RPA, but none the less there is a significant increase in the numbers taking advantage of RPA.

All academies will have to continue (as with any other business) to monitor non-staff expenditure ensuring that savings can be made wherever possible by changing suppliers, looking at better procurement (buying in bulk, joint purchasing with other academies, avoiding duplication of ordering small quantities by different budget holders) and also budgeting for future costs where expenditure is deferred from the current year. However care must be taken to ensure that any savings achieved are not false economies, giving rise to increased costs in the future.

Average non-staff costs as a percentage of total costs by academy type



"The concerning picture for the whole sector is the declining level of free reserves"

7. Reserves and Cash Balances

As many trusts have been incurring deficits and spending their reserves, the debate about what is a reasonable level of reserves has become more pressing. How trusts monitor their reserves level is also important and some are still using cash balances as their best estimate. As the table below shows, this can give a false position of how healthy the reserves are looking.

When we talk about reserves we are referring to the free reserve, which is unrestricted funds and the GAG carry forward. This is the amount that a trust has available to spend as it sees fit. The cash balance is almost always higher than this figure as trusts receive funding in advance to pay for capital grants, UIFSM, payroll costs etc.

What we can see in the table is that for all academy types the cash balance has not changed significantly, due to the funding profile, however free reserves have fallen in every category.

Even though the cash balances are broadly similar, these numbers are averages. We are aware of some trusts whose cash balances are so low that they are having to actively manage their cash flow each month or simply not pay their creditors. We have seen a number of trusts that are reliant on the local authorities to effectively loan them money, either through doing their payroll (but not invoicing the entire payroll costs until the following month) or accepting PFI payments later than planned - in some cases this can result in balances owed of more than £0.5m. We also have seen other instances where Trusts are using capital grants to manage working capital.

The most alarming situation we have seen is where a trust is using the money it has received in advance for school trips to fund its normal operations. This shows how tight cash flow is, but also raises the question about whether trusts are complying with all the restrictions of the funding they receive.

These are specific examples, but the concerning picture for the whole sector is the declining level of free reserves. These have fallen by at least a third for all categories, with primary school reserves falling by half.

The gap between free reserves and cash has grown significantly and so focussing on cash balances may lead some commentators to conclude that the sector has no financial issues. The decline in reserves shows that this is most definitely not the case.

Average cash balances as a proportion of average free reserves (£000)

	2017			2016			2015		
	Cash	Free	Ratio	Cash	Free	Ratio	Cash	Free	Ratio
Primary academies	380	163	2.3:1	323	234	1.4:1	363	231	1.6:1
Secondary academies	857	413	2.1:1	937	644	1.5:1	1,093	780	1.4:1
Multi-academy trusts	1,782	716	2.5:1	1,777	1,076	1.7:1	1,859	971	1.9:1

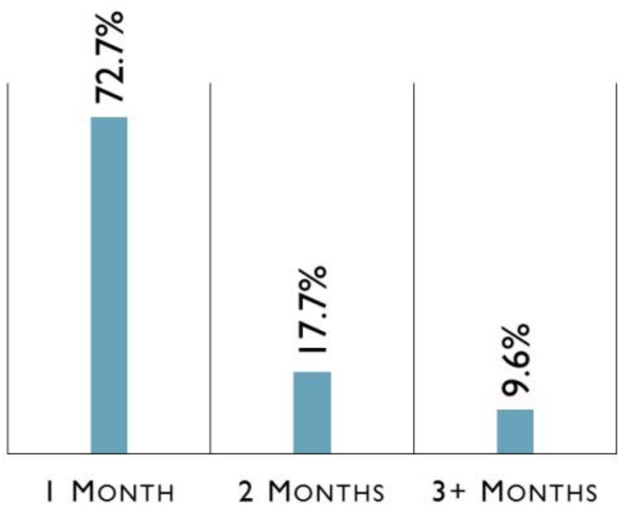
Reserves policy

As reserve levels have fallen, the trusts reserve policy has started to receive far more scrutiny. We have had numerous conversations with our clients this year about what the ideal level of reserves should be. Unhelpfully there is no right or wrong answer, and it is influenced by the attitude and risk profile of trustee boards, and the future plans of the trust.

There are also many methods of calculating the target level of reserves. From reviewing our data, there are academies that calculate this based upon levels of income, levels of expenditure, the monthly wage bill, or other academy specific measures.

Most trusts base their reserve level on a number of months worth of expenditure or income, with the majority basing it on one month of either. This can be seen in the graph below.

Basis of reserves policy - number of months income or expenditure



One point that we have noticed this year is that a number of the target reserve policies have reduced. It is not immediately clear if the additional scrutiny has led trustees to reconsider what a sensible level of reserves should be, or whether it has been done simply to give trusts a chance of hitting the target, given the financial pressures they are under.

“CIF and SCA funding is keeping pace with the expansion of the sector”

8. Fixed Assets

For most academies, fixed assets continue to be the largest item on the balance sheet, with the combined value of buildings included in this report totalling £4.3bn (15/16: £4.2bn). This is only a very small increase in total value given the additional number of trusts in the survey. A year on year comparison has been made very difficult as a number of trusts have changed their accounting policy, through choice or encouragement.

We have explained at length in our report over the last few years that there was previously a mixture of accounting policies for faith schools regarding the inclusion of buildings on their balance sheet. Whilst discussions did take place between the Diocesan Boards and the ESFA during the year, they were unable to agree on how these should be accounted for within the financial statements, leaving it to trusts and auditors to continue to decide on a case by case basis.

When the Academies Accounts Direction 2016/17 (AAD) was released in June 2017, it included the sentence 'for most church academies, land and buildings would not be recognised by the school' (Page 111, Section 8.4.3, bullet point 3, second paragraph). We understand that this was a last minute adjustment to the AAD and as such was not seen and agreed by any of the working parties involved in the annual update.

We have been told that it is likely that this sentence will be removed next year. However, in the intervening period this sentence has been used by various parties, where trusts have a licence to occupy the buildings rather than a lease, to apply pressure on them to remove the assets. This pressure has come via letters to Accounting Officers telling them to change their accounting treatment, and if their auditors disagree to change their auditors! As a result, a number of trusts have removed the buildings via a prior year adjustment.

From the conversations that we have had with trusts and other audit firms, neither party can get very excited about which treatment is correct, but it would be helpful if a consensus could be achieved.

Of the religious trusts within our survey 47% have removed the land and building from their balance sheets. The determining factor as to whether it was removed, or not, was the attitude of the Diocese. In most cases, every school within a Diocese treated land and buildings in a consistent manner.

As this change was only made shortly before the AAD was published, it is likely that some of the consequences of the change would not have been fully considered. For example if a trust was bidding for CIF to build a new classroom, how would the ESFA consider the application if the trust does not own or lease the land it would be built on? Similarly if an application is for the maintenance of a building that the Diocese owns should the money be paid to the trust or the Diocese. If it is paid to the Diocese then it would not be able to reclaim the VAT, thus increasing the cost by 20%. We hope that the accounting treatment can be agreed before the 2018 AAD.

This was not the only late change by the ESFA to cause consternation. The other related to the provision for newly converted academies of a valuation for land and buildings by the department. On two occasions during the summer, the ESFA advised that they would be providing these valuations during the autumn, however in September a bulletin was issued stating that the valuations would be undertaken during the autumn term by a third party (as in the past) and that this exercise would be completed by 31 December 2017. The department would then review them in January 2018 with a view to releasing the data in February 2018. As a result, too late for inclusion within the financial statements.

Whilst historically the ESFA has stated that academies should not place reliance on this valuation, the majority of trusts do (after sense checking it) as it is the most reliable data readily available. As a result of the timing of this change, schools have had to hurriedly consider other options, all of which cost money or take up more of the Trusts' time. Given that this is often the largest number in the financial statements, there should be a more joined up method of obtaining a value.

CIF and SCA funding

	2016/17	2017/18
Grants available under CIF	£383m	£466m
Number of projects	1,417	1,435
Number of schools	1,127	1,138

The grants available under CIF for 2017/18 have increased to £466m which supported 1,435 projects across 1,138 schools. This compares to 2016/17 when 1,417 projects were supported across 1,127 academies at a cost of £383m. In addition this year on appeal 75 projects were approved at a cost of £30m and the department identified a further £40m which supported a further 141 projects. Overall the increase in the monies distributed from this fund means that the fund is increasing in line with the increase in the number of academies.

We have still not been able to identify a way for our clients to increase their chances of being successful with their CIF bids, as the criteria changes each year. However, from reviewing the list of successful CIF bids it can be seen that certain types of project are more likely to be supported, which is shown in the table below.

Area of work	Percentage of work
Roofs	34%
Boilers (and associated water systems)	15%
Windows	13%
Fire systems	9%

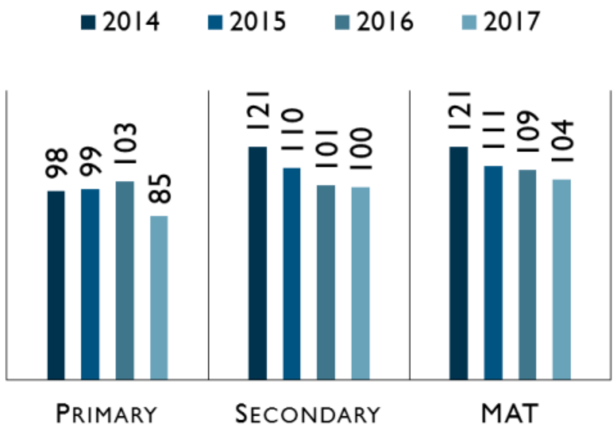
MATs which have more than five academies and 3,000 pupils are automatically allocated School Condition Allocation (SCA). Those trusts eligible are unable to bid for CIF. The amount of SCA is usually 85% of that which could be allocated under the CIF regime. The 15% difference being cash that would have been allocated to fund expansion (which SCA is not to be used for). As academies are unable to access both funds, this means that SATs joining MATs will need to carefully consider their timing to ensure that their CIF bid does not become ineligible on joining the new trust.

The amount of funding available for MATs via SCA in 2017/18 is £130m, split between 121 trusts, which compares to £99m when there were 87 eligible trusts. Again, it appears that this funding is keeping pace with the expansion of the sector.

This is encouraging as the only other monies available to fund capital is devolved formula capital (DFC) and the amount paid out in 2017/18 was £84m, an average of £12,500 per academy, with the largest payment being £101,000. This is obviously insufficient for any capital works and therefore academies are reliant on either CIF or SCA monies, as most are unable to allocate significant GAG to capital projects.

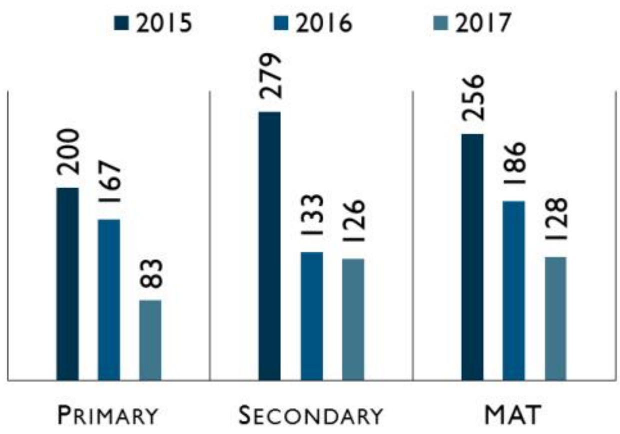
Given the cost pressures it is not surprising that the median spend on repairs and maintenance has reduced yet again, as can be seen in the graph below.

Average repairs and maintenance spend per pupil



For primary schools which had averaged £100 per pupil over the last three years this has reduced to £85. For secondary schools and MATs this spend has reduced in each of the last three years, with secondary schools now spending £100 per pupil and MATs spending £104 per pupil.

Average capital expenditure per pupil



The reduction in the spend per pupil on capital expenditure is even more stark with spend at secondary schools reducing from £279 per pupil in 2014/15 to £126 in 2016/17 and MATs from £256 to £128 per pupil over the same period. For primary schools the drop has mainly occurred over the last year, with a reduction from £167 to £83 per pupil. This reflects the increased cost pressures in the sector.

Our concern is that trusts are putting off expenditure that they should be incurring now in order to balance their budgets. This is just kicking the problem down the road rather than solving it, and it is likely to result in higher costs in future years.

It is not surprising to us therefore that in early 2017 the National Audit Office warned that deterioration in the condition of the school estate is a 'significant risk to long-term value for money'. The NAO has stated that they estimate that it will cost £6.7bn to bring all existing school sites up to 'satisfactory' condition. The current cuts in expenditure by the trusts will only increase that number in future years.

“The average closing LGPS deficit has decreased significantly, almost back to 2015 levels”

9. Pensions

Historically this section of the report has made for depressing reading, however this year we have some positive news. As a result of a significant number of actuaries changing the assumptions used to calculate the Local Government Pension Scheme (LGPS) deficit, in particular a lower discount rate, the average closing LGPS pension deficit in pounds per pupil has decreased significantly, almost back to 2015 levels.

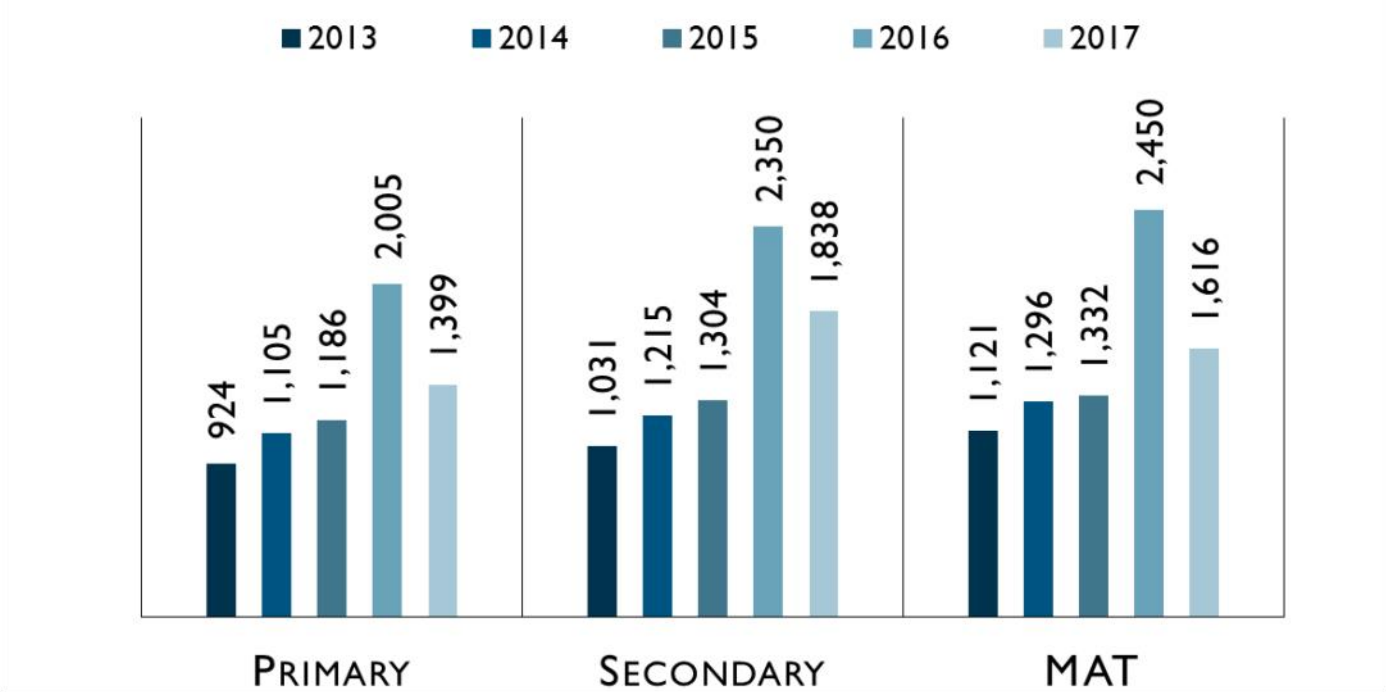
The table below demonstrates this by looking at the deficit per pupil by type of school. There was a seemingly inexorable rise in deficits, followed by a significant reduction in the current year.

Unfortunately, that is the end of the good news. Whilst the provision in the financial statements has reduced, what is more important for trusts is their contribution rate.

The new LGPS employers contribution rates came into effect in April 2017 and although a small number of trusts had a reduction in their rates, the majority had increases of around 1%, with one trust seeing an increase of 4.5%. As these rates are calculated based on support staff employed by the trust we not only have significant regional differences, but also differences between trusts within the same pension authority. In one area the difference between the lowest and highest contribution rate was 8.5%, whilst in another it was 11%.

The significant disparity in rates does raise the question that if we are moving to a national funding formula, why shouldn't we also move to a national LGPS for academies so as to keep cost bases similar? This was an idea that was put out to consultation two years ago and then quietly dropped.

Average closing LGPS pension deficit per pupil



The increase in the employers, Teachers Pension Scheme (TPS) rates implemented in September 2015 is now showing its full impact. This can be seen in the table below, as an increasing percentage of GAG income is being used to fund the TPS pension contributions.

TPS - as % of GAG

	2017	2016	2015	2014
Primary	10.8%	8.5%	7.8%	6.8%
Secondary	9.8%	8.5%	7.2%	6.7%
MAT	9.8%	8.4%	7.2%	5.7%

As trustees may be aware, there will be an actuarial review of TPS in April 2018, the results of which will be implemented in April 2019 (not September 2018 as originally planned). Obviously, the new rate is not known but there is an expectation that it will increase from 16.4% to somewhere between 18% and 20%. Given that the average secondary had an employers contribution to the TPS of £455,000 in 2016/17, a 1% increase would be £27,000 and a 3.6% increase £100,000. How would this be funded?

10. Governance

"The purpose of governance is to provide confident, strategic leadership and to create robust accountability, oversight and assurance for educational and financial performance."

Department for Education, Governance Handbook, 2017.

It is probably fair to say that in the past the impact of good governance may have been overlooked, but as trusts get bigger and more complex the difference between the good and weak is very clear. This was acknowledged in Sir David Carter's article (15 January 2018) where he described governors and trustees as the "unsung heroes of the system." He was very clear that, in his view, good governance is critical to enable trusts to raise standards through holding the leadership to account, and he will be introducing measures to raise the quality of governance to make this happen.

This emphasis of good governance was underlined by the Governance Handbook that was issued in 2017. This gives clear guidance of what is expected of trustees, but at 131 pages it is a fairly weighty read. This may explain why many trustees are not overly familiar with its contents.

In the last 12 months there have been many reports in the press and a number of Financial Notices To Improve (FNTI) issued by the ESFA that have highlighted failings in governance. One of the common recommendations is to implement measures to improve trustee evaluation and performance - and this is also a requirement of the Governance Handbook.

However when we recently asked our clients "Have you performed full governance review in the year?" almost 40% of Boards had not. If they are not already, trustees need to be made aware of their responsibilities, individually and collectively and ensure that they carry out the duties expected of them.

As Trusts look to improve their governance, one of the trends that we have seen is a move to smaller Boards of Trustees. We have made the point in the past that having Boards of 16-20 can be very cumbersome and difficult to manage, and we have seen the average Board size falling in recent years, and this can be seen in the table below.

Average board size

	2016	2017
Primary	13	11
Secondary	14	14
MAT	11	10
All	**13**	**12**

It may seem counterintuitive that the largest trusts, being the MATs, have the smallest Trust Boards. However this does allow for quicker decision making, and is a structure we would expect to see in larger corporate clients.

Our survey shows that there is a wide variation in the number of trustees making up governing bodies, the smallest being 3, the largest 26. No doubt there will continue to be variation in the numbers of trustees, as although their responsibilities are set out in the Academies Financial Handbook and Governance handbook, there is no guidance on the constitution of governing bodies. It is left to the discretion of individual academies as to how their own governing body is constituted, and what number of governors they require and feel to be appropriate in their circumstances. However the trend is definitely towards smaller boards.

Many governing bodies report difficulty in recruiting new trustees, this difficulty being multiplied if looking for trustees to fill specific skills gaps that may have been identified. What is not clear is if this shortage of recruits is due to a general shortage of volunteers, or the reluctance of suitable individuals to take on what they may see as an increasing level of responsibility.

The increase in responsibility is reflected in the Academies Financial Handbook, where the schedule of the things that every trust must be doing seems to get a little longer every year.

With increasing pressure on the finances of academies and the difficulties that will be faced given reducing reserves, including the need to prepare (and operate within) a balanced budget, trustees are being faced with increasingly difficult decisions to ensure the future financial stability of their academy, and its ability to meet its future obligations both financial and educational. There will also be increasing scrutiny from the ESFA and others.

It is possibly too early to speculate what this enhanced level of responsibility will have on the willingness of new trustees to volunteer, and existing trustees to remain in post. Governing bodies will most certainly need to ensure that they have the knowledge and understanding to carry out their role effectively and to make the difficult decisions which may need to be taken.

It is therefore paramount that they carry out a governance and skills audit to ensure they either already have the skills required among their number, or identify areas of weakness that they need to address by recruiting suitably qualified or experienced governors. The 4 in 10 of academies therefore who have admitted that they have not carried out a governance review in the last year may wish to look at this sooner rather than later.

The next few years will bring a lot of challenges for trustees as they look to steer their academies through the financial uncertainties that the sector is facing. Therefore the support that the DfE and Sir David Carter and his team are aiming to provide will be more important than ever.

“David Carter… described governors and trustees as the “unsung heroes of the system.”

Appendix 1 - Definitions

There are a large number of ratios and terms used within this report. Below we have given definitions of relevant terms and an explanation of each ratio used.

Academic year: The data used in the report is based on the 2016/17 academic year with comparative data given for the 2015/16 and 2014/15 academic years. For ease of reference the academic years are referred to as 2017, 2016 and 2015 respectively.

Academies Accounts Direction (AAD): Publication from Education and Skills Funding Agency (ESFA) detailing the expected accounting treatment and disclosures required in academy financial statements.

Adjusted restricted reserves: Restricted reserves adjusted to exclude defined benefit pension balances.

Capital expenditure: The total amount of fixed asset additions in the period - excluding expenditure on items that are expensed in the year of purchase and charged to the SOFA.

Cash balances ratio: The cash balance at 31 August as a percentage of annualised total income.

Condition Improvement Fund (CIF): Grant income received from the ESFA to pay for capital projects and maintenance

Converter Academy: Academies that have converted, but excluding sponsor academies.

Cost ratios: Each category of cost that is also expressed as a percentage of total costs. This is to aid comparability across different sized schools.

Current assets ratio: The total of current assets divided by current liabilities. A figure of less than 1 may be an indication that an academy has cash flow difficulties.

Depreciation cost: The charge made for the period to reflect the usage of the fixed assets held by the academy. Typically land is not depreciated, buildings are depreciated over 50 years and other classes of assets are depreciated over periods between 3 and 10 years.

Education costs: The total of exam fees, books, education equipment and supplies, and school trips.

Fixed assets depreciation rate: The total depreciation charge as a percentage of the fixed asset cost or valuation. Within the report this ratio is given for property and all other asset classes combined.

Free reserves: The funds that an academy has available to spend or invest at its own discretion, being made up of unrestricted funds plus the GAG carry forward.

GAG carry forward ratio: The percentage of GAG income received that is unspent at the end of the academic and financial year.

GAG income ratio: The GAG income as a percentage of total income, excluding any surplus donated on conversion or transfer. This ratio highlights the level of reliance on GAG funding. The higher the ratio, the greater the level of dependency on GAG income.

LGPS surplus/deficit per non-teaching staff: The LGPS pension scheme surplus or deficit divided by the number of non-teaching staff.

Management, administration and governance costs: The total of all other costs, excluding those identified above, plus technology costs, heat and light costs, catering costs, and depreciation, and including governance costs.

Multi Academy Trust: A single legal entity where all academies within the group are governed by one Trust.

Net book value: The value that fixed assets are carried at in the financial statements, i.e. cost less depreciation.

Net current assets/income ratio: The net current assets at 31 August as a percentage of annualised total income.

Other salary costs: The total gross salary cost of all non-teaching staff, excluding employers' national insurance costs.

Pension cost ratio: The total cost per the Statement of Financial Activities for all pension schemes, primarily the Teacher's Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS), as a percentage of the total salary costs.

Pension costs: The individual costs of the TPS and LGPS pension schemes.

Premises costs: The total of rates, water, rent and other similar costs, but excluding repairs and maintenance. For PFI schools this includes the charge from the provider.

Property value: The property value as stated in the financial statements, before any depreciation. These values have been calculated on a number of differing bases, including ESFA valuation, insurance valuation and cost.

Pupil to non-teaching staff ratio: The total number of pupils divided by the total number of non-teaching staff.

Pupil to teacher ratio: The total number of pupils divided by the total number of teachers.

School Condition Allocation (SCA): Funding allocated by the ESFA to MATs with at least 5 academies and 3000 pupils to cover capital expenditure and maintenance work.

Single Unit Academy (SAT): An academy that is not part of a MAT.

Sponsor: An organisation that has been set up to formally support one or more academy schools.

Staff costs: The total of both teaching and non-teaching staff costs, including gross salary, national insurance and pension contributions.

Surplus/deficit ratio: The surplus or deficit of the academy, excluding any surpluses or deficits donated upon conversion or transfer and excluding any actuarial gains and losses, as a percentage of the total income of the academy.

Teacher salary costs: The total gross salary of teaching staff (so excluding employers' national insurance and TPS contributions).

Teaching staff to non-teaching staff ratio: The total number of teachers divided by total number of non-teaching staff.

Top slicing: The charge made by a MAT to its individual schools to cover the group overhead costs and central services.

Total GAG income: The annualised GAG income for the academy, which includes the School Budget Share (SBS), the Minimum Funding Guarantee (MFG), the Education Services Grant (ESG), rates relief payment and insurance reimbursement.

Total income: The annualised total income for the academy excluding any surplus donated on conversion to an academy.

	Highest	Lowest	Average	Median	My Academy
Income Measures					
Total income per pupil (annualised)	£10,128	£3,802	£4,966	£4,716	
Total GAG income per pupil (annualised)	£5,777	£2,770	£3,656	£3,565	
GAG income ratio (period)	89.0%	27.0%	75.0%	76.0%	
Overhead Costs Measures					
Staff cost per pupil (Annualised)	£5,447	£2,290	£3,693	£3,698	
Education costs per pupil (Annualised)	£1,074	£10	£183	£158	
Technology costs per pupil (Annualised)	£169	£6	£59	£55	
Premises costs per pupil (Annualised)	£602	£12	£69	£39	
Heat and light costs per pupil (Annualised)	£149	£22	£51	£47	
Insurance costs per pupil (Annualised)	£148	£11	£48	£40	
Repairs and Maintenance costs per pupil (Annualised)	£366	£36	£100	£85	
Catering costs per pupil (Annualised)	£456	£78	£200	£185	
Management, Administration & Governance costs per pupil (Annualised)	£1,509	£56	£400	£363	
Depreciation cost per pupil (Annualised)	£968	£57	£257	£241	
Total costs per pupil (Annualised)	£8,372	£3,898	£5,122	£4,956	
Staff cost ratio (as % of total costs) (period)	81.7%	55.1%	72.2%	72.7%	
Education costs ratio (as % of total costs) (period)	12.8%	0.2%	3.5%	3.1%	
Technology costs ratio (as % of total costs) (period)	3.1%	0.1%	1.2%	1.1%	
Premises costs ratio (as % of total costs) (period)	12.3%	0.3%	1.4%	0.8%	
Heat and light costs ratio (as % of total costs)	2.5%	0.4%	1.0%	0.9%	
Insurance costs ratio (as % of total costs)	3.2%	0.2%	0.9%	0.8%	
Repairs and Maintenance costs ratio (as % of total costs) (period)	7.0%	0.7%	1.9%	1.7%	
Catering costs ratio (as % of total costs) (period)	8.1%	1.6%	4.0%	3.9%	
Management, Administration & Governance costs ratio (as % of total costs) (period)	25.8%	1.0%	7.8%	7.1%	
Depreciation cost ratio (as % of total costs) (period)	12.6%	1.2%	4.9%	4.9%	
Staff Salary Measures					
Teaching staff salary per pupil (Annualised)	£2,574	£1,139	£1,683	£1,657	
Non-Teaching staff salary per pupil (Annualised)	£2,807	£311	£1,049	£988	
Average Teaching staff salary (Annualised)	£57,809	£15,622	£40,407	£40,235	
Average Non-Teaching staff salary (Annualised)	£98,250	£7,586	£20,733	£19,750	
Pension Cost Measures					
Pension cost ratio (as % salaries) (period)	29.0%	5.0%	22.0%	22.0%	
LGPS (Surplus) / Deficit per non-teacher staff (period)	£66,556	£3,222	£29,023	£26,478	
LGPS deficit per pupil	£6,953	£170	£1,022	£1,561	
Pupil / Teacher Measures					
Pupil to teacher ratio (period)	35.00	8.67	24.26	24.67	
Teaching to non-teaching staff ratio (period)	4.25	0.27	0.86	0.75	
Pupil numbers for the period (per January Census)	708	94	463	369	
Surplus / (Deficit) Measures					
Surplus / (Deficit) ratio (as % of total income) (period)	52.5%	-24.2%	-5.5%	-6.1%	
Surplus / (Deficit) ratio before depreciation (as % of total income) (period)	20.3%	-21.0%	-4.1%	-5.7%	
GAG carry forward ratio (period)	36.6%	-12.8%	6.0%	3.0%	
Net Asset Measures					
Cash balances ratio (as % total income) (Annualised)	59.0%	1.3%	19.5%	19.0%	
Net Current Assets / Income ratio (Annualised)	1.54	-0.08	0.17	0.14	
Fixed Assets Measures					
Property value per pupil (period)	£42,373	£73	£9,789	£9,329	
Other Fixed Assets value per pupil (period)	£1,750	£86	£546	£482	
Capital expenditure in period (period)	£997,277	£1,343	£80,961	£35,340	
Capital expenditure per pupil (period)	£3,335	£1	£201	£83	
Fixed Assets depreciation rate - Property (Annualised)	3.8%	0.3%	1.8%	1.8%	
Fixed Assets depreciation rate - Other Fixed Assets (Annualised)	28.3%	2.1%	15.6%	15.1%	

Benchmark Analysis Data: Secondary Academies

	Highest	Lowest	Average	Median	My Academy
Income Measures					
Total income per pupil (annualised)	£27,611	£3,744	£6,489	£5,812	
Total GAG income per pupil (annualised)	£8,204	£3,160	£4,946	£4,820	
GAG income ratio (period)	95%	16%	80%	83%	
Overhead Costs Measures					
Staff cost per pupil (Annualised)	£7,628	£3,111	£4,581	£4,499	
Education costs per pupil (Annualised)	£1,281	£112	£319	£286	
Technology costs per pupil (Annualised)	£412	£1	£80	£64	
Premises costs per pupil (Annualised)	£1,760	£21	£137	£58	
Heat and light costs per pupil (Annualised)	£387	£3	£88	£76	
Insurance costs per pupil (Annualised)	£109	£3	£34	£29	
Repairs and Maintenance costs per pupil (Annualised)	£823	£1	£136	£100	
Catering costs per pupil (Annualised)	£390	£3	£101	£92	
Management, Administration & Governance costs per pupil (Annualised)	£22,410	£50	£698	£432	
Depreciation cost per pupil (Annualised)	£3,655	£0	£425	£336	
Total costs per pupil (Annualised)	£30,218	£4,340	£6,642	£6,104	
Staff cost ratio (as % of total costs) (period)	82%	43%	72%	73%	
Education costs ratio (as % of total costs) (period)	16%	1%	5%	4%	
Technology costs ratio (as % of total costs) (period)	4%	0%	1%	1%	
Premises costs ratio (as % of total costs) (period)	16%	0%	2%	1%	
Heat and light costs ratio (as % of total costs)	3%	0%	1%	1%	
Insurance costs ratio (as % of total costs)	2%	0%	1%	0%	
Repairs and Maintenance costs ratio (as % of total costs) (period)	12%	0%	2%	2%	
Catering costs ratio (as % of total costs) (period)	6%	0%	1%	1%	
Management, Administration & Governance costs ratio (as % of total costs) (period)	74%	1%	8%	7%	
Depreciation cost ratio (as % of total costs) (period)	28%	0%	6%	6%	
Staff Salary Measures					
Teaching staff salary per pupil (Annualised)	£3,798	£1,358	£2,483	£2,449	
Non-Teaching staff salary per pupil (Annualised)	£3,292	£383	£1,049	£988	
Average Teaching staff salary (Annualised)	£58,144	£23,128	£42,481	£41,806	
Average Non-Teaching staff salary (Annualised)	£59,817	£10,758	£23,020	£21,853	
Pension Cost Measures					
Pension cost ratio (as % salaries) (period)	39%	3%	20%	21%	
LGPS (Surplus) / Deficit per non-teacher staff (period)	£145,750	£2,734	£43,981	£43,787	
LGPS deficit per pupil	£4,539	£131	£2,010	£1,811	
Pupil / Teacher Measures					
Pupil to teacher ratio (period)	41.04	9.58	17.37	17.02	
Teaching to non-teaching staff ratio (period)	3.92	0.50	1.38	1.27	
Pupil numbers for the period (per January Census)	2292	118	978	956	
Surplus / (Deficit) Measures					
Surplus / (Deficit) ratio (as % of total income) (period)	39.6%	-29.2%	-5.0%	-6.2%	
Surplus / (Deficit) ratio before depreciation (as % of total income) (period)	33.6%	-27.4%	-1.0%	-4.7%	
GAG carry forward ratio (period)	40.9%	-22.5%	3.1%	0.3%	
Net Asset Measures					
Cash balances ratio (as % total income) (Annualised)	60.4%	0.3%	14.7%	12.6%	
Net Current Assets / Income ratio (Annualised)	3.61	(0.09)	0.20	0.10	
Fixed Assets Measures					
Property value per pupil (period)	£70,146	£228	£14,545	£13,427	
Other Fixed Assets value per pupil (period)	£10,208	£65	£1,044	£619	
Capital expenditure in period (period)	£10,469,000	£1,420	£469,667	£107,834	
Capital expenditure per pupil (period)	£21,482	£1	£661	£126	
Fixed Assets depreciation rate - Property (Annualised)	8.5%	0.0%	2.0%	1.8%	
Fixed Assets depreciation rate - Other Fixed Assets (Annualised)	38.4%	0.3%	13.2%	12.9%	

Benchmark Analysis Data: Multi Academy Trusts

	Highest	Lowest	Average	Median	My Academy
Income Measures					
Total income per pupil (annualised)	£23,364	£2,310	£6,310	£5,604	
Total GAG income per pupil (annualised)	£15,499	£1,901	£4,371	£4,206	
GAG income ratio (period)	92%	16%	73%	76%	
Overhead Costs Measures					
Staff cost per pupil (Annualised)	£16,109	£1,983	£4,346	£4,114	
Education costs per pupil (Annualised)	£1,305	£27	£270	£244	
Technology costs per pupil (Annualised)	£423	£0	£81	£76	
Premises costs per pupil (Annualised)	£783	£12	£120	£69	
Heat and light costs per pupil (Annualised)	£211	£0	£69	£63	
Insurance costs per pupil (Annualised)	£188	£0	£39	£33	
Repairs and Maintenance costs per pupil (Annualised)	£639	£1	£127	£104	
Catering costs per pupil (Annualised)	£484	£3	£146	£139	
Management, Administration & Governance costs per pupil (Annualised)	£5,972	£16	£504	£359	
Depreciation cost per pupil (Annualised)	£904	£27	£304	£261	
Total costs per pupil (Annualised)	£22,307	£2,890	£6,052	£5,634	
Staff cost ratio (as % of total costs) (period)	83%	33%	72%	73%	
Education costs ratio (as % of total costs) (period)	12%	1%	4%	4%	
Technology costs ratio (as % of total costs) (period)	8%	0%	1%	1%	
Premises costs ratio (as % of total costs) (period)	11%	0%	2%	1%	
Heat and light costs ratio (as % of total costs)	2%	0%	1%	1%	
Insurance costs ratio (as % of total costs)	3%	0%	1%	1%	
Repairs and Maintenance costs ratio (as % of total costs) (period)	11%	0%	2%	2%	
Catering costs ratio (as % of total costs) (period)	7%	0%	2%	2%	
Management, Administration & Governance costs ratio (as % of total costs) (period)	57%	0%	8%	7%	
Depreciation cost ratio (as % of total costs) (period)	13%	1%	5%	5%	
Staff Salary Measures					
Teaching staff salary per pupil (Annualised)	£9,157	£896	£2,104	£1,941	
Non-Teaching staff salary per pupil (Annualised)	£4,452	£267	£1,225	£1,160	
Average Teaching staff salary (Annualised)	£73,225	£17,364	£41,113	£40,658	
Average Non-Teaching staff salary (Annualised)	£74,858	£5,697	£24,875	£20,717	
Pension Cost Measures					
Pension cost ratio (as % salaries) (period)	111%	12%	22%	21%	
LGPS (Surplus) / Deficit per non-teacher staff (period)	£324,500	£2,571	£38,867	£32,699	
LGPS deficit per pupil	£5,879	£120	£1,924	£1,705	
Pupil / Teacher Measures					
Pupil to teacher ratio (period)	46.82	5.18	20.97	19.85	
Teaching to non-teaching staff ratio (period)	13.75	0.26	1.21	0.92	
Pupil numbers for the period (per January Census)	7406	234	1974	1616	
Surplus / (Deficit) Measures					
Surplus / (Deficit) ratio (as % of total income) (period)	87.5%	-51.2%	6.9%	0.1%	
Surplus / (Deficit) ratio before depreciation (as % of total income) (period)	35.8%	-40.1%	0.9%	1.1%	
GAG carry forward ratio (period)	62.4%	-35.8%	4.8%	1.4%	
Net Asset Measures					
Cash balances ratio (as % total income) (Annualised)	44.4%	1.6%	16.3%	15.6%	
Net Current Assets / Income ratio (Annualised)	1.95	(0.03)	0.15	0.12	
Fixed Assets Measures					
Property value per pupil (period)	£29,252	£105	£10,802	£11,191	
Other Fixed Assets value per pupil (period)	£5,680	£12	£721	£436	
Capital expenditure in period (period)	£15,366,555	£204	£1,008,231	£227,000	
Capital expenditure per pupil (period)	£13,333	£0	£630	£128	
Fixed Assets depreciation rate - Property (Annualised)	9.4%	0.3%	1.9%	1.8%	
Fixed Assets depreciation rate - Other Fixed Assets (Annualised)	35.5%	2.7%	17.4%	16.7%	

Benchmark Analysis Data: Regional Breakdown

	All Academies			
	Highest	Lowest	Average	Median
Total income per pupil				
East	£16,893	£4,367	£7,245	£5,553
London & South East	£38,937	£2,310	£7,142	£5,340
Midlands, West & South West	£31,959	£3,744	£6,148	£5,454
North	£39,295	£3,802	£7,121	£5,776
Total staff costs per pupil				
East	£14,486	£3,525	£5,905	£4,263
London & South East	£30,823	£1,983	£4,763	£4,084
Midlands, West & South West	£30,846	£2,932	£4,647	£4,175
North	£29,054	£2,290	£4,810	£4,293
LGPS Deficit per pupil				
East	£4,905	£365	£1,929	£1,863
London & South East	£5,158	£170	£560	£1,014
Midlands, West & South West	£43,925	£131	£2,231	£1,922
North	£26,460	£120	£1,964	£1,381

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We would welcome the opportunity to meet you and discuss your school and your accounting requirements.

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