Academies Benchmark Report

KRESTON GLOBAL

2023

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Introduction:
2023 Academies Benchmark Report

Pam Tuckett
Chair - Kreston Academies Group

Partner and Head of Education
Bishop Fleming LLP

Welcome to our 2023 Academies Benchmark Report. This year the report includes over 320 Trusts representing over 2,400 schools.

This year we have further enhanced the data to include some of the largest MATs that are non-Kreston clients in some of the benchmarks. We have done this to add more depth to the MAT data. Where this is relevant, we have included reference to it in the graphs and narrative.

Whilst the financial position of the sector may not indicate a tough year, it continues to be a challenge running a school, with no let up on the horizon due to a number of external economic factors conspiring against school leaders who are still grappling with the fallout from the Covid-19 pandemic.

The big picture results show that the sector has performed well with another year of revenue surpluses for the year ended 31 August 2022, but this masks a multitude of issues schools continue to face. Overall, at Trust level Secondary SATs and all MATs are showing an in-year revenue surplus with Primary SATs showing a small in-year revenue deficit. However, the picture for MATs is different if instead we consider revenue reserves per pupil which have actually fallen by 7.4% from £802 to £743. This is partly as a result of rising pupil numbers in Secondary schools.

The good news from last year continues and we have again seen a further drop in the number of Trusts in a cumulative deficit position down to 0.6% (3.8% at 31st August 2021). The number of Trusts with an in-year deficit remains at 19%.

Just as schools are beginning to make some inroads into the aftermath of the pandemic, the new financial challenge of a huge increase in energy bills and high inflation for all other costs has hit the sector hard. Budgets have been revisited many times since the submission of the BFR in July 2022 and school leaders and Trustees are extremely worried about the impact of this on the long-term financial sustainability of their Trust. Added to this there is continued pressure on non-teaching staff salaries due to competition from the commercial sector.

The growth of MATs has resumed to the levels we saw pre-pandemic, with each MAT growing to an average of 11.2 schools up from 7.5 last year based on our data set, although the sector average is lower at 7.3.

There has been a catch up on capital spend of 30% compared to the year ended 31st August 2021. Trusts struggled to spend capital grants last year as they emerged from the pandemic, due to demands on the construction industry outside the school sector.

Once again the sector enters the next academic year facing new risks and challenges, but I am confident that Trusts will find their way through these difficult times and will emerge even stronger.

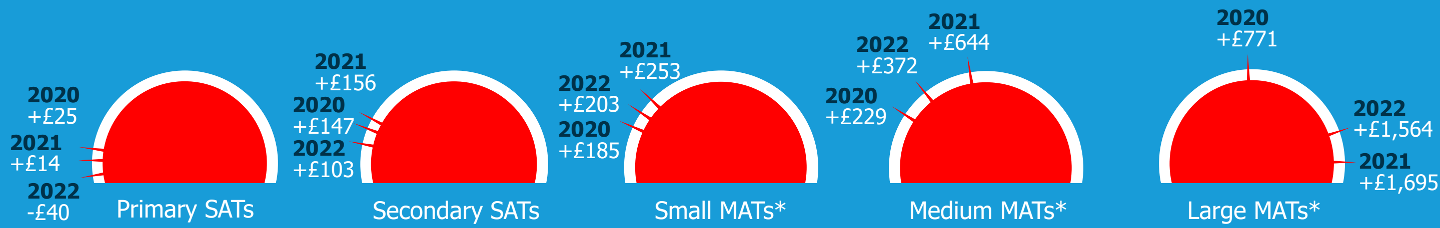
Key Highlights:
2023 Academies Benchmark Report

Our 11th annual survey of over 320 Trusts representing over 2,400 schools has once again reported surpluses, but not quite at last year's record highs. These surpluses plus the £2.3billion financial support announced by the Chancellor in the Autumn Statement last year will provide some relief with short term costs, but with Trusts grappling with inflationary pressures and soaring energy costs on the horizon, being able to budget with any confidence remains a headache. Here are the highlights...

Financial performance

Although the sector has performed well with another year of revenue surpluses, this masks a multitude of issues schools continue to face. Our breakdown shows that a significant proportion of Single Academy Trusts (SATs) in the Primary sector have reported in-year deficits for 21/22 compared to Large MATs* that are faring far better financially. (£000s):

In year surpluses have slipped backwards from last year across the board.



MAT growth
MATs have grown to an average of 11.2 schools from 7.5 last year based on our data.

Increased income
Average total income per pupil (£) has increased across Primary SATs, Secondary SATs and MATs.

More GAG Pooling
23% of MATs are GAG pooling in 21/22 compared to just 14% last year.

70% → 92%

70% of MATs who responded expected to grow in 22/23, up from 65% last year with 92% expected to have grown by the end of 23/24.

55%

Over half of Trusts are now fully centralised.

Trust deficits

8.2% 2019
5.4% 2020
3.8% 2021
0.6% 2022

The number of Trusts showing a cumulative deficit position has dropped for a fourth consecutive year.

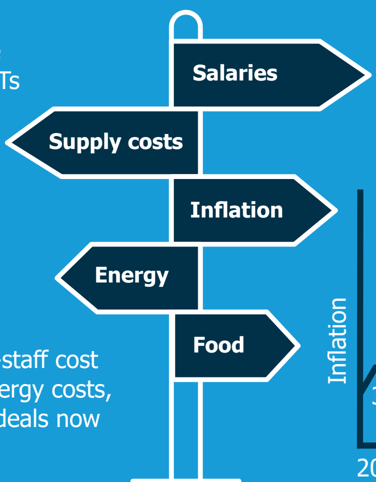
But...

£££££££

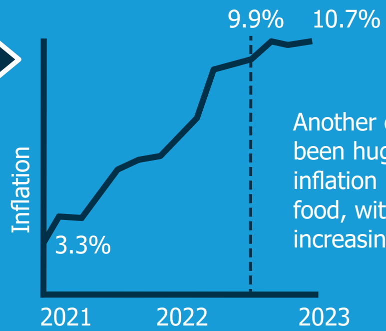
Trusts may appear to be in good health but the cost of living crisis has affected us all, and the Academy sector is no exception. The sector is seeing inflationary pressure on all costs, in particular salaries and uncertainty around rising non-staff costs.

With high demand and shortages, supply cover costs will increase further, with Primary SATs reporting a staggering increase, up 76% from 20/21.

The most worrying non-staff cost for the sector now is energy costs, with many fixed priced deals now coming to an end.



Payroll is by far the largest cost for the sector so it is unsurprising that one of the greatest concerns for budgetary planning for Trusts was uncertainty around pay rises and inflation.



Another cost that has been hugely affected by inflation is the cost of food, with food prices increasing by 14.5%.**

* Small MAT: Fewer than 3,000 pupils | Medium MAT: 3,001 to 7,500 pupils | Large MAT: More than 7,500 pupils | ** Statista, September 2021 to September 2022.

Reflections & Future Trends

A year ago Trusts thought they could return to delivering the best education possible, but new challenges have surfaced that could not have been predicted.

Political volatility

It seems that the political environment has been at its most unstable since the start of the new Academy sector in 2010. With changes in both Prime Minister and Education Secretaries over the last year, it is no wonder that Trust leaders are more concerned than ever before about the future of the sector. Combine this with uncertainty about which political party will be in power after the next election and it is difficult to recall a more volatile period for the sector.

We had a mini Budget at the end of September 2022 that was effectively reversed 3 weeks later, and we now have an indication of how the current government intends to address the issues in the economy with the tax burden rising to a 70-year high, some of it through frozen allowances.

There is no avoiding the problem of the large hole in the public finances that needs to be plugged. We have already seen U-turns on the support for energy costs and the off-payroll worker rules, plus the reversal of the National Insurance increase of 1.25%. If the economy continues to slow, we might see even more U-turns in the Spring Budget. And all this volatility impacts not only Trusts but their staff and the businesses transacting with the sector.

> **"The single most important reason why I came into politics: to give every child the highest possible standard of education.**

However, we should be encouraged by the Prime Minister's speech on 4th January 2023 when he referred to education as: "the single most important reason why I came into politics: to give every child the highest possible standard of education." So perhaps we can take some comfort from this when looking at the future.

Financial sustainability

We have said for many years that the best way to help Trusts become financially stable is to provide certainty over income and costs well in advance, so that accurate budgets can be prepared and difficult decisions can be made as early as possible.

For the first time since we started this benchmark report, nearly all Trust leaders have expressed serious concern over the future financial position of their Trust. It has risen to become the top risk on most risk registers.

A key element of uncertainty is unfunded pay reviews and this year saw the biggest rise in pay in the last 10 years with the 5% average increase being initially unfunded.

Some good news came in the Autumn Statement when an extra £2.3bn was announced for schools which eased the pressure on budgets and demonstrated the commitment to the sector.

The Chancellor also announced in his Autumn Statement Speech on 17th November 2022 that "British families make sacrifices every day to live within their means and so too must their government". Trusts will need to consider the impact of this on their financial position. It is possible there may be no further funding increases in real terms for the sector, so in order for Trusts to ensure they are financially sustainable, they need to start taking a different approach to budgeting. Trusts already budget for the worst-case scenario and now is the time to have a real action plan in case this becomes a reality.

Around 5 years ago many Trusts started to make the move to a more centralised operating model to enable efficiencies to be found. This stood many Trusts in good stead during the pandemic. Trusts now need to build further resilience which will involve going back to basics and understanding the minimum income needed to run the Trust. In the commercial world businesses will cut their cloth according to the amount of income they receive, which might mean re-engineering how things are done, and Trusts must do the same.

Businesses cannot spend reserves they do not have and Trusts should be taking the same approach as there is no guarantee of any further financial support. Trusts will need to be brave and may have to make tough decisions.

Those Trusts with a CFO with commercial experience will no doubt be ahead of the game in this respect, and should share their knowledge and experience with other Trusts.

We know from talking to our clients that there are further operational efficiencies that can be made across the sector. These must be tackled head on to ensure that the sector is not demanding more than its share of the public purse than it needs.

In order to ensure financial sustainability we need to put innovation at the heart of education, both in the way we deliver education and in the acknowledgement that the jobs of the future may look different to the ones of the past. Schools need to spread a culture of creative thinking to enable things to be done differently. This has been difficult in the past as Trusts have not had the funding to pioneer research and development, but as Trusts become stronger there is opportunity for new partnerships to enable better planning for the future. If the regulatory framework stifles innovation, then Trusts should challenge this at the highest level.

Education and wider society

We are seeing the biggest level of unrest in the public sector for a long time, with strikes in many public services. In schools this has a direct impact on budgets through the need to use more supply staff. Add this to the existing pressure on public services and it is a challenging time for the government in dealing with these issues.

Education is no longer as simple as running a school. The sector is being faced with many other societal issues and schools play a much wider community role. The recovery from the pandemic is much wider than simply getting children’s education back to pre-pandemic levels. Schools are now grappling with major issues such as mental health for older pupils and poor communication skills for younger pupils, to name just two. If schools are unable to fully address these issues, and they are not picked up by any other public service, then we are storing up problems for the future.

Whilst the government still has a focus on its levelling up agenda, we may well see more strain on the justice system and the health care system, if adequate resources are not given to the education sector to address these issues. We know there is a major issue with pupil attendance and if this is not dealt with quickly, it could have big implications for society in the future. We already know that the hard-to-reach families are often left behind, and there are an increasing number of pupils with an Education Health and Care Plan (ECHP) which means local authorities are struggling to keep up with demand for their services.

But there may be some light at the end of the tunnel. Rishi Sunak recently stated we need to change the way our country works, and he held out state schools as a shining example of delivering excellence. He wants the ethos and excellence of the school sector to become the animating spirit of our nation. So he has laid down the challenge and the sector is well prepared to rise to it. Now is the time for schools to lead and show other public services the great work they are doing, including how they are realising efficiencies and improving service delivery in order to benefit society.

> **“For the first time since we started this benchmark report, nearly all Trust leaders have expressed serious concern over the future financial position of their Trust. It has risen to become the top risk on most risk registers.”**

Authors & Contributors

Executive Author

David Butler

David is a Partner and the Head of Charities and Not for Profit sector at Bishop Fleming LLP, who advise over 1,200 schools in around 170 Academy Trusts, and audit the largest number of Trusts in the country. He has been involved with education benchmarking for over 15 years and has co-authored this report for 10 years, leading Bishop Fleming's team of authors. David uses benchmarking to help his clients to identify ways in which they can improve their financial performance, and to use this information to formulate their strategic planning. David advises over 20 Academy Trusts and independent schools, at all stages of their development - from single unit Academies, to large and rapidly growing MATs.

Authors

Chris Beaumont

Chris is a Partner with Clive Owen LLP and is Head of their Not for Profit department, which has worked with Academies for over 16 years. The firm acts for over 400 Academies in over 70 Academy Trusts across the North East and Yorkshire. He has co-authored this report for the last 11 years. Chris is a Trustee and Chair of the Finance Committee at a Multi-Academy Trust and has delivered numerous seminars at National Association of School Business Managers (NASBM) and Schools North East (SNE) events.

Rachel Barrett

Rachel Barrett, Director and Head of Academies at Duncan & Toplis, leads the specialist team that supports Academies, Multi Academy Trusts (MATs), special schools, and free and independent schools across the East Midlands. Outside of work, Rachel has sat on the Governing Body at a local Academy Trust for over 8 years and sits on the Lincolnshire Schools Forum representing Secondary Academy Governors.

Contributors

Philip Allsop

Philip heads BHP's Academies team which acts as external auditors and advisors to over 30 Academy Trusts, most of which were MATs on 31 August 2022. He has 5 years' experience as a school Governor and is Chair of its Finance Committee. His other clients include a range of charities, social enterprises and commercial organisations.

Philip Griffiths

Philip is a Partner at Mitchell Charlesworth and has over 30 years' experience. He specialises in the Charity, Not for Profit and Social Enterprise sectors and a significant element of his client base is in these areas. Philip is also one of the two lead partners of the Academies team, having assisted many education clients through the conversion process and beyond. He is a member of the ICAEW Charity and Voluntary Sector Group and the ICAEW Audit & Assurance Faculty. Philip was until recently a Trustee and Company Secretary of a local charity and holds the ICAEW Diploma in Charity Accounting (DchA).

Darren O'Connor

Darren is Head of James Cowper Kreston's Academies team, and works with a wide range of Academies and MATs across the South of England. Darren's clients also include independent schools, other charities and corporate entities.

Peter Manser

Peter is Partner and Head of Academies and Education at Kreston Reeves. Peter and the team have a great deal of experience advising Academies, MATs and independent schools. Peter also holds the ICAEW Diploma in Charity Accounting (DChA).

> "The recovery from the pandemic is much wider than simply getting children's education back to pre-pandemic levels. Schools are now grappling with major issues such as mental health for older pupils and poor communication skills for younger pupils to name just two."

Section 1: Financial Position

Every year before we start writing this report we worry that there won't be much to talk about. Is there enough going on in the Academy sector to fill a whole report with new information and commentary? There must be a 'dull' period every once in a while where the sector can take stock and effectively plan for the future. Well, 2022 was not that year!

So much has happened since the beginning of the 21/22 academic year that it is hard to know where to start. The year commenced on a very positive footing. Schools were fully open, children were back learning in person, exams were going to take place, and there was a wave of optimism sweeping the country after we had all been able to finally head off to the sun after two years of postponed holidays.

However, the academic year ended in a period of economic and geo-political uncertainty that few had predicted, with doubt over future funding, worries over budgets, staffing shortages, and soaring inflation. And the changes have continued since then.

It is easily forgotten that Gavin Williamson was the Education Secretary at the start of the 2021 autumn term. He was followed for 293 days by Nadhim Zahawi, which now seems like a long term appointment, with his successor, Michelle Donelan, only lasting 2 days. She was followed by James Cleverley then Kit Malthouse and now we have Gillian Keegan. This rate of turnover has meant there have been no significant changes to the education landscape, however changes in the wider world have had a major impact.

The reopening of the world after the pandemic has had some fundamental effects. The demand for fuel sharply increased, pushing up costs; the labour market became much tighter as people retired or decided to stop working; government borrowing increased significantly threatening future spending; and these have all been exacerbated by the war in Ukraine.

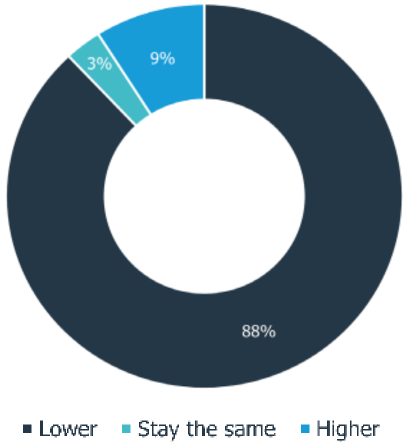
All of these factors have weighed down on Trusts and their view on the future. The conversations that we were having with our clients towards the end of the academic year reflected this pessimistic financial outlook. Many Trusts were considering the changes that would need to be made to ensure financial sustainability (according to the National Audit Office (NAO), a Trust is financially sustainable when they successfully provide a good-quality education to all their pupils within the income that they receive). Many Trusts felt that the educational provision would suffer, and so 'good-quality' could not be guaranteed with the current level of income.

The precarious financial position was highlighted by the output of the 3-year Budget Forecast Return (BFR) process. Furthermore, the BFR had to be completed at a time when there was no clarity over teacher pay rises. The deadline this year was 26th July 2022, and with schools having broken up by 22nd July almost all Trusts submitted their BFR before the end of term. The budget processes were started some months before this to ensure that there was adequate chance for them to be prepared and scrutinised and then to obtain board approval. This would have been done based on the information that they had at the time.

The DfE then announced the teacher pay rises on 19th July 2022, so far too late to include in the BFR. It would be something of an understatement to say that the timing of this announcement caused some frustration! Additionally, the magnitude of the pay rises was greater than most Trusts had anticipated and therefore their BFR was out of date even before the deadline had passed.

The BFRs were painting a picture of a sector that was struggling to live within its means. When we asked our clients what they thought would happen to their reserves over the next 3 years, 88% were expecting them to decline.

Survey question - Based on your three year budget, are your total revenue reserves at the end of year three predicted to be...



The larger pay awards announced then put the budgets under further pressure, and so decisions that would have been taken based on the original budget needed to be revisited. Many Trusts then started a process of reforecasting to ensure that they understood the impact of the change - which was significant. The BFRs that were already showing a tight position over the next 3 years were then superseded by reforecasts that were showing an even bleaker position. More Trusts were then forced to consider the need to make structural changes to balance their budgets.

This financial position prompted a number of news articles in autumn 2022 bemoaning the state of Academy finances and highlighting real term cuts in funding. The Education Policy Institute (EPI) highlighted that "Under the current school funding settlement, per-pupil funding in 2024 will be around 3% lower in real terms than in 2010, equating to £1.8 billion less."

The Association of School and College Leaders (ASCL) were much stronger in their views. Their headline was "Survey reveals devastating cuts facing schools and colleges." They then went on to highlight the survey results that said 98% of respondents said they would need to make financial savings in current or future years to balance budgets, 58% saying they would need to reduce teacher numbers and 55% saying they would need to reduce support staff.

This was backed up by findings from the Confederation of School Trusts (CST) which concluded that as a result of "higher-than-expected, unfunded pay offers for staff, spiralling energy costs and inflation" that more than half of Trusts in England could fall into deficit within two years without additional financial support. Data published by the National Education Union on its school cuts website predicted 90% of schools would have lower per pupil funding in real terms in 23/24, compared to the current financial year.

All of these headlines were consistent with the conversations we were having with our clients, so the financial outlook was pretty grim. However, many Trusts paused their restructuring plans as expectation grew that the government would have to provide some support to the sector to avoid large numbers of Trusts running out of reserves. The Autumn Statement in November 2022 brought this relief.

£2.3bn of additional funding was announced by Jeremy Hunt with the intention of bringing real-term funding levels back to the 2010 levels, and plugging the gap highlighted by the EPI. The government stated that this would equate to £1,000 per pupil by 24/25. Given that the Chancellor had created an expectation of public sector funding cuts, this increase was a welcome surprise, but will this be sufficient?

The response of Trusts has been a sigh of relief rather than a celebration because they are still having to deal with energy costs, inflation and next years pay rises. These are all uncertain and so we will have to wait and see whether the increase will be enough. However, on balance the increase has been positively received. It is important to note, however, that this additional funding kicks in for the 23/24 academic year, and so does not provide any assistance for the current academic year.

Given the data available and the relatively high level of free reserves that were held, the sector as a whole could have been squeezed for a year without doing any significant financial damage. However, without better visibility of future income the risk was that Trusts would have to start making plans to restructure, and amend the education provision to balance their budgets. Any changes made could have long term consequences for the sector, impacting its ability to maintain the quality of education.

The lead time for any changes to be made in the education sector is a long one due to the employment arrangements – Trusts cannot make a decision to change staffing levels and expect cost savings to instantly materialise. Therefore, it is important that the government can provide some clarity over income levels for at least 12 months into the future, but preferably for longer, to allow Boards to make informed and timely decisions. The funding announced in the Autumn Statement went some way to providing this information, but the timing was exceptionally tight to be of use – and it doesn't help in the current year.

So, as you have read, it really has been quite a year and, as we will discuss next, the financial results were not quite what we were expecting.

Before we delve into the detail it is worth explaining how we measure financial performance.

How we measure financial performance

We understand that Academy financial statements are not the easiest document to interpret. It is very difficult to identify any number in the financial statements that highlights the true financial performance of a Trust, and so they can give a very distorted view. Consequently, it is worth explaining how we measure it for the purposes of our analysis.

Example	£'000
In-year deficit for the year from the SOFA	(600)
Add back depreciation	800
Add back pension service charge (less contributions)	400
Deduct non-recurring income e.g. capital grants, transfers on conversion	(150)
Adjusted in-year surplus/deficit for the year	450

We seek to identify the underlying surplus or deficit of the Trust after adjusting for items that distort the result, being non-cash and one-off items.

We then compare this result to the movement in free reserves as the two numbers should be the same, if all one-off items have been identified. We consider the movement in free reserves to be the most reliable way to identify the true financial performance of a Trust. This movement in free reserves is often referred to as revenue reserves.

Given all of the uncertainty discussed above you would be forgiven for thinking that this would have been a challenging financial year for the sector, but how wrong you would be. Although we are now entering a period of financial uncertainty and rising costs, the 21/22 academic year from a purely financial perspective has been very successful, and for some Trusts the best year they have ever achieved. However, there is a lot of variation and some interesting trends.

Average in-year surplus/deficit (£'000)

	2020	2021	2022
Primary SAT	25	14	-40
Secondary SAT	147	156	103
Small MAT	185	253	203
Medium MAT	229	644	372
Large MAT	771	1,695	1,564

The data above shows (which includes non-Kreston data within the Large MATs for 2022) that all Trusts have made surpluses with the exception of Primary SATs. The surpluses are not quite as high as last years record levels but they are fairly consistent, and it is the Large MATs where the surpluses are closest to last year - the Large MAT surplus is only 8% lower than 2021. Our interpretation of the data is that this is directly related to capital spend, and this is discussed further below.

These strong results are also driven by a couple of other factors: higher income, which is explained more fully in section 4, and; lower costs than budgeted due to difficulties in spending the funding received – although the spend has increased compared to the last 2 years.

We have had numerous conversations with our clients throughout the year where they were struggling to fulfil their plans. There were challenges recruiting staff to fill posts, difficulties in finding contractors to complete projects and also some issues in buying products and supplies.

This meant that expenditure was lower than planned for the first half of the year. In the second half of the year, as economic and political uncertainty became ever greater, many Trusts became more cautious and so reduced spending to provide a financial buffer. The impact of these two issues meant that total expenditure was significantly lower than budgeted and surpluses were higher.

Good as the results are, they would have been even better had the lockdown years not limited the ability of Trusts to spend their budgets. As a result, there has been an element of catch up in the current year with substantial amounts of GAG funding being used to fund capital and maintenance projects. This has been magnified due to the CIF rules rewarding larger contributions from Trust funds – and further changes in the 23/24 rules will reward even larger contributions.

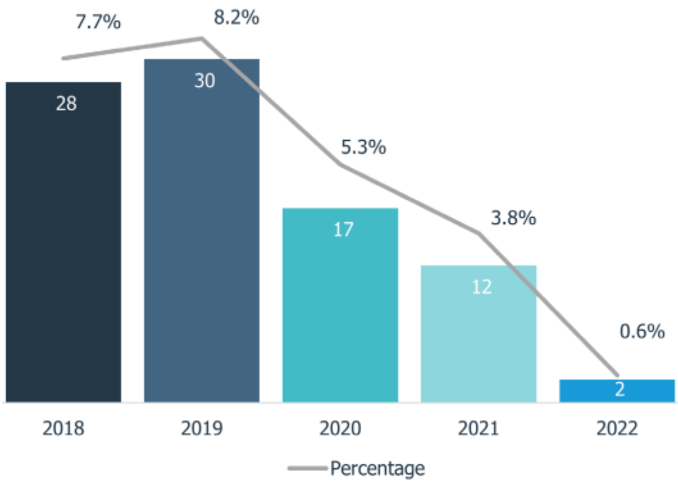
It is interesting to note in the table above it is the Large MATs that have performed closest to 2021. All Trusts in this band would be receiving School Condition Allocation (SCA) so do not have to use their GAG to match fund CIF bids, thus giving them more control over revenue.

It is only Primary SATs that are showing an average in-year deficit, and the impact of capital expenditure can be seen very clearly in this category. There are a number of outliers in this section of data with large in-year deficits. In all instances they have been using GAG to pay for capital and maintenance projects. In some cases this is the catch up mentioned above, in some there was a conscious effort to spend free reserves, and we also have examples of Trusts spending their reserves prior to joining a MAT to reduce the risk of losing them. If these outliers are excluded then the Primary SATs also make a surplus.

We have had many conversations with our clients of all sizes where they have been conscious that their free reserves have been higher than they were comfortable with and so they have been actively looking for projects to spend them on (and this is not unique to Primary SATs). This has ensured that more money is being spent on the current pupils, but whether the money is being spent as wisely as it could is up for debate. In a desire to try and reduce reserves, perhaps not all spending decisions have considered the long term.

The continuing run of positive financial years, we have now had four years of surpluses in a row, has also helped to rebuild Trust finances and we now see less than 1% of the Trusts in our data having cumulative free reserves deficits, compared to over 8% pre-pandemic.

Percentage and number of Trusts with a cumulative free reserves deficit

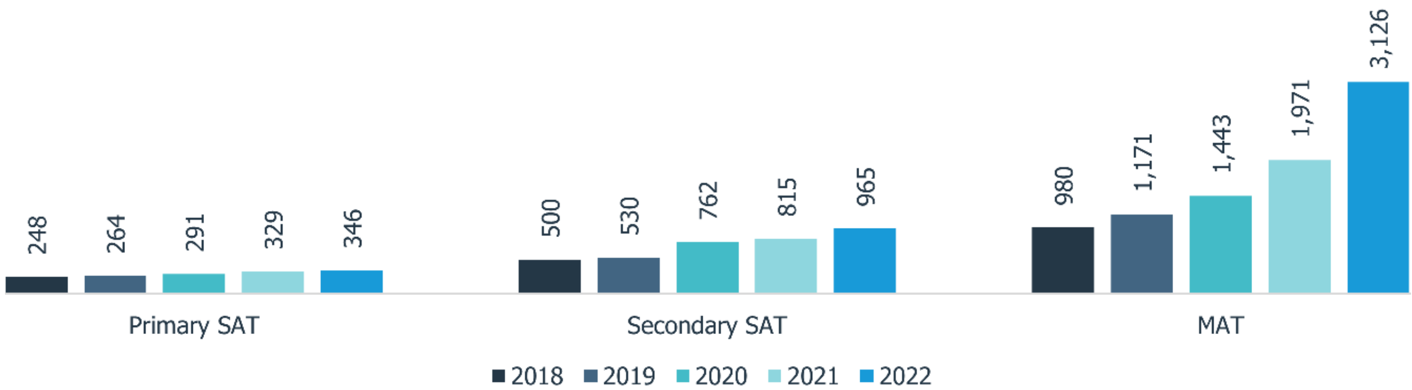


There is now a huge dichotomy between the current financial position this graph highlights and the outlook for the future - which shows just how fast things can change. The future challenges are particularly acute for Primary schools as falling pupil numbers start to come through the system. We have already seen many Primary schools having to restructure to allow for fewer pupils, and therefore income – albeit Covid-19 funding has provided some protection – but the position will get tougher. According to the ONS the numbers attending Primary and nursery schools peaked in 2019 and have been falling since then, and are predicted to continue falling for at least the next 6 years. By this time numbers will be 12% down on the peak.

The current position is very different though and suggests a financially robust sector. The large in-year surpluses have also driven increases in the level of free reserves held, as can be seen from the next graph.

It is worth noting that the movement in average free reserves do not exactly match the average in-year surplus shown on page 12 due to Trusts joining or dropping out of our data set. This includes Primary and Secondary SATs joining MATs and the additional Large MATs we have included this year. The conclusion is clear though, free reserves have continued to rise, with many Trusts having substantial reserves.

Average free reserves (£000's)



Section 6 discusses reserve policies in more detail, but the overall position is that free reserves remain at a consistent level of total income, reflecting higher income, at 10.6%.

We discussed in our last report the implication that if Trusts are holding free reserves in excess of 20% of their income then this could be considered excessive – this benchmark has now become widely accepted. Both the NAO and the Public Accounts Committee have recommended that the ESFA provides information on Trusts holding free reserves that are more than 20% of their income – so reserves above this level will be subject to scrutiny. As at the end of the year this figure has now been breached by 11% of Trusts within our data. If this is extrapolated across the sector it would suggest over 1,000 Trusts have reserves that the ESFA would consider to be too high. Consequently there are a significant number of Trusts that need to be thinking about how to spend or designate their funds.

So, in summary, the year has been one of relative financial success, with most Trusts building up their reserves to protect them from a period of great uncertainty. Government action since the year end has provided a little more clarity to help with future planning, but very few Trusts will feel that the future is anything other than hugely uncertain – and although they have been predicting falling reserves for a number of years this time they really mean it!

> "There is a now a huge contradiction between the current financial position and the outlook for the future - which shows just how fast things can change. The future challenges are particularly acute for Primary schools as falling pupil numbers start to come through the system."

Section 2: Governance

In today's landscape, Trusts can no longer be seen as "just schools". They are multi-million pound businesses (albeit charitable organisations with the purpose of advancing education) and are accountable for every penny of public funds, to do the best they can with the money for the young children and students in our education system.

School leaders and Trustees have a responsibility to do as much as possible to support and educate our young people to avoid storing up a problem for the future of our society. Decisions made at Board level are potentially life changing. Trustees need to know that these decisions are based on accurate information and they should seek external support to ensure this is the case. Internal Audit can form part of assurances to Trustees, and the use of this is covered in section 7. Boards need to be able to answer the question "how do we know…." to ensure they do the right thing for our children, our Trusts and the future.

Trusts as Anchor Institutions?

With the recovery from the pandemic continuing to highlight long term needs for young people, the complexity of educating children in our schools is challenging. We hear from our Trusts that children are coming into schools with more complex needs than previously. Younger children coming into Primary school with the most basic of developmental gaps from hard-to-reach families, and the support beyond schools appears to be struggling to meet society's current needs. Older students need support with mental health, behaviour, attendance; all significant issues to tackle. Trusts are under pressure in many ways other than traditionally perceived education providers. They have an important role in supporting (and feeding) young people in the school day.

The term "anchor institution" is not new but calls for schools to be recognised as such from the Confederation of School Trusts (CST) reflects the importance of our Trusts in wider context.

Priorities

The National Governance Association (NGA) reports that Trusts acknowledge that balancing the budget is the top challenge and this is coupled with the strategic priority of meeting the needs of the curriculum, attainment, SEN and pupil & staff wellbeing.

Top challenges facing Trusts*

1. Balancing the budget.
2. The attainment of disadvantaged children.
3. Staff wellbeing including workload.
4. Improving attainment.
5. Support for pupils with special educational needs.
6. Covid-19 recovery.

Top strategic priorities for Governing Boards*

1. Ensuring a broad and balanced curriculum.
2. Improving attainment.
3. Support for pupils with special educational needs.
4. Pupil mental health and wellbeing.
5. Staff wellbeing including workload.
6. Ensuring best use of resources.

Trusts are required to run with the same focus on efficiency and output as a commercial business, with eyes on financial efficiency, culture, strategy and forward planning, based on reliable information. The output from our Trusts is a life chance for every child in our schools and the responsibility on Trustees to hold leaders to account for this is significant. The aftermath legacy from Covid-19 means that children are coming into our schools with a larger raft of challenges to be addressed, with little/no extra funding in real terms. Yet the educational disadvantage is real.

Just as the paid leaders and executives within our system have layers of responsibility and accountability, the layers of governance within Trusts is the same. Each has a very important part to play and as Trustees the weight of the role is compounded by the moral duty of being unpaid volunteers.

Little wonder then, that within our clients we see increasing numbers of Chairs of Board, Chairs of Audit Committee and other positions within governance, filled by those with professional qualifications and proven business skills alongside a passion for education. The commercial world bringing skills to support and challenge CEOs and leaders, who we often find have had little or no training for the business side of running Trusts.

The recurring debate on whether governance should attract a fee rumbles on, yet for the first time ever the proportion of people disagreeing with payment for this public service has fallen below half (45% per NGA survey 2022).

Diversity within Boards

To be effective and make the best decisions, Boards need to be informed with quality information, have the right skills, and have diverse backgrounds, experiences and perspectives. True diversity stimulates good discussion and allows the evolution of thought.

The NGA survey reports that from the respondents, the number of Governors and Trustees under the age of 30 remains at 1% and, for the first time more than half of volunteers are 60 years or over.

With such an ageing population of governance, the future of Trust Boards needs to include youth, with fresh ideas, encourage commitment and "giving back". The opportunity these vacancies afford is to reach out to under-represented groups. While some Boards are successfully recruiting members from under-represented groups, there is still much work to be done to ensure that governing Boards are representative of the UK and school communities.

The number of governing Board vacancies is reported to be at its highest rate since 2016.

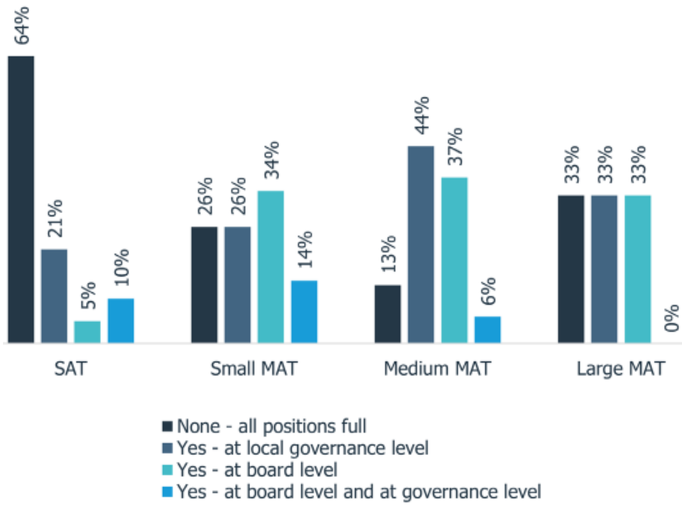
Our own survey has reflected that Board sizes remain unchanged once again in terms of numbers, yet with 68% having vacancies at various levels of governance.

Trust Board size

	2020	2021	2022
Primary SAT	11	11	11
Secondary SAT	13	13	14
MAT	9	9	9

Recruitment

Survey question - Do you have unfilled governance places?



The sector does not hide the fact that recruitment is a real challenge. The process of recruitment is showing signs of becoming more robust in our experience and increasingly interviews are carried out to recruit Trustees and Governors. The more traditional routes for recruitment such as word of mouth, are being supplemented by wider advertisement, akin to a staff vacancy, and the legacy benefit of offering accessible attendance (virtual) also helps to widen the net.

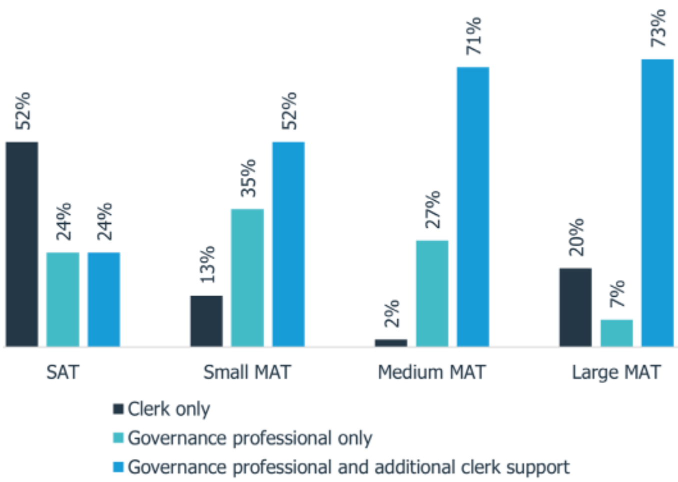
We are seeing a positive shift in recognition of separation within layers of governance as MAT structures are evolving. The NGA reports that 76% of Trustees no longer have another role in the Trust, up from 71% in 2021. This marks a big shift from 2018 when only 21% said they had no other role. So we are seeing more Trustees holding no other roles within the Trust which helps to ensure there are no conflicts of interest at Trust Board level.

Governance professionals

We see Trust Boards seeking external advice and guidance on an increasing range of complex areas such as macroeconomics, risk management and even recruitment. Helping the Board with its own practice and assisting identification of when to seek advice falls within the remit of the governance professional. These important paid staff are increasingly present in Trusts today and our survey evidences that MATs in particular have recognised and embraced the roles. Not simply minute takers, the role can make a material difference to governance practice, advising and supporting the Board in procedure, their obligations and responsibilities. SATs remain the largest group who still retain the term/role of clerk.

As you would expect, the larger Trusts have both governance professional and additional clerking support. We are aware of a demand for governance professionals outstripping supply, so it is good to see training and guidance available for those aspiring to the role.

Survey question - Do you have separate roles for clerking and the governance professional?



Strategy

The Education Secretary, Gillian Keegan, confirmed in December 2022 that the Schools Bill "will not progress", and we await confirmation from Ministers on what will be taken forward. We have seen how the White Paper has influenced some strategic decisions with Trusts in terms of growth and change.

Setting the strategy should be a collaboration between the CEO and the Trust Board. Trustees need to be careful to make decisions on the right information, collaboratively with CEOs, avoiding any form of bias, and once set and agreed, strategy should be faceless.

Governance reviews

An external review of governance is good practice every three years, coupled with self-review in between. Although statistics from the NGA show that for the first time over 51% of Boards report they have undertaken some kind of review, only 8% of Boards have engaged with external providers.

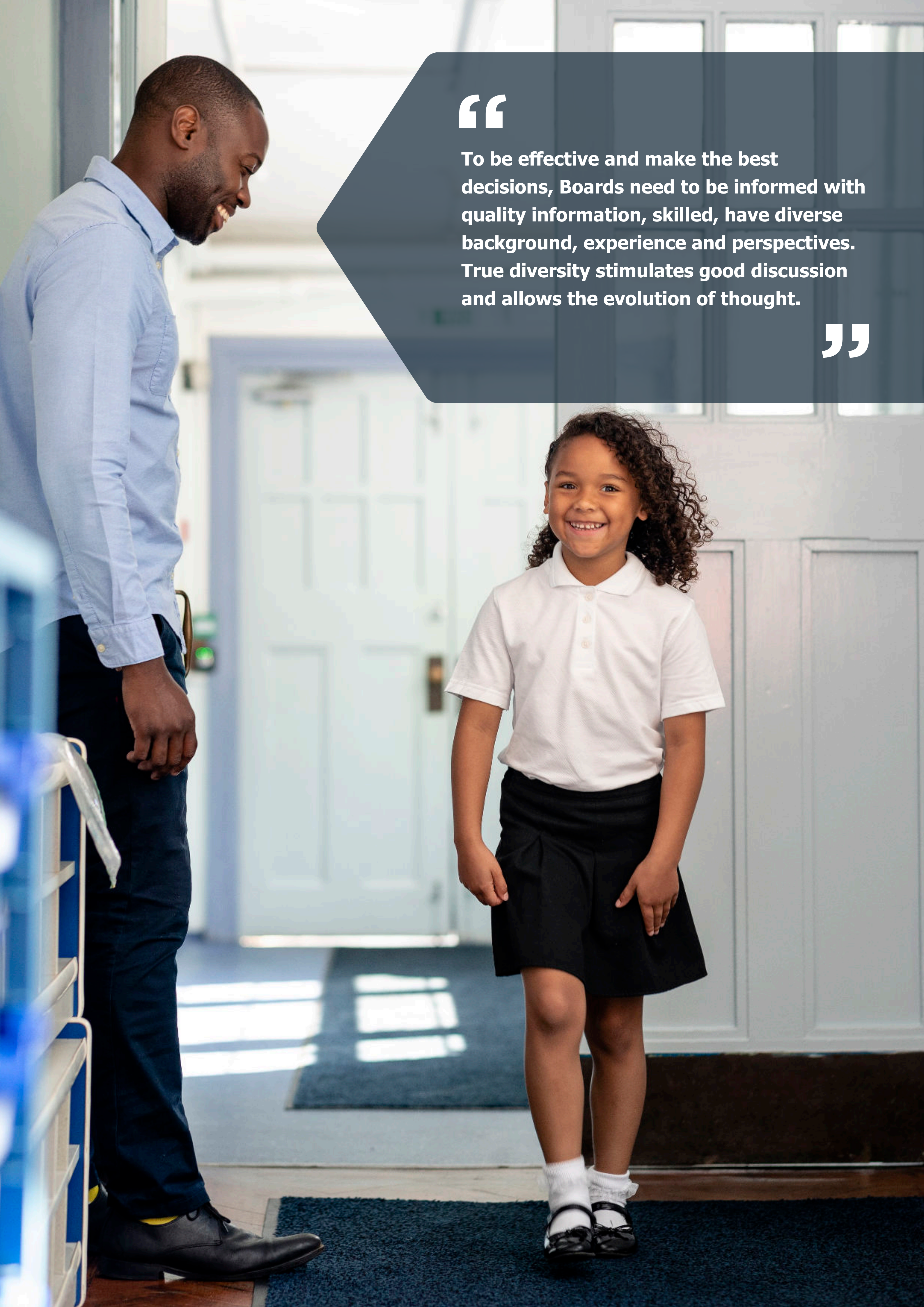
This could be included within Internal Audit plans as part of non-financial assurance.

Given that robust and effective governance is a key part of the accountability system, it is disappointing to see that the approach is tending to be "mark your own homework", rather than a third-party validation of practice, while perhaps highlighting areas for "even better if". To really bring honest evaluation of practice with an open mind, external, independent reviews give the opportunity for greater change. Surely, that can only be a good thing and we would always recommend an external review where there is major change afoot within a Trust, but also every three years to identify, mark and recognise progress.

Members

Finally, the members. It is noted that while the ATH increased the references to members and the role they play, with little detail, the application of the role falls to Trusts' own interpretation. In practice, we see this vary significantly between the two ends of the spectrum from non-existent involvement, to requests for half-termly meetings with leaders and Trustees. Members are a part of the current framework and Trusts need to carefully ensure that their obligations are part of the cycle of governance.

*Additional NGA data sources (www.nga.org.uk) include, The priorities and challenges facing our schools, Governance volunteers and Board practice and Governing in a Multi Academy Trust - reports published September 2022.



> To be effective and make the best decisions, Boards need to be informed with quality information, skilled, have diverse background, experience and perspectives. True diversity stimulates good discussion and allows the evolution of thought.

Section 3: Multi Academy Trusts

MATs continue to go from strength to strength with an increase in the average size and a continued increase in free reserves despite the turbulent year.

In this report, to improve the usefulness of the data, some of our findings have been presented differently to prior years. Given the continued expansion of MATs, we have further enhanced our data as follows:

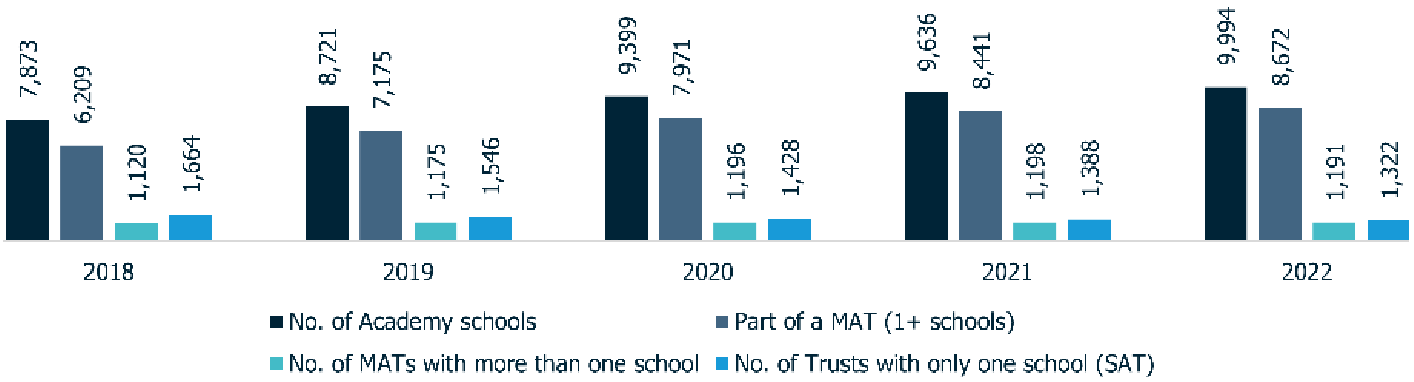
Small MAT - Fewer than 3,000 pupils

Medium MAT - 3,001 to 7,500 pupils

Large MAT - More than 7,500 pupils

For the first year, we have added to our data of Large MATs by including publicly available non-Kreston client data. This has resulted in a further 21 Large MATs being included within our data.

Total number of Academy schools and MATs

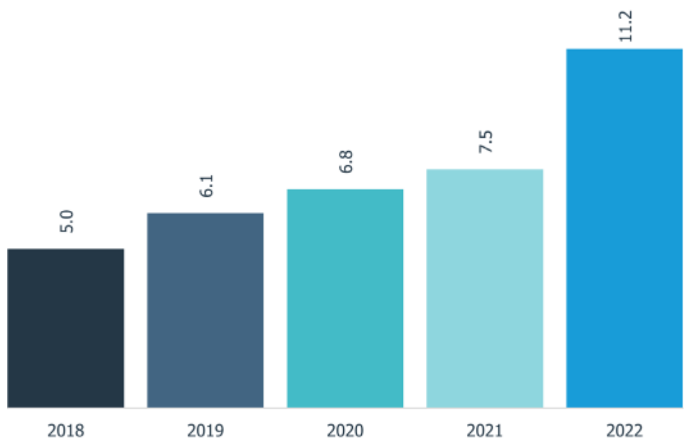


Based on the government published data, as at 31st August 2022 there were 8,672 schools in 1,191 MATs. Whilst the number of schools has grown, is it surprising that the actual number of MATs has reduced slightly? Given the lack of new MATs being formed, the rebrokering we are seeing within the sector, and the decision of some smaller MATs to join stronger MATs, we do not believe it is. It is likely that we have now seen the peak in the number of individual MATs as consolidation within the sector takes place.

The real question, is what will the forthcoming year bring? Finally, in December 2022, after some speculation, the Education Secretary, Gillian Keegan, announced the Schools Bill "will not progress". However, we await confirmation if any parts of the bill will continue to be prioritised. So where does that leave the goal of all schools being part of a 'Strong' MAT by 2030?

Based on verbal client feedback, it seems the sector recognises the benefits of MATs and many SATs are continuing their discussions to join MATs, however, some are clearly waiting on the government to clarify their policy towards Academies and the 2030 target.

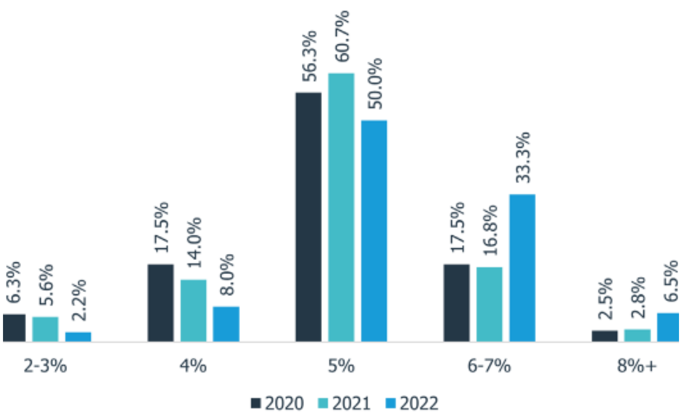
Average number of schools per MAT



As noted previously, given the increase in the number of Academy schools combined with the slight reduction in the number of Trusts, it is expected that the average number of schools per MAT will increase. In 2022 (excluding the additional non-Kreston client data for Large MATs), based on our own data, the average number of schools per MAT increased significantly from 7.5 to 11.2. However, across the MAT sector, based on the government's own data, the average is just 7.3 schools per MAT, suggesting the data within our population is based on larger than average MATs.

Top slice

Top slice as a percentage of income (%)



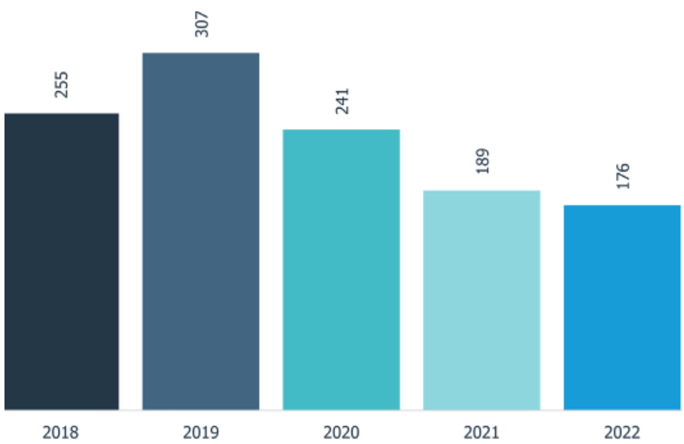
Setting the basis and level of top slice is an emotive subject when talking with clients. Whilst MATs understand the principle of setting a top slice to cover central costs, there is not always a scientific basis on how the percentage has been reached, or a clear rationale why it is appropriate. Many MATs aim to run a balanced budget for central costs, attempting to avoid surpluses or deficits. So, with the increasing inflationary pressures we have seen through 2022, has there been any increase in the typical top slice taken? The graph clearly shows there has been a shift, with fewer Trusts charging less than 5%, but a significant increase in the percentage of Trusts charging more than 5% (income usually refers to GAG but some Trusts include additional income streams). It is difficult to say whether this is solely due to inflationary pressures, or whether this is due to increased centralisation and/or increased investment in the central team. Are MATs offering more centralised school improvement?

Rebrokerage

Rebrokerage is when an Academy moves from one Trust to another. This typically happens when a SAT chooses to join a MAT, or when there is an intervention by the ESFA/ Regional DfE Directors, and a move is mandated. This intervention can be due to either educational or financial failings, or both. The graph below highlights that only 176 Academies (1.8% of open Academies) have moved Trust in 21/22 (year to 31st August 22) and only 23% attracted grant funding, a massive decrease from the peak of 63% back in 14/15. The actual level of funding was £1.73m, significantly down on the £3.16m in 20/21, demonstrating how difficult it is now to obtain funding for these transfers. It is vital MATs carry out effective due diligence before taking on further schools to ensure they will be financially viable.

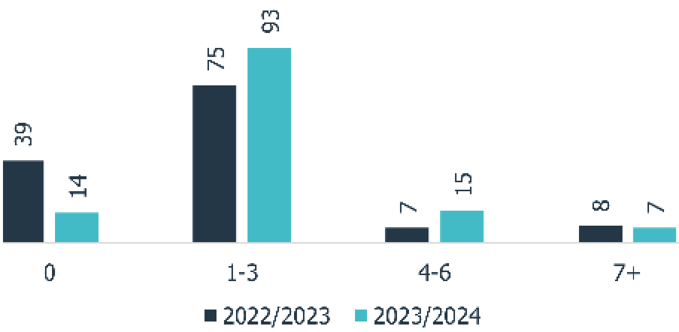
Again we have seen a very low level of forced transfers with only 25 interventions in 21/22 (42 – 20/21), which is surprising given the government's attitude to failing schools. However, it is unclear from the data how many schools have been "encouraged" to join MATs, and have avoided an intervention. With a continued need to improve schools and take action where Trusts are failing, government policy will be key to future trends.

Number of rebrokered schools in 21/22



Growth

Survey question - How many schools is your Trust looking to grow by?



Irrespective of government policy, the verbal feedback from many MATs is they need to grow and are actively looking to grow as they recognise they need a critical mass.

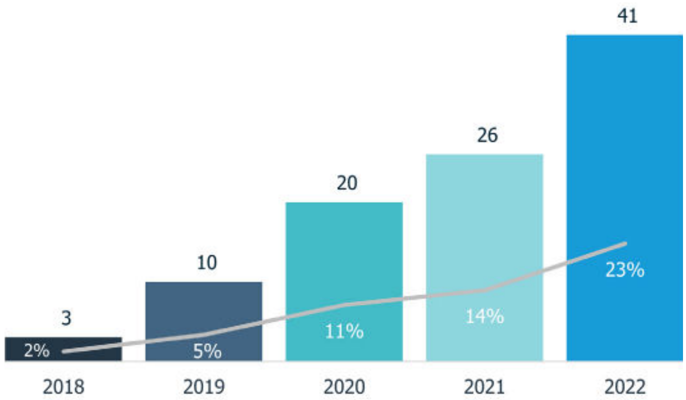
This is supported by our survey results. 70% of MATs who responded expected to grow in 22/23, with 92% expected to have grown by the end of 23/24. Some MATs have significant growth aspirations with over 5% of respondents expecting to grow by 7+ schools in 2023 and also 7+ schools in 2024; that is some growth.

The future appetite of schools to join MATs is unclear. Are there sufficient numbers of Trusts with the desire to join Larger MATs to satisfy the growth aspirations of many MATs? This will become clearer as we progress through 2023.

GAG and reserves pooling

When discussing GAG pooling with MATs there is clearly a degree of confusion still. Some MATs are genuinely pooling income and others are just pooling reserves. For this report, the data below covers any form of income (GAG) or reserve pooling. Pooling is certainly becoming more attractive to Trusts with 23% of our MAT clients now pooling compared to just 14% in the previous year. If you add in the additional non-Kreston client data for Large Trusts, this jumps to 31%.

Number & percentage of MATs GAG pooling



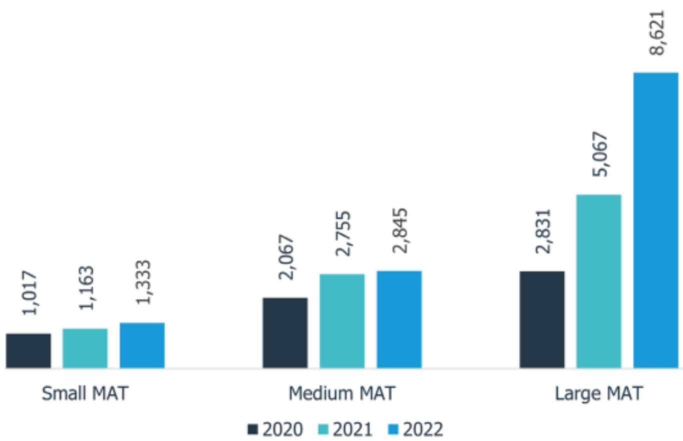
This trend is supported by our survey where 42% of MATs who responded said that they are either currently pooling or actively considering pooling.

MATs	Small	Medium	Large
% Pooling	18%	33%	54%

Free reserves

From a financial perspective, MATs overall have had a very strong year with average free reserves up by 12% on the previous year's average to £2.2m (£3.1m including non-Kreston client data).

Average free reserves (£000's)



This year we can also compare by the size of MAT (including non-Kreston client data):

MATs	Small	Medium	Large
Free reserves per pupil	£747	£694	£685
Free reserves as a percentage of GAG	15.4%	13.5%	13.0%

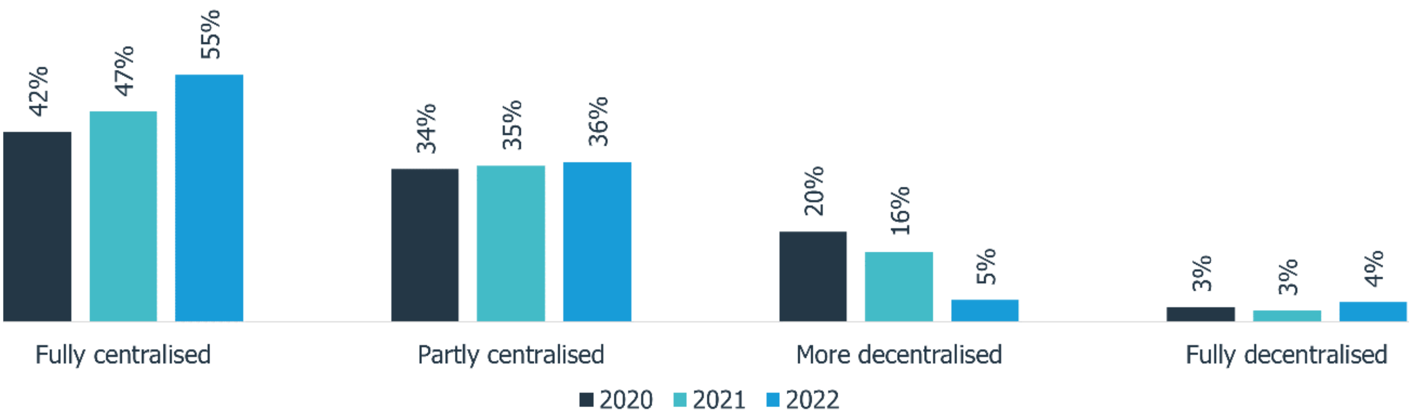
Whilst it is expected that Small MATs may need to retain a higher level of free reserves, given their reduced ability to spread risk, the rate per pupil is only 9% higher than a Large MAT. As a percentage of GAG, again Small MATs are carrying greater free reserves. The table above highlights that the difference between Large and Medium MATs, both 'per pupil' and 'percentage of GAG', is incredibly slim.

Centralisation

In previous years we have seen a slow shift towards centralisation. It is logical that as MATs grow, they recognise the synergies which can be obtained through centralisation and the opportunity to improve control by streamlining processes. Unsurprisingly, this trend has continued with only 9% of MATs being categorised as operating any form of a decentralised model, whilst 55% are considered to be fully centralised. With increasing budgetary pressures, it is likely MATs will continue to seek to maximise efficiencies by increasing centralisation of the finance function and other support services.

MATs	Small	Medium	Large
Fully centralised	43%	57%	92%

Trust centralisation summary



So do the characteristics of a Large MAT differ from a Small or Medium MAT? Based on the above review Large MATs do appear different, they are much more likely to be fully centralised, over 50% are GAG pooling, and their free reserves are much higher in total, which is likely to reduce the need for the ESFA to have to provide additional financial support.

“MATs continue to go from strength to strength with an increase in the average size and a continued increase in free reserves despite the turbulent year.”

Section 4: Income

The core schools' budget in England will receive £2.3bn of additional funding in each of 23/24 and 24/25, enabling schools to continue to invest in high quality teaching and to target additional support to the children who need it most.

Jeremy Hunt, Autumn Budget, November 2022

The last academic year saw very few announcements on funding for the sector, which was surprising given the cost of living issues we are all dealing with. However they have come thick and fast in recent months:

- October 2021 - £1.8bn of Covid-19 Recovery Funding announced, £1bn of which will be paid in the 22/23 and 23/24 years.
- September 2022 – Energy Bills Relief Scheme, automatic deduction on energy bills for eligible Trusts for six months with a maximum discount of £345 per MWh for electricity and £91 per MWh for gas.
- November 2022 - £2.3bn of additional core funding in 23/24 and 24/25 announced as part of the Autumn Budget. This equates to 3-4% growth in funding in each year.
- £2bn of the above funding is 'new money', whilst £300m of it is recycled from the Social Care Levy funding.
- Part of the above increase is in relation to increasing Pupil Premium by 5%, which equates to a £150m uplift.
- December 2022 – £447m additional capital funding to make schools more energy efficient.

With the lack of in-year funding announcements that impact on core funding, we might expect that per-pupil funding would remain fairly consistent, but does the data support this? As is often the case, the answer is more nuanced than that.

It is important to note that the graph below includes capital income, but omits balances on conversion.

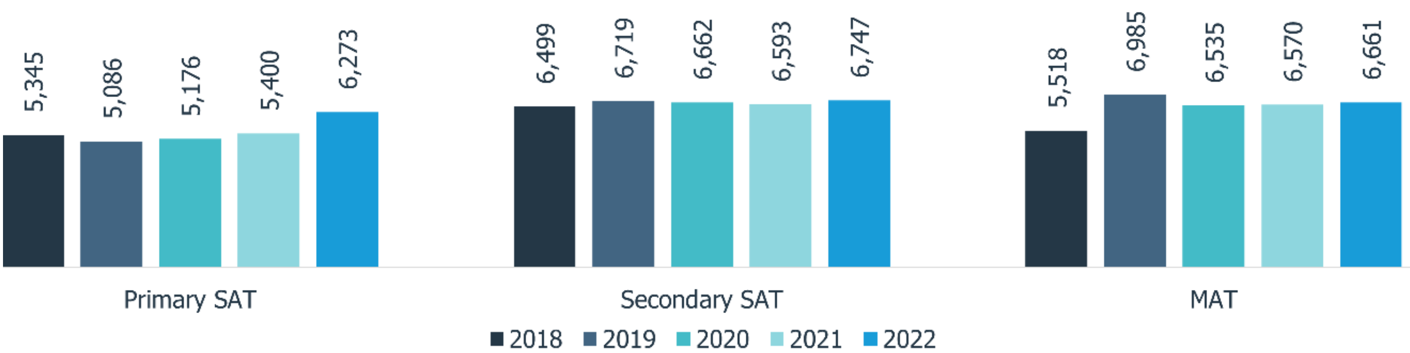
From an average total income per pupil perspective our data shows that income as a whole was consistent, particularly for MATs and Secondary SATs and is consistent with the level of income in 2021.

Primary SATs have seen a significant shift in overall income, due to a number of Primary schools who have received significant capital funding during the year Adjusting for the outliers increases the average total income per pupil by £400, which is more in line with expectations.

Given the dearth of new funding announcements, flat income levels is entirely in line with expectation. When we look at income in aggregate we see MAT income increasing significantly but this is simply down to the increasing size of these Trusts. The per pupil measure has hardly increased at all.

The impact of Covid-19 is still being seen in Academy income, with Trusts receiving Covid-19 related recovery funding, combined with a growth in their 'other' and 'trading' income types. This is explored later in this section.

Average total income per pupil (£)



An observation we can draw from this is that even including capital income, the total income for Trusts has not grown at the same rate as inflation and is lagging some way behind. Our survey data also shows that 88% of Trusts are expecting future reductions in total income. Yet despite this Trusts have still managed to make significant surpluses, which highlights a dichotomy within the sector at the moment.

Many people who work within the sector highlight a 'real terms' reduction in funding and point to a lack of investment by the government, which has impacted on the finances of Trusts and their ability to deliver positive educational outcomes; but at the same time the Trusts have had two years of record surpluses, growing reserves and seeing cash balances grow. The response we hear from our clients is that these accumulated funds will be needed to support Trusts as they deal with pay awards, the cost-of-living crisis and the impacts of industrial action by staff.

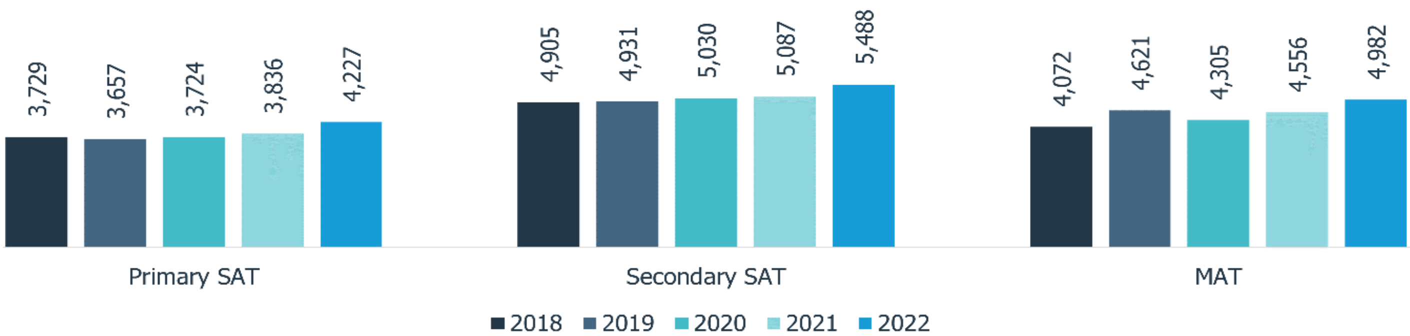
GAG income

Academy core funding, General Annual Grant (GAG), has risen again on a per-pupil basis (7-10% depending on Academy type). The movement at a Primary and Secondary SAT level is at a rate greater than we might expect, with MATs being broadly in line with the increase seen in 2021. GAG funding is predictable in a number of senses – certainty, timing, calculation and amount, but is ultimately dependent on pupil numbers and government funding commitments.

GAG income represents 75% of total income for Trusts this year, which is a 2% increase from 19/20 and a 1% increase from 20/21, which shows that proportionately there are lower levels of other income in 21/22. In October 2021, the government announced £4.7bn of additional core funding for the sector, £1bn of which related to the 21/22 year, which is one of the major contributors to the increase in GAG income per pupil between 2021 and 2022, as the sector sees this funding coming through.

The government has committed to returning funding to 2010 levels, so it is encouraging to see that the data supports that core funding has seen an increase in 2022. Our 2012 Benchmarking Report showed that GAG income per pupil was £3,777 for Primary SATs and £4,636 for Secondary SATs. GAG income per pupil is now higher in both, but the table below does highlight how static core funding has been until 2022.

Average GAG income per pupil (£)



Capital income

Capital income has shown a slight decrease in both Secondary SATs and MATs, but a sharp rise in Primary SATs. This is mainly due to the fact that there are some large capital receipts within our data set this year, which skews the average. This is not overly surprising as Primary and Secondary SATs receive their capital funding under the Condition Improvement Fund (CIF), which is project specific on award from the ESFA, so by its very nature is 'lumpy', particularly for Primary schools as the value of the funding is proportionately bigger to a Primary than a Secondary.

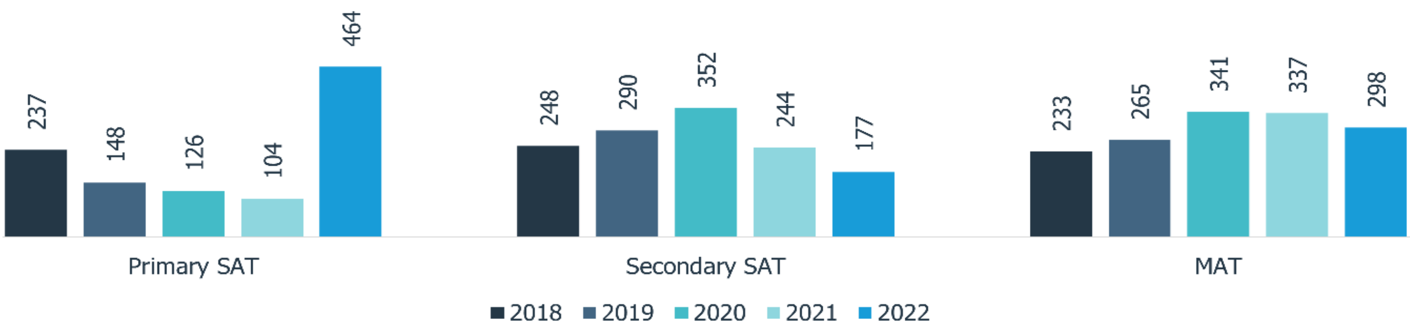
Available government data shows that CIF income has increased from £434m for 1,476 projects to £483m for 1,466 projects from 20/21 to 21/22, an 11.3% increase, so there has been a sizeable shift in value of CIF capital funding at Primary SAT, Secondary SAT and Small MAT level. This is a situation that replicates in 22/23 with £498m for 1,405 projects.

School Condition Allocation (SCA), capital funding for MATs with more than 3,000 pupils and 5 schools, increased 26.9% from 20/21 to 21/22, from £1.242bn to £1.576bn. It is worth noting that it is the 22/23 grant that is included in this data and it sees a much smaller increase in SCA income for eligible Trusts, with 0.4% increase to £1.583bn. Therefore it is no surprise that MAT capital income decreased by 13% per pupil, equivalent to £39 (including non-Kreston client data), as broadly the same amount of income is spread over a larger number of pupils.

Capital income for MATs can be difficult to predict, as it is impacted by the number of schools eligible for SCA, or CIF for a Small MAT. It is also impacted by capital receipts from other bodies, such as Local Authorities (LA) and other donors.

From discussions with our client base, we are seeing further building projects being delayed, largely due to a lack of availability of materials and labour. This has an impact on the reported carried forward capital reserves for those Trusts that haven't been able to complete their capital projects, as well as inflating their bank balances.

Average capital income per pupil (£)



Covid-19 funding and 'trading income'

One of the trends that we have seen since 19/20 is the fluctuation in 'trading income' as a result of the pandemic. Broadly speaking, trading income is generated from activities that are not a primary purpose of a Trust, such as lettings, rental, external catering and consultancy, sale of uniforms, after school club fees and income generated through school funds.

As a result of Covid-19, these funding streams were either completely halted or significantly disrupted. Our data shows that trading income is now at 3% of total incoming resources for Trusts, a level not seen since before the pandemic started in 2020. During the pandemic, trading income dipped down as low as 1% of total income in 20/21.

To compensate for reduced trading income, as well as the impacts of Covid-19 on schools, Covid-19-related funding was distributed to Trusts. Government data shows that a total £7.8bn of additional funding has been injected into the education sector (including maintained schools and post-16 education) through various support packages.

Our data shows that there was a 90% increase in the value of Covid-19-related funding for Trusts in 20/21, followed by an 82% decrease in funding in 21/22 (whilst at the same time trading income increased by 19%).

Clearly this change in composition is a result of the 21/22 financial year being largely free of Covid-19 restrictions, allowing Trusts to return to trading activities.

The feedback we have received from clients is that a combination of the pandemic, the cost-of-living crisis and current funding levels has led to them look at ways of generating additional revenue to support the financial sustainability of their Trusts.

As Trusts look to explore their income-generating options, it is important that finance teams are familiar with their income streams, and when their trading activities might generate a VAT or Corporation Tax consideration, and when a trading subsidiary is required to mitigate any risk. Our data shows that MAT trading income grew by 36%, with some being in six-figures, which brings a higher risk of tax issues.

Average Covid-19 income compared to trading income per pupil (£)

Future funding

There has been a shift in focus when it comes to funding for the sector this year. For the past two years the primary focus was on funding to support schools with the challenges created by Covid-19, with Catch-Up and Mass Testing funding being introduced, then making way for Recovery Funding. Recovery Funding is still in place for the 2023 and 2024 years, to help support schools with the longer-term impacts of the pandemic, with the focus being on those from more disadvantaged backgrounds.

In September 2022 the Education Policy Institute released a publication which stated that despite the funding, disadvantaged pupils have fallen furthest behind as a result of the pandemic, which has been exacerbated by the cost-of-living crisis, and that technology has a key role to play in bridging the gap. So, there is still some way to go to manage the impact of the pandemic, and the future Recovery Funding will need to be used wisely.

The main funding announcement this year came as part of the Autumn Budget, when Jeremy Hunt, announced £2.3bn of additional core funding. Of this funding, £2bn is new money, with the other £300m having been "recycled" from Social Care Levy funding.

Our data shows that income has only just returned to a level that is equivalent to 2012 income levels.

Our data doesn't account for inflationary effects, so the fact that income is equivalent to 2012 levels indicates that there has been a 'real-terms' reduction in funding over the course of that period. Thus Trusts have had to navigate cautiously to ensure educational outcomes are achieved.

It is clear that despite the positive spin that has been put on the funding announcement by some quarters, those operating day-to-day in the sector have a very different view. This is further demonstrated by the teacher strikes that have taken place in 2022 and 2023.

As mentioned previously in our Benchmarking Report, in 2020 the government announced plans to transition to a hard National Funding Formula (NFF) by 22/23. This would bring about a change in the process of funding for the sector, with the Local Authority role in determining funding diminishing. The 22/23 timeline won't be met, but the intention is to move 10% closer to NFF by 23/24, with the aim to fully implement no later than 27/28. NFF is an issue that has been on the table since 2016 now, and is one that is perennially delayed, and it now appears that it will be approaching a decade in the making and implementing before it is fully in action.

It is interesting that after a couple of years of regular funding announcements and support measures being put in place for the sector that this year was uneventful - until the Autumn budget.

> "Payroll is by far the largest cost for the sector and so it is unsurprising that one of the greatest concerns for budgetary planning for Trusts was uncertainty around pay rises."

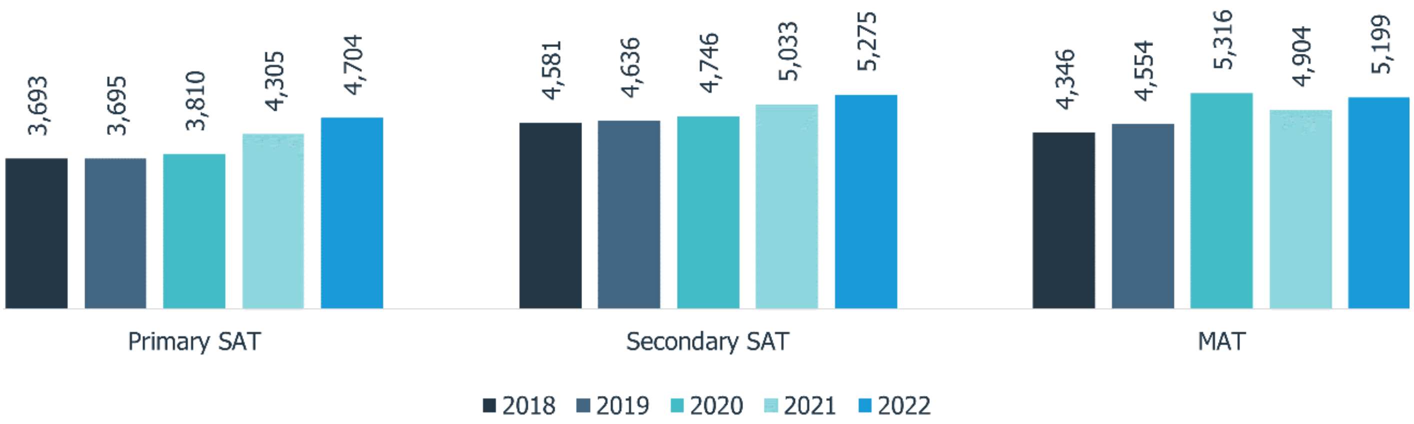
Section 5: Costs

The cost of living crisis has affected us all, and the Academy sector is no exception. The sector is seeing pressure on all costs, in particular salaries.

Payroll is by far the largest cost for the sector and so it is unsurprising that one of the greatest concerns for budgetary planning for Trusts was uncertainty around pay rises. This is being compounded by pressure from the unions and industrial action. This risk is increasing in the 22/23 academic year, but began to be felt in 21/22.

Perhaps surprisingly, staff costs as a percentage of total costs have remained pretty static, with 21/22 showing Primary SAT averages being 74%, Secondary SATs showing a small increase at 78% and MATs averaging 74%. The figures behind this, however, show it is due to all other costs increasing across the board, rather than any stagnation in salary costs.

Average total staff costs per pupil (£)

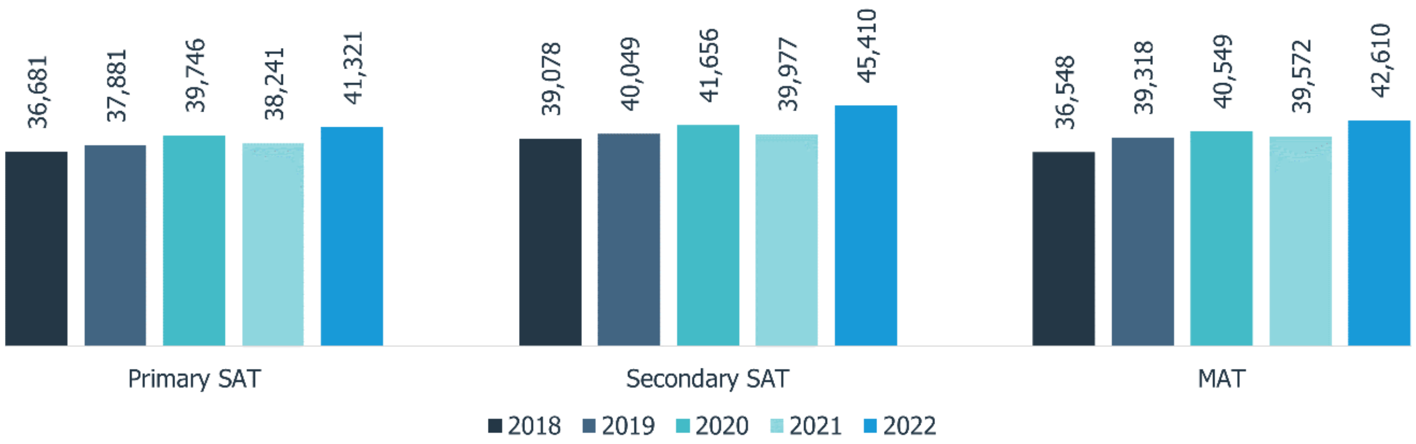


Average total staff costs per pupil have increased for all Trusts. There was very little change for SATs for 2018 through to 2020 but we are now seeing an increase due to teacher pay rises and the backdated support staff increases. MATs have seen significant fluctuations up and down, but this does include the costs of schools joining MATs and therefore restructuring costs - and there has been more activity in schools joining Trusts in 21/22.

The announcement in July 2022 increased teacher pay for 22/23 between 5% and 8.9%. We are moving ever closer to the government's plan to increase salaries for new teachers to £30,000. The reason behind this is to attract more graduates to the teaching profession, but so far has not achieved the desired effect.

Although the government's initial teacher training census shows that the Postgraduate Initial Teacher Training (PGITT) target for trainee teacher numbers was met for all subjects in 21/22, the split between the target for Primary and Secondary shows a more worrying picture; Primary achieved 136% of PGITT target, but Secondary subjects only achieved 82% of PGITT target. This is certainly storing up a problem for the future and Secondary schools need to consider how they attract and retain the teaching staff they need.

Average gross teacher salary (£)



The average gross teacher salary is showing a worrying trend in Secondary SATs with an increase of 14% on the prior year average salary. The increase is 8.1% in MATs due to the mix of Primaries and Secondaries, and a similar increase in Primary SATs of 8%. This indicates it is the Secondary SATs that are struggling more to keep on top of wage inflation.

It is more important than ever for schools to attract and retain talented teaching staff and thought needs to go into how stress levels post Covid-19 are managed. Covid-19 has also had a big impact on the development and mental health of students, which means there is even more work for teachers who are dealing with settling pupils back into learning that have had an unprecedented disruption to their lives. Trusts are looking to offer more flexible working to retain their best staff.

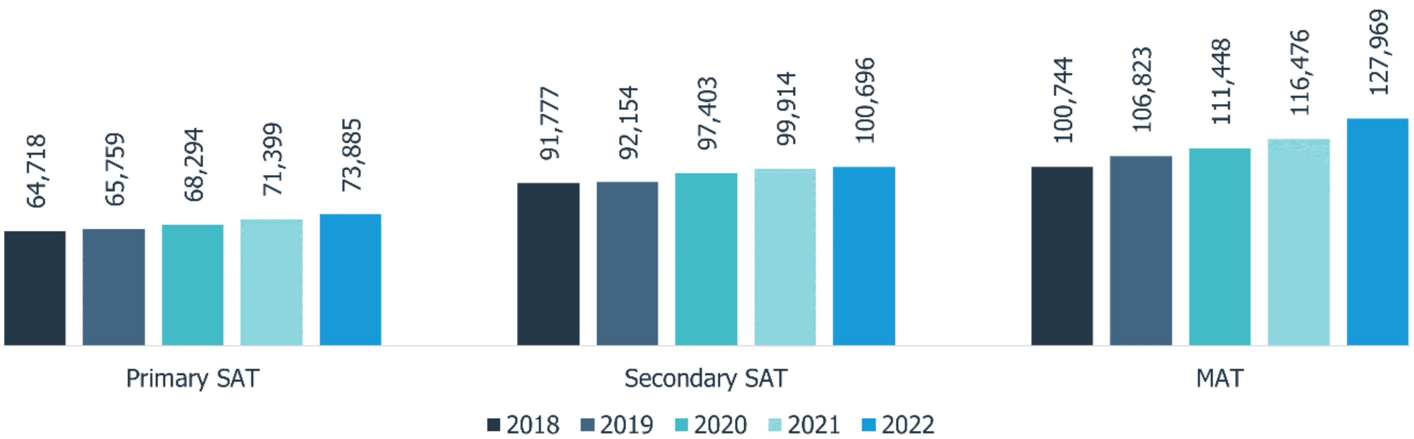
CEO and Headteacher salaries

Turning now to average CEO/Headteacher Salary, we are seeing a modest increase for Primary SATs and stagnation for Secondary SATs. The MATS are seeing a greater increase, but this may be more in line with the growth of MATS and therefore increases in responsibility. The Secondary SATs seeing a stagnation in Headteacher salary is a surprise. It could be that this is because new/less experienced Headteachers are moving into a role vacated by retirements or career progression to MAT roles.

It is however, good to note that the more senior roles are not seeing increases beyond that for the rest of the teaching staff and that pay awards are showing restraint, with Trust Boards considering experience and size of the Trust in accordance with ESFA guidance. But there will need to be a balance between pay restraint and attracting and retaining Headteachers/CEOs. Trusts also need to ensure they are refreshing their knowledge on the ESFA guidance for setting of executive salaries to ensure that they can justify any increases they are awarding.

The movement on MAT CEO salaries is varied depending on the size of MAT. For Small and Medium MATs there has been a small increase of 3.9% and 4.4% respectively. However, in the Large MATs average CEO salary has in fact fallen by 2.5%. There is a lot of fluidity in the sector and this may account for the reduction. As with Secondary SATs, this could also be because less experienced CEOs are moving into these roles.

Average CEO/Headteacher Salary (£)



Chief Financial Officers

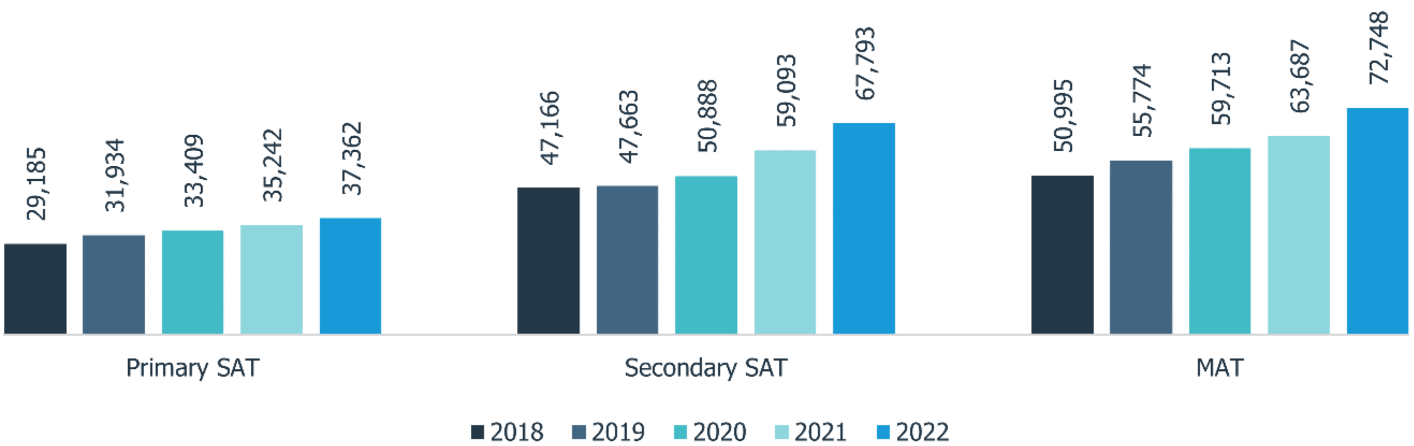
Last year we talked about the upward pressure on salaries for the Chief Financial Officer (CFO). It has been widely reported since 2021 that there is a skills shortage in the finance profession. Our recent survey showed that almost two thirds of Trusts are taking 3+ months to recruit to central teams, with a quarter taking 4+ months.

We know of one example where the Trust took nearly a year to recruit to a senior finance role. This is one of the most difficult areas to recruit as they are competing with industry and are struggling to pay competitive rates, especially as CFOs are becoming more qualified and their skills are transferable to other sectors. Trusts must look to be creative with their recruitment to make a move into the sector more appealing. Agile and home working may need to be considered, if not already happening as this is becoming the norm outside the Academy sector.

The increases in the rates paid for Secondary SATs and MATs this year compared to last, show how difficult it is to recruit into the sector, as more attractive packages are offered to tempt finance professionals in.

The graph below shows that CFO remuneration continues to rise, with both Secondary SATs and MATs increasing average remuneration by 14%. These increases are a response to market demands, but similar increases in the current year could be unaffordable for the sector, increasing the recruitment challenges.

Average Chief Financial Officer remuneration (£)



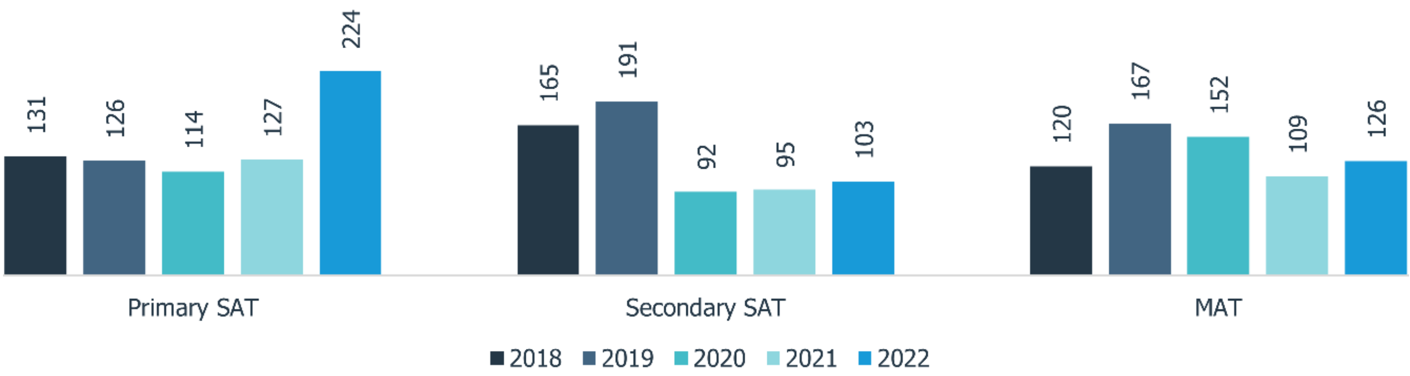
Supply costs per pupil

Turning now to supply costs per pupil, the Primary SATs have seen a staggering increase in these costs, up 76% from 20/21. With Primary schools having less ability to draw on staff from other departments to cover staff absences, they have been disproportionally hit by the cost of supply cover as pupils returned to school; restrictions were lifted and therefore sickness increased. Secondary SATs have only increased by 8% and MATs by 16%.

Schools Week recently reported that live adverts for supply teachers have almost doubled since pre-pandemic levels, and with targets being missed for recruitment to the profession, as mentioned earlier, things will not be improving anytime soon.

With high demand and short supply it means that supply cover costs will increase further, and Trusts need to factor this into their strategic planning on how they cover staff absenteeism going forward.

Supply costs per pupil (£)



Non-staff costs

After two exceptional years where schools had to make the switch to on-line learning, with no formal exam sessions and reduced occupancy in school buildings, especially for Secondary schools, we have now had a period of moving back to normal activities.

The pandemic had a significant impact on non-staff costs, especially for Secondary SATs and MATs, with a reduction in average non-staff costs for both 19/20 and 20/21. Primary SATs generally stayed open more, but they did see costs returning to more normal levels last year.

What we are seeing for 21/22 is that Primary SATs are feeling the full impact of rising costs with little opportunity to make savings compared to the pandemic years. Their non-staff costs per pupil are now 20% higher than 18/19, according to our data.

In contrast, for Secondary SATs and MATs, although their costs have increased significantly from 20/21, they are still not at 18/19 levels. As last year, we stress the need for Trusts to delve more deeply into the figures to check whether savings made during the pandemic could be retained for the longer term.

We also recommended caution on short term savings to ensure that budgets recognised these as temporary and that Trusts must be prudent with future spending plans. This is relevant to the current year also, and Trusts should be thinking hard about what has or will change for the 23/24 budget, especially in light of current inflation levels. There is more scope to make savings in a larger MAT that can benefit all schools within the MAT, and the data shows that this is happening.

Energy costs

The most worrying non-staff cost for the sector now is energy costs. It is likely that we have not seen the full impact of this yet as many Trusts have locked in prices throughout the academic year. However, we know that many of these deals are now coming to an end.

What the data is showing us so far is that average light and heat costs per pupil saw very little change from 17/18 through to 20/21, but there has been a significant jump for 21/22 with Primary SATs seeing the biggest increase in cost per pupil to £84, from £58, which is a £26 or 45% increase. Secondary SATs have also seen an increase of £16 or 20% increase in cost per pupil. MATs have been able to control their light and heat costs, but we are likely to see this rise in the future.

With this being high on the agenda, not just from a cost perspective, but also a climate change concern, there is a lot of advice and help available to improve energy efficiency in the sector.

The DfE released some guidance on 6th December 2022 - Energy efficiency: guidance for the school and further education college estate. This includes the top 3 actions that schools and colleges can take to reduce energy costs:

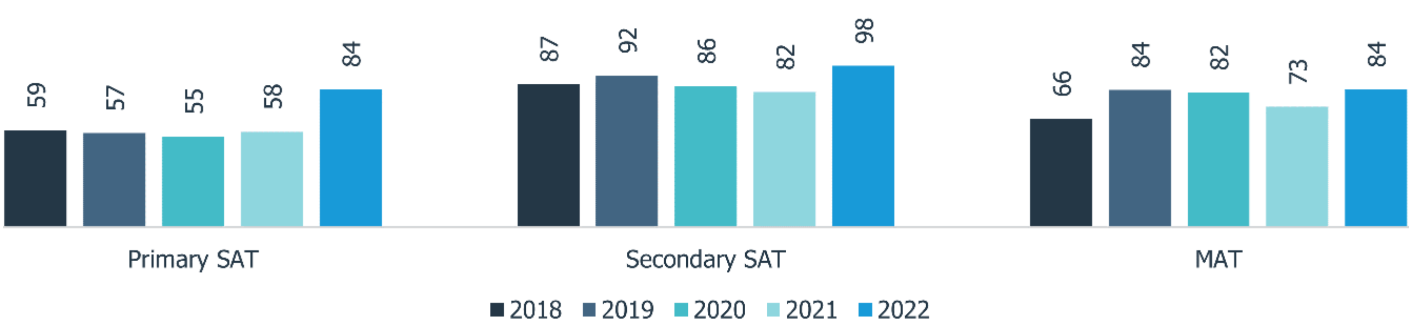
- Understand energy usage and conduct an energy audit, so you can target where to save energy.
- Develop a plan using your energy audit to encourage good practices, behaviours and further interventions.
- Implement and manage the proposed interventions to reduce energy consumption.

More immediately, in September 2022 the government announced their 'Energy Bill Relief scheme' for businesses and other non-domestic customers, including schools. This should be applied automatically by your supplier, and you should have already seen this in your bills. This runs through to 31st March 2023.

In addition to this, the government announced a new Energy Bills Discount Scheme (EBDS) which runs from April 2023 to April 2024. This scheme is not as generous as the 6-month support running through to March 2023 as wholesale energy costs hopefully start to reduce. The new scheme is a discount on gas and electricity unit prices. The details of how this is calculated can be found at www.gov.uk/guidance/energy-bills-discount-scheme.

When this support and funding comes to an end, Trusts must have a strategic plan for energy efficiency and need to think creatively about how they procure and reduce their energy costs.

Average heat and light costs per pupil (£)



Carbon Intensity Ratio

The general trend is a reduction in the Carbon Intensity Ratio, with the average down by 0.036 or 14%. There is no doubt that the sector is starting to focus on sustainability and climate change and the recent additional grant for energy efficiency will enable Trusts to continue their good work.

Carbon Intensity Ratio (tonnes per pupil)

	2021	2022
Average	0.256	0.220
Highest	1.486	1.180
Lowest	0.033	0.023

Food costs

Another cost that has been hugely affected by inflation is the cost of food.

According to Statista, food prices increased by 14.5% from September 2021 to September 2022. From the data we have gathered it is, yet again, the Primary SATs that are feeling the full force of this inflationary pressure as their average catering cost per pupil increased a further £41 or 20% after already increasing £26 in the previous year. This is due in part to the need for Primaries to partially fund Free School Meals (FSM) and Universal Infant Free School Meals (UIFSM).

Our survey asked Trusts whether FSM and UIFSM funding covered the cost to the Trust. With two thirds of Trusts responding that it did not, this is yet another great concern for the sector.

The data for Secondary SATs shows that their average catering cost per pupil increased by only 9% compared to last year. We would expect this to be less than for Primary schools but it is unclear why this is so much lower than the Primary SATs. It may be down to Trusts adjusting the way they provide food, looking at cheaper alternatives, less labour-intensive delivery or lower cost food due to their buying power. It may be due to less uptake of meals in the school setting as families struggle to find the money to pay for school meals. If students are going hungry this is going to have a negative impact on their behaviour and ability to learn, which is yet another pressure for Trusts to manage.

> **The most worrying non-staff cost for the sector is the situation regarding energy prices. It is likely that we have not seen the full impact of this yet.**

Section 6: Balance Sheet

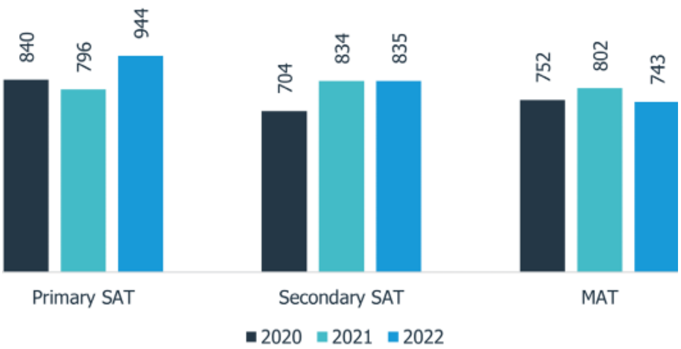
Trust balance sheets are getting stronger but this financial position masks the reality of a sector that is struggling as it emerges from the pandemic.

Reserves

Most readers will be well aware that free reserves and cash balances are not the same thing. Typically, the cash balance is between 145% and 170% higher than the free reserves, depending upon the size and type of Trust because Trusts typically have significant liabilities, including payroll and pension creditors.

The level of free reserves (defined as unrestricted funds plus GAG) has increased on average at a Trust level this year. Interestingly though on a per-pupil basis the surplus has reduced in MATs. This may seem slightly surprising given some of the revenue surpluses this year.

Average free reserves per pupil (£)



One of the big drivers behind this is demographics. Many Secondary schools have seen pupil numbers increase in the year - which reduces the per pupil measure - at the same time as primaries have started to see decreases. Also a significant amount of spend was deferred from 20/21.

It was obvious, when discussing the 2021 financial outcomes with Trusts, that they planned to use some of these reserves on Covid-19 response and/or on unfunded capital projects, restarting some of the estate planning that had been disrupted by the pandemic, often using unrestricted or GAG funding reserves.

Trusts are concerned about the impact of a potential change in political party in power even though Labour have stated that academisation is here to stay.

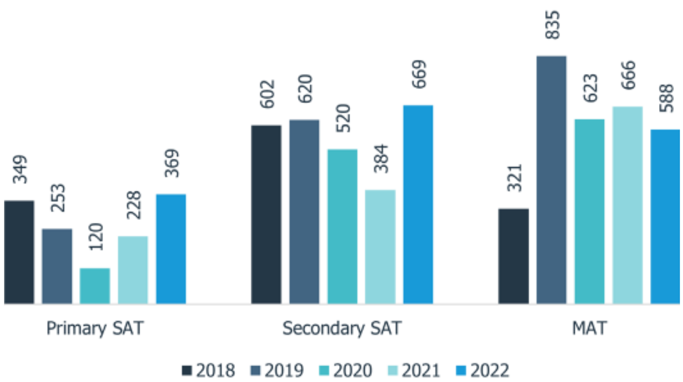
Stephen Morgan, the Labour shadow minister, stated in an interview with 'Schools Week' in September 2022 that Labour would 'make sure that reserves are proportionate for schools'. He was non-committal on what this would mean in practice - a possible clawback, some sort of redistribution or reverting to some sort of cap, like the 12% when Academies were first introduced? This is something that again Trusts will be monitoring.

The high level of reserves will help cushion Trusts from some of the financial issues they are facing: short term issues, like the impact of inflation and salary increases, and; longer term issues like maintaining an aging estate, and refreshing ICT (which is becoming ever more important).

Fixed assets

Given the issues of the last two years, Trusts are again looking at reprofiling their estate and ICT planning. For a significant number of Trusts this involves looking at their carbon footprint and reducing energy consumption. This has been given added impetus due to the increase in energy prices and the £500m additional capital funding that the government announced to help 'futureproof' buildings. It equates to £42,000 for the average Secondary school and £16,000 for the average Primary school.

Average capital expenditure per pupil (£)



We expect capital expenditure to remain high for some time given the need to improve the environmental performance of school buildings, and this is where funding is likely to be targeted. The additional funding can be used by Trusts to buy better heating controls, lag pipes and install LED lighting amongst a number of options.

The cost of installing LED lighting should not be underestimated – a 10 school MAT has invested over £500K to replace the light fittings and install LED bulbs. The payback period is approximately 7 years, which as an investment represents a reasonable return, but still requires long term planning.

Some organisations promote the installation of LED fittings using a lease. Trusts must ensure any lease they sign is an operating lease and not a finance lease (the latter is currently not allowed under the ATH). The differences between the two types of leases can be very subtle. Trusts should consider whether it may be better to use some of the cash reserves of the Trust instead. Trusts should consider the DfE frameworks that have been setup, which include LED lighting, energy performance audits, renewable energy solutions and lighting products including fittings and lamps.

Whilst some Trusts will have automatic funding through the SCA, others will have been making applications for CIF for their larger projects. A significant number of these will have been for replacement boilers and windows to help keep energy costs down.

The successful 22/23 CIF projects were announced on 13th May 2022, which was earlier than the 21/22 applicants, advised on 23rd June 2021. Unfortunately, a number of Trusts which had been prepared by having tenders ready in advance found that the contractors (due to material shortages and inflation) were unable to commit to the timescale or price upon which the CIF applications were submitted. As a result, some Trusts have had to make some difficult decisions – make up the difference from reserves, rescale the project, and in some cases even cancel the projects.

If rescaling a project, Trusts must contact the ESFA to agree this. Queen Elizabeth grammar school in Penrith was investigated by the DfE in respect of the use of the CIF grants it had received. As a result of the review, the school was ordered to repay £1.5m and was issued with a Notice to Improve. Whilst it appears from the facts available that this may be an extreme case, it is a reminder to Trusts that should they wish to change the scope of the work, and/or if they have a surplus on the project that they should liaise with the ESFA to agree what action if any is necessary.

The latest 23/24 round of CIF bids (which closed on the 7th December 2022) included the announcement of a new project type – the critical replacement of coal and oil boilers with low carbon heating systems. In addition, the Environmental Sustainability statement criteria in the CIF guidance has been updated, meaning schools must be able to demonstrate that works will lead to greater environmental sustainability.

School Rebuilding Programme (SRP)

The SRP which was launched in June 2020 is the government's building and refurbishment programme for the next 10 years. In 2021 the first 100 schools were announced. In July 2022 a further 61 schools were announced and then a further 239 in December 2022. We stated in last year's report that we understood there would be an opportunity in future rounds to submit bids. The 300 successful projects in 2022 were identified from 1,105 nominations. The assessments and site visits for these occurred during the spring and summer of 2022 and the buildings had to be in a condition requiring urgent attention.

The current delivery plan is for 50 schools per year, which gives an 8-year timeline for the 400 projects announced. Whilst it is good to have some long-term visibility, as we noted last year there are circa 22,000 schools in England meaning buildings are expected to last on average 440 years!

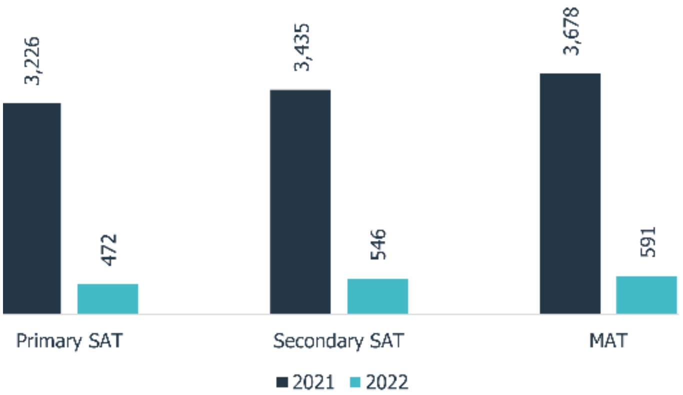
In the past we have seen Trusts working with the ESFA and Local Authority to fund a building that is more aligned with the immediate and future needs of a school. Some Trusts are considering using their SCA allocation to enhance an SRP funded scheme. One of the concerns about ESFA funded projects is that the dining rooms are too small. As a result, multiple sittings are required. Spending additional money here can help the functioning of a school. This is a sign of Trusts using resources available to get the best outcome, rather than settling for what they may be given. Another example of Trusts looking to use resources effectively is though the sale of surplus land and buildings.

Some Trusts are also reviewing how they could use the land and buildings to generate additional revenue. An example is one school, located near a busy roundabout, considering if they could let part of their surplus playing fields to enable a coffee shop to be built there, which would generate additional revenue – either by letting the site, or operating the facility themselves, possibly involving the pupils.

Pensions

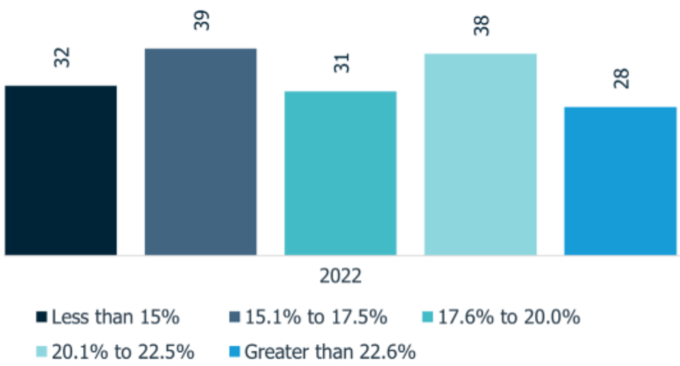
Most Trustees have noticed the very significant reduction in the Local Government Pension Scheme (LGPS) liability on their balance sheet. This was caused by the change in bond yields which led to a change in the discount rate. Whilst the change in the discount rate may have appeared relatively small, for each 0.1% change the movement in the liability is significant.

Average LGPS pension deficit per pupil (£)



Trustees should focus on the new employer contribution rate, effective from 1st April 2023, not the swing in the overall liability. We are seeing a range of outcomes for the new employer rate. These include reductions in employer contribution rates for some, but many have seen increases. This is contrary to what Trusts may have expected when they saw the reduction in the overall LGPS liability. The most significant increase is at one Trust where the rate is due to increase from 15.9% to 25.7% (with no change to the lump sum catchup).

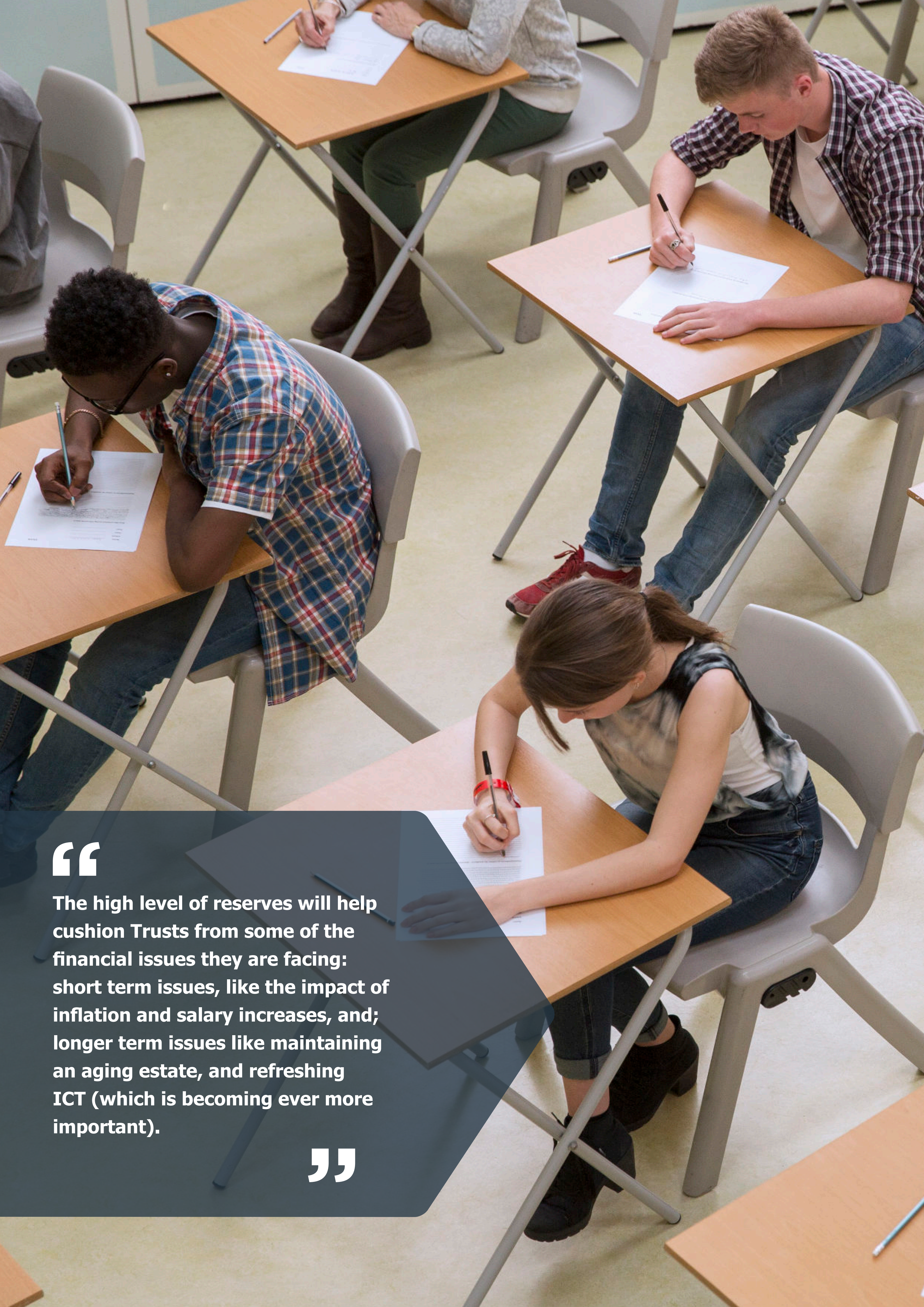
LGPS employer pension contribution rates (%)



There is a wide variation in employer contributions to the LGPS. For one Large MAT in the Teesside scheme the employer contribution rate is 14.6%. This compares to 27.0% for a standalone Trust in Leicestershire. The average non-teaching staff costs for our clients in this survey is circa £1m. Based on £1m, that would equate to a difference of £124,000 in employer LGPS contribution, just because of the location and size of the Trust, enough to employ three NQTs.

In Devon all Trusts have one employer rate which obviously gives all schools the same cost base. We did suggest a number of years ago that the Academy sector should potentially have one LGPS scheme covering the whole country with a single rate. This would be more equitable for all Trusts and obviously negates most of the cost of obtaining yearly actuarial valuations which add little value to any Trust, together with the time and effort of completing the numerous pages in the AAR. Despite a consultation on this matter, nothing has progressed.

With regards the Teachers' Pension Scheme (TPS), most Trusts will probably have any potential increase in the employer rate on their risk register. In 2019 the employer contribution increased from 16.48% to 23.6%. A massive and unexpected increase. A review is currently being undertaken with a new employer contribution rate due from 1st April 2024. Given that 324 independent schools have left the TPS between August 2019 and November 2022, the scheme will be under additional pressure. We noted last year rumours that the employers' contribution rate could increase substantially again. Some were suggesting the rate could increase to around 30%.



"The high level of reserves will help cushion Trusts from some of the financial issues they are facing: short term issues, like the impact of inflation and salary increases, and; longer term issues like maintaining an aging estate, and refreshing ICT (which is becoming ever more important)."

Section 7: Internal Audit & Risk Management

The world of risk management continues to evolve. The role that the Audit and Risk Committee needs to play in ensuring that both existing and emerging risks facing the Trust are truly managed is ever more important. With the number and nature of the ever-increasing challenges facing the sector, it's no longer sufficient to make isolated, termly updates to the committee. In order to better drive and monitor the effectiveness of actions to mitigate risks identified in formal Committee meetings, we know several Trusts have moved to ensure more frequent and timely contact between Audit and Risk Committee members and the SLT outside of those meetings.

Risk management

This academic year has seen a return to some kind of normality with more pupils and staff more consistently in school for in-person teaching. The state of flux of previous years in relation to the pandemic has been replaced by a more consistent new normal that looks a lot more like life as we knew it pre-pandemic.

However, Trusts continue to face a bumpy ride as the after-effects of the pandemic make themselves felt. On the one hand, macro-economic and geo-political volatility and uncertainty has introduced a new set of challenges and emerging risks. Cost of living pressures and possible recession make future income streams and expenditure projections more difficult to predict.

On the other hand, demands on Trusts have not abated. It is hard to ignore the lingering impact of the pandemic on curriculum delivery. Recruiting and retaining staff at all levels continues to be challenging. The cost of living and pay play a part, with Trusts competing with other local employers for staff, and many finding difficulties in retaining particularly lower-paid support staff.

Compounded with an increasing proportion of economically-inactive people over the age of 50, recruiting and retaining sufficient appropriately experienced staff is tough.

Mental health and well-being - a key part of retention – is under pressure. Teacher well-being indices, school support staff bodies and headlines all indicate that workloads and stress levels are contributing to existing staff reconsidering their future within the sector, and difficulties with recruiting to the sector more widely. Need in the classroom both in terms of prior attainment and mental health also translates into increased pressure on staff in supporting pupils.

In the face of uncertainty over funding, pay and costs Trusts need strong leadership and governance. Getting the balance right between identifying, assessing and addressing these risks, being prudent with expenditure and ensuring that they continue to deliver on their strategic aims and charitable purpose is not a simple task.

Macro-economic volatility and people therefore are two of the top risks for Trusts. Sustainability and the journey to net zero is another area for consideration - we know the school estate needs £11.4bn to support the pathway to net zero. Cyber and fraud risks are another big area of concern for Trusts – reports of schools being hacked and held to ransom, or data being leaked, are increasingly common.

As a result, effective, agile risk management is increasingly recognised as an essential component of Trust leadership. Making sure that risks are identified, reviewed frequently and addressed with appropriate mitigations, and getting assurance over those mitigations continues to be as important and urgent as it was during the pandemic, albeit with a different focus. How do we know that we have captured all the emerging risks? Have we assessed our risk appetite? Do we know if the mitigations we have put in place are effective? What assurance do we have that what we think is happening, is? And what about the areas where we are not sure? This is where risk management comes in to make sure your Trust is best placed to proactively address them.

Academy internal audit continues to evolve

The ESFA continues to encourage Trusts to adopt a risk-based approach to Internal Audit, embracing operational risks in the widest possible sense.

In response to this, some smaller Trusts decided to split the role of their existing combined Finance and Audit Committee last year. Although a single committee undertaking both roles is still permitted by the ATH for smaller Trusts, many Trusts recognised that two separate committees increases capacity. This reflects the expanded responsibilities of the Audit (or Audit & Risk) Committee described in the ATH, of which a wider and cross-organisation risk focus by Internal Audit forms a key part.

Trusts now increasingly consider how (and where) Internal Audit can provide assurance against risks, particularly the wider non-financial risk areas that arguably have not had a great deal of external/independent assurance previously. As a result, audit plan coverage continued to increase last year both in terms of number of days used for Internal Audit and the nature of areas reviewed.

Trusts may choose from a number of options regarding their internal scrutiny arrangements, with smaller Trusts understandably continuing to opt for an equivalent of the 'Responsible Officer (RO)' checks to be completed. However, given the ATH's continued focus on the need to obtain assurance on all risks and not "just financial" areas, all Trusts should ensure that the scrutiny scope is broad enough to provide at least some of this wider assurance. Trusts need to be clear where these assurances are to be obtained from – a combination of Internal Audit and perhaps other external reviewers – health and safety visits, IT/cyber testing, mock or actual Ofsted, governance reviews, etc.

Most Trusts, excluding perhaps the smallest, now plan for Internal Audit coverage of at least 5 days. For larger decentralised MATs, the minimum should probably be more like 10 days. Larger Trusts frequently look for 20-30 days to ensure appropriate coverage over the year and across the Trust. There is not a one-size-fits-all model, as the risks faced by each Trust will vary depending on the specific circumstances and set up.

We surveyed Trusts to ask them what areas their programme of internal scrutiny covered for the 21/22 year, grouping them broadly into:

- Core financial compliance (income, expenditure, bank, payroll, management reporting).
- Wider financial risks (budgeting, forecasting, capital, census, funding streams).
- Other non-financial risks (risk management, health and safety, cyber, safeguarding).

Core financial compliance remains a popular area of focus, with nearly 9 out of 10 Trusts surveyed including this as part of their programme. To a large extent this is indicative of a need to get the basics right – i.e. to ensure that underlying financial information is complete and accurate and opportunities for fraud are minimised.

More Trusts expanded or redirected their Internal Audit coverage in 21/22 to look at areas other than purely financial, for example – aspects of Human Resources (including single central record), pupil data returns, estates, elements of cyber/wider IT and indeed overarching risk management and governance processes.

Almost two thirds of Trusts reported using Internal Audit to address wider financial risks and processes such as budgeting, forecasting, capital allocations, and pupil census. Over 80% of all Trusts surveyed reported including an element of other non-financial risks such as risk management, governance, cyber, estates or health and safety.

Thinking about the common risks identified above, some options to use Internal Audit to address these wider areas are set out below:

Risk	Response
Macro-economic risk:	
• Uncertainty over funding, wages and other cost pressures. • Changing pupil numbers, characteristics and funding impacts. • Inflationary pressures impact.	Review budget process – gain assurance over completeness and accuracy of underlying data and historical accuracy. Review forecasting – ability of the Trust to respond to changing assumptions on funding and costs to reprioritise/refocus. Review of census arrangements to ensure accuracy re pupil numbers and key characteristics. Review contracts registers to understand how much of the Trust's costs are in contracts, identify timeframes for contract windows and explore opportunities for cost saving.
People risk:	
• Ability of the Trust to recruit and retain the right staff.	Review of recruitment processes. Review of HR data reporting to pick up early warning signs. Staff wellbeing surveys. Analysis of job vacancies, times to fill vacancies.
Estates and sustainability:	
• Future cost to address estate condition surveys and transition to net zero are not quantified/included in plans. • Climate change causes emergency spend on estates.	Capacity for proactive estates management. Review of estates management plan and link to strategy and budget. Capital allocation process – effectiveness of SCA planning. Business continuity planning.
Fraud and cyber security:	
• Trust/schools are targeted by hackers causing operational disruption, potential financial and reputational impacts through data breach.	Review of cyber security arrangements. Surveys to establish staff attitudes, understanding and practice. Checks on training undertaken.

Internal Audit thematic points arising from reviews

The results of internal assurance reviews over the last year indicate that, in general, Trusts continue to strengthen and improve their core control framework. In particular, core financial controls were operated more consistently and sufficiently across our client base, resulting in fewer recommendations in these areas than in previous years. However, there are several areas that continue to feature in our internal assurance reports, comprising a mix of the more strategic but also the "usual suspects" of more day-to-day operational points recurring. Points raised in Internal Audit reports included:

- Ensuring the risk register is reviewed regularly enough and of a format to be useful/aid decision-making.
- Ensuring an appropriately wide and diverse skills base for a Board, with gaps actively recruited against (noting though the difficulties many Trusts have found in recruiting new Trustees altogether) and informing proactive succession planning.
- Ensuring a suitable number of quotes/tenders are obtained in line with Trust policy for procurement exercises, or alternatively documenting the justification for (and receiving appropriate approval for) departure from policy based on known/trusted previous supplier etc.
- Registers of interests not held or not regularly updated for all senior staff (or those with budget responsibility). Furthermore, the Finance team not having access to/using the register when setting up new suppliers, a disconnect that could result in potential conflicts being less likely to be proactively identified.
- Retaining evidence to support the level of pay for each member of staff is correct – i.e. bridging from initial contract through subsequent incremental or promotion increases.
- Linked to the above, an increasing number of employment contracts not being issued and/or signed in a timely manner after commencement of employment.
- Observations raised related to the (now) specific requirement in the ATH for the Audit & Risk Committee to receive assurance regarding the completeness and accuracy of Trust and composite school Census returns.
- The MUSTs self assessment was either not done at all, or done informally/not evidence-based or presented/discussed at committee.

A number of these made the "Top Ten" recommendations in previous years too, so whilst in general it appeared that most Trusts generally strengthened their overall control frameworks over the last year, the above would indicate that there is still a need to "get the basics right consistently".

Additional data sources include, Office of National Statistics (www.ons.gov.uk) Reasons for workers aged over 50 years leaving employment since the start of the coronavirus pandemic: wave 2 - information published September 2022 and Cabinet Office (www.gov.uk) State of the Estate in 2020-21 - information published November 2022.

“In the face of uncertainty over funding, pay and costs, Trusts need strong leadership and governance. Getting the balance right between identifying, assessing and addressing these risks, being prudent with expenditure and ensuring that they continue to deliver on their strategic aims and charitable purpose is not a simple task.”

Definitions

Academic year: The data used in the report is based on the 21/22 academic year with comparative data given for the 19/20 and 20/21 academic years. For ease of reference the academic years are referred to as 2022, 2021 and 2020 respectively.

Academy Trust Handbook (ATH): Publication from Education and Skills Funding Agency (ESFA) detailing the financial and non-financial requirements for Academy Trusts.

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): A form of grant income received from the ESFA to pay for capital projects and maintenance for non-SCA-eligible Trusts.

Cost ratios: Each category of cost 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: Total depreciation charge as a percentage of fixed asset cost or valuation.

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.

Integrated Curriculum Financial Planning (ICFP): A method of financial resource planning.

Large MAT: A Multi Academy Trust with more than 7,500 pupils.

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.

Medium MAT: A Multi Academy Trust with between 3,001 and 7,500 pupils.

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: Total cost per the Statement of Financial Activities for all pension schemes, primarily the TPS and the LGPS, as a percentage of the total salary costs.

Pension costs: The individual costs of the Teachers' Pension Scheme (TPS) and Local Government Pension Scheme (LGPS).

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.

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 Resource Management Adviser: Experts supporting Academies to maximise their use of resources.

School Condition Allocation (SCA): Funding allocated by the ESFA to MATs with at least 5 Academies and 3,000 pupils to cover capital expenditure and maintenance work.

Small MAT: A Multi Academy Trust with fewer than 3,000 pupils.

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 Trust, 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 Trust.

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 of the Academy excluding any surplus donated on conversion to an Academy.

Benchmark Analysis Data:
Primary Single Academy Trusts

	Highest	Lowest*	Average	Median
Income Measures				
Total income per pupil (annualised)	£11,077	£4,917	£6,273	£5,900
Total GAG income per pupil (annualised)	£5,358	£2,909	£4,227	£4,239
GAG income ratio (as a % of total income)	89%	48%	69%	72%
Capital income per pupil (annualised)	4,293	£ 17	£464	£28
Key Overhead Cost Measures				
Total staff costs per pupil (annualised)	£7,565	£3,164	£4,704	£4,611
Premises costs per pupil (annualised)	£748	£14	£136	£39
Heat and light costs per pupil (annualised)	£187	£46	£84	£78
Repairs and maintenance costs per pupil (annualised)	£766	£17	£116	£92
Catering costs per pupil (annualised)	£461	£49	£246	£233
Total costs per pupil (annualised)	£9,415	£4,728	£6,376	£6,387
Staff cost ratio (as % of total costs)	85%	53%	74%	74%
Staff Salary Measures				
Teaching staff salary per pupil (annualised)	£3,864	£1,183	£1,976	£1,926
Non-teaching staff salary per pupil (annualised)	£2,910	£303	£1,623	£1,579
Average teaching staff salary (annualised)	£58,214	£22,278	£41,321	£41,213
Average non-teaching staff salary (annualised)	£34,473	£4,140	£20,387	£20,557
Key management personnel costs per pupil (annualised)	£2,547	£332	£849	£776
LGPS Pension Cost Measure				
LGPS contributions per pupil (period)	£624	£116	£239	£231
Pupil / Teacher Measures				
Pupil to teacher ratio (period)	27.4	10.7	22.3	22.0
Teaching to non-teaching staff ratio (period)	2.6	0.3	0.7	0.6
Surplus / (Deficit) Measures				
Free reserves movement (as % total income) (period)	5.5%	(0.1%)	-3.5%	0.0%
Cumulative free reserves (as a % of total income) (period)	49%	4%	15%	14%
Balance Sheet Measure				
Cash at bank and in hand per pupil	£4,036	£178	£1,370	£1,095
Fixed Assets Measure				
Capital expenditure per pupil (period)	£1,876	£25	£369	£199

*This is the lowest amount for Academies which have recorded income or expenditure for this benchmark.

Benchmark Analysis Data:
Secondary Single Academy Trusts

	Highest	Lowest*	Average	Median
Income Measures				
Total income per pupil (annualised)	£11,141	£5,504	£6,747	£6,563
Total GAG income per pupil (annualised)	£7,461	£4,579	£5,488	£5,414
GAG income ratio (as a % of total income)	90%	50%	82%	84%
Capital income per pupil (annualised)	£3,098	£16	£177	£22
Key Overhead Cost Measures				
Total staff costs per pupil (annualised)	£8,662	£4,373	£5,275	£5,105
Premises costs per pupil (annualised)	£5,275	£ 12	£410	£55
Heat and light costs per pupil (annualised)	£287	£ 44	£98	£92
Repairs and maintenance costs per pupil (annualised)	£423	£1	£116	£95
Catering costs per pupil (annualised)	£1,116	£1	£120	£95
Total costs per pupil (annualised)	£14,389	£4,229	£7,114	£6,817
Staff cost ratio (as % of total costs)	84%	38%	78%	76%
Staff Salary Measures				
Teaching staff salary per pupil (annualised)	£7,382	£1,863	£3,029	£2,777
Non-teaching staff salary per pupil (annualised)	£2,556	£432	£1,249	£1,168
Average teaching staff salary (annualised)	£68,477	£33,776	£45,410	£48,763
Average non-teaching staff salary (annualised)	£49,584	£10,460	£25,158	£23,860
Key management personnel costs per pupil (annualised)	£2,139	£47	£609	£542
LGPS Pension Cost Measure				
LGPS contributions per pupil (period)	£1,124	£67	£323	£243
Pupil / Teacher Measures				
Pupil to teacher ratio (period)	24.5	7.8	17.6	18.0
Teaching to non-teaching staff ratio (period)	3.8	0.6	1.2	1.1
Surplus / (Deficit) Measures				
Free reserves movement (as % total income) (period)	9.7%	0.2%	1.5%	1.4%
Cumulative free reserves (as a % of total income) (period)	35%	1%	12%	10%
Balance Sheet Measure				
Cash at bank and in hand per pupil	£6,694	£282	£1,340	£1,147
Fixed Assets Measure				
Capital expenditure per pupil (period)	£14,783	£15	£669	£240

*This is the lowest amount for Academies which have recorded income or expenditure for this benchmark.

Benchmark Analysis Data:
Small Multi Academy Trusts

Fewer than 3,000 pupils

	Highest	Lowest*	Average	Median
Income Measures				
Total income per pupil (annualised)	£10,573	£3,306	£6,747	£6,742
Total GAG income per pupil (annualised)	£8,201	£2,119	£4,863	£4,743
GAG income ratio (as a % of total income)	89%	56%	74%	73%
Capital income per pupil (annualised)	£2,492	£9	£346	£166
Key Overhead Cost Measures				
Total staff costs per pupil (annualised)	£9,063	£2,227	£5,208	£5,076
Premises costs per pupil (annualised)	£5,084	£8	£321	£103
Heat and light costs per pupil (annualised)	£270	£ 14	£90	£87
Repairs and maintenance costs per pupil (annualised)	£787	£ 1	£135	£105
Catering costs per pupil (annualised)	£741	£1	£169	£158
Total costs per pupil (annualised)	£12,729	£2,021	£6,948	£6,922
Staff cost ratio (as % of total costs)	86%	36%	74%	75%
Staff Salary Measures				
Teaching staff salary per pupil (annualised)	£4,912	£1,127	£2,500	£2,190
Non-teaching staff salary per pupil (annualised)	£3,388	£ 530	£1,572	£1,418
Average teaching staff salary (annualised)	£68,288	£ 25,176	£41,336	£41,811
Average non-teaching staff salary (annualised)	£46,814	£ 7,203	£21,563	£20,797
Key management personnel costs per pupil (annualised)	£1,693	£34	£415	£367
LGPS Pension Cost Measure				
LGPS contributions per pupil (period)	£1,481	£53	£366	£282
Pupil / Teacher Measures				
Pupil to teacher ratio (period)	31.6	11.5	19.9	19.6
Teaching to non-teaching staff ratio (period)	2.7	0.3	0.7	0.7
Surplus / (Deficit) Measures				
Free reserves movement (as % total income) (period)	55.6%	0.1%	2.3%	1.0%
Cumulative free reserves (as a % of total income) (period)	146%	1%	14%	10%
Balance Sheet Measure				
Cash at bank and in hand per pupil	£3,344	£ 217	£1,188	£1,086
Fixed Assets Measure				
Capital expenditure per pupil (period)	£11,225	£ 10	£639	£357

*This is the lowest amount for Academies which have recorded income or expenditure for this benchmark.

Benchmark Analysis Data:
Medium Multi Academy Trusts

3,001 to 7,500 pupils

	Highest	Lowest*	Average	Median
Income Measures				
Total income per pupil (annualised)	£10,300	£4,179	£6,625	£6,815
Total GAG income per pupil (annualised)	£6,911	£2,990	£4,997	£5,054
GAG income ratio (as a % of total income)	86%	48%	76%	78%
Capital income per pupil (annualised)	£1,914	£9	£264	£187
Key Overhead Cost Measures				
Total staff costs per pupil (annualised)	£7,008	£3,423	£5,186	£5,147
Premises costs per pupil (annualised)	£6,758	£8	£349	£107
Heat and light costs per pupil (annualised)	£185	£ 20	£95	£96
Repairs and maintenance costs per pupil (annualised)	£628	£6	£160	£119
Catering costs per pupil (annualised)	£346	£2	£151	£155
Total costs per pupil (annualised)	£10,231	£4,539	£7,067	£6,903
Staff cost ratio (as % of total costs)	85%	49%	74%	75%
Staff Salary Measures				
Teaching staff salary per pupil (annualised)	5,214	£1,363	£2,443	£2,364
Non-teaching staff salary per pupil (annualised)	£3,449	£437	£1,447	£1,380
Average teaching staff salary (annualised)	£67,844	£29,359	£45,676	£43,986
Average non-teaching staff salary (annualised)	£40,132	£8,155	£22,356	£22,323
Key management personnel costs per pupil (annualised)	£705	£38	£206	£175
LGPS Pension Cost Measure				
LGPS contributions per pupil (period)	£1,633	£141	£336	£253
Pupil / Teacher Measures				
Pupil to teacher ratio (period)	29.3	12.7	19.4	18.7
Teaching to non-teaching staff ratio (period)	1.7	0.3	0.8	0.8
Surplus / (Deficit) Measures				
Free reserves movement (as % total income) (period)	7%	1%	2%	2%
Cumulative free reserves (as a % of total income) (period)	21%	1%	9%	9%
Balance Sheet Measure				
Cash at bank and in hand per pupil	£2,569	£459	£1,214	£1,140
Fixed Assets Measure				
Capital expenditure per pupil (period)	£9,764	£3	£626	£274

*This is the lowest amount for Academies which have recorded income or expenditure for this benchmark.

Benchmark Analysis Data:
Large Multi Academy Trusts

More than 7,500 pupils

	Highest	Lowest*	Average	Median
Income Measures				
Total income per pupil (annualised)	£9,083	£5,823	£6,848	£7,066
Total GAG income per pupil (annualised)	£6,475	£4,056	£5,191	£5,219
GAG income ratio (as a % of total income)	96%	62%	76%	76%
Capital income per pupil (annualised)	£510	£104	£236	£220
Key Overhead Cost Measures				
Total staff costs per pupil (annualised)	£7,633	£1,279	£5,212	£5,225
Premises costs per pupil (annualised)	£1,013	£20	£325	£358
Heat and light costs per pupil (annualised)	£214	£66	£55	£69
Repairs and maintenance costs per pupil (annualised)	£382	£46	£157	£125
Catering costs per pupil (annualised)	£1,606	£2	£157	£95
Total costs per pupil (annualised)	£9,670	£5,568	£7,147	£7,099
Staff cost ratio (as % of total costs)	92%	17%	73%	74%
Staff Salary Measures				
Teaching staff salary per pupil (annualised)	£4,358	£1,396	£2,452	£2,277
Non-teaching staff salary per pupil (annualised)	£2,913	£602	£1,518	£1,366
Average teaching staff salary (annualised)	£74,228	£29,074	£43,404	£41,897
Average non-teaching staff salary (annualised)	£48,125	£8,922	£25,712	£25,148
Key management personnel costs per pupil (annualised)	£276	£38	£99	£79
LGPS Pension Cost Measure				
LGPS contributions per pupil (period)	£489	£130	£254	£248
Pupil / Teacher Measures				
Pupil to teacher ratio (period)	23.3	5.2	17.2	17.3
Teaching to non-teaching staff ratio (period)	3.4	0.5	1.0	0.8
Surplus / (Deficit) Measures				
Free reserves movement (as % total income) (period)	6%	0.2%	2%	1%
Cumulative free reserves (as a % of total income) (period)	27%	2%	9%	9%
Balance Sheet Measure				
Cash at bank and in hand per pupil	£3,801	£593	£1,312	£1,192
Fixed Assets Measure				
Capital expenditure per pupil (period)	£2,941	£1	£400	£267

*This is the lowest amount for Academies which have recorded income or expenditure for this benchmark.

Kreston Academies Group

The Kreston Academies Group is a network of independent accounting and business advisory firms in the UK that share a common interest and specialisation in the charity and education sector. The group advises over 320 Academy Trusts representing over 2,400 schools and numerous other charity and not-for-profit organisations.

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The UK firms that have participated in the report are:

BHP

Philip Allsop
0114 2667171
philip.allsop@bhp.co.uk
Derbyshire and Yorkshire

Bishop Fleming

Pam Tuckett
03333 21 9000
ptuckett@bishopfleming.co.uk
South West and West Midlands

Clive Owen LLP – Chartered Accountants & Business Advisers

Chris Beaumont
01325 349700
chris.beaumont@cliveowen.com
North East and Yorkshire

Duncan & Toplis

Rachel Barrett
0808 169 1196
rachel.barrett@duntop.co.uk
East Midlands

James Cowper Kreston – Accountants & Business Advisers

Darren O'Connor
0118 9590261
doconnor@jamescowper.co.uk
Oxfordshire, Thames Valley and the South

Kreston Reeves

Peter Manser
0330 124 1399
peter.manser@krestonreeves.com
London and South East

Mitchell Charlesworth – Accountants • Business Advisors

Philip Griffiths
0151 255 2300
philip.griffiths@mitchellcharlesworth.co.uk
North West

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Media enquiries

For all media enquiries, please contact The Influence Crowd on 020 7117 6015 or claire@theinfluencecrowd.co.uk

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Visit us at
www.kreston.com