



Department  
for Education

# **ACADEMY SCHOOLS SECTOR IN ENGLAND**

# **CONSOLIDATED ANNUAL REPORT AND ACCOUNTS**

**For the year ended 31 August 2017**



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for Education

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Annexes to this report can be found at: <https://www.gov.uk/government/collections/academies-sector-annual-reports-and-accounts>

# INTRODUCTION TO THE ACADEMY SCHOOLS SECTOR ANNUAL REPORT AND ACCOUNTS

Academies are independent state schools that are directly funded by the Department for Education (DfE) via the Education and Skills Funding Agency (ESFA). Every academy is required to be part of an Academy Trust (AT), which is a charity and company limited by guarantee. Every AT enters into a funding agreement with the Secretary of State for Education that sets out the requirements for individual academies and the conditions under which grants are paid. There are a number of different types of academies, providing a range of academic provision. Further details are provided in Annex 1.

This publication provides an overview of all academy schools in England. It fulfils the reporting requirements of the *Academies Act 2010*<sup>1</sup> alongside the requirement to report on the finances of the sector.<sup>2</sup>

The *Academies Act 2010* requires reporting of performance information over the academic year ending 31 July. The Accounts Direction provided by HM Treasury to the Department defines the academic year as ending 31 August. In order to meet legislative requirements, performance data has been provided for the academic year as defined by the *Academies Act 2010*. However, where relevant, these figures have been restated for the Accounts Direction definition in either footnotes or annexes.

The Annual Report and Accounts (ARA) as a whole has been presented in line with the Government Financial Reporting Manual (FReM), except for the derogations noted in Annex 4. The most notable areas for deviations from the FReM are in the Staff report and Accountability Report, primarily due to structural differences between the sector and central government Departments, such as the lack of a sectoral board of directors. Where possible, the spirit of the requirements has been followed.

The ARA is structured as follows:

- *Performance Report* – a summary of the financial position (P.8) and wider performance of the sector;
- *Accountability Report* – a summary of the Department's governance structures that provide oversight over the academies sector. This section also includes the sector's Remuneration and Staff Report (P.38); and
- *Financial Statements* – the standard reporting requirement required by Treasury, including details of related party transactions in the sector (P.66).

<sup>1</sup> Section 11 of the *Academies Act 2010* places a duty on the Secretary of State for Education to prepare, publish and lay an annual report on academies in England before Parliament. The legislation requires the inclusion of information on the academy arrangements entered into and the performance of academies during the year. In relation to performance, the annual report must contain information collected under regulations made under section 537 of the *Education Act 1996* and under the contractual arrangements academies enter into with the Secretary of State for Education.

<sup>2</sup> In line with the accounting requirements of the FReM (<https://www.gov.uk/government/collections/government-financial-reporting-manual-frem>).

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# PERFORMANCE REPORT

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# MINISTERIAL OVERVIEW



This report is a significant part of the accountability system for the academy sector. Whilst the sector is rightfully independent, as Minister for the School System, I am responsible for ensuring that the Department holds Academy Trusts to account and that they exercise effective control over the use of public funds.

The academies sector has enjoyed notable successes in the 2016/17 academic year, as detailed in this report. The sector continues to grow and evolve, with an increased proportion of academies benefitting from economies of scale and enhanced mutual support with multi-academy trusts.

However, there remains more to be done in ensuring that the sector is deploying appropriate controls over its expenditure, particularly in the areas of executive pay and related party transactions.

On executive pay, we continue to challenge Trusts where executive pay is not managed in a transparent, proportionate and justifiable manner. SARA continues to publish the names of all Trusts paying at least one member of staff more than £150,000 (Annex 6) and the Academies Financial Handbook has set out robust expectations for Trusts' process for setting and scrutinising executive pay.

For related party transactions, we are introducing more robust arrangements from April 2019 to ensure that these transactions are transparent and receive sufficient oversight. Academy Trusts will be required to declare all related party transactions to the Education & Skills Funding Agency in advance, and to seek ESFA approval for those that exceed £20,000 either individually or cumulatively.

I'm grateful to staff and pupils for their continuing hard work in improving standards throughout the sector, and look forward to the progress detailed in this report continuing through 2017/18 and future years.

**Lord Theodore Agnew**  
**Parliamentary Under-Secretary**  
**for the School System**

# PERMANENT SECRETARY'S OVERVIEW



I am pleased to introduce the second combined academy sector annual report and accounts – which sets out the consolidated performance and financial results for all academy schools in England over the 2016/17 academic year.

At the start of the 2016/17 academic year, there were 5,773 academies. The academies sector continues to grow. Over the course of the 2016/17 academic year, 1,230 academies opened, with the majority making a voluntary choice to do so. As at 31 July 2017, there were 6,925 open academies, free schools, university technical colleges (UTCs) and studio schools in England, an increase of 20%. In total, by August 2017, around two-thirds of secondary schools and one-fifth of primary schools have become academies. These institutions now educate around half of all children across England.

The number of free schools also continues to increase, with 60 new free schools, UTCs and studio schools opening their doors in the year to July 2017. As at 31 July 2017 there were 432 open free schools (including UTCs and studio schools) in England.

But this report is about more than just recording the growing number of academies – significant as that growth is. As the Secretary of State for Education and I set out recently in our departmental plan, a key objective is to maintain our focus on ensuring all children can access a place at a 'good' or 'outstanding' school. It is vital that academies continue to contribute towards that goal, and it is by looking at the academies sector as a whole – taking financial and educational performance side by side – that we can form that view. That's why this report remains an important part of our accountability framework, and I am grateful to all academies for their support and participation in its preparation.

**Jonathan Slater**  
**Permanent Secretary**  
**30 October 2018**

# PERFORMANCE ANALYSIS

## FINANCIAL OVERVIEW

**Summary:** For the financial year ending 31 August 2017, the academy sector received £22.5 billion income (2015/16: £20.5 billion) and spent £24.8 billion (2015/16: £20.0 billion). The sector incurred a total deficit for the year of £6.1 billion, although this figure included a asset de-recognition charge of £8.4 billion. Total reserves and net assets held by the sector at 31 August 2017 were £42.6 billion (2015/16: £43.4 billion).

**Balance sheet movements:** The net assets of the sector recognised in these accounts have reduced to £42.8 billion as at 31 August 2017 (compared to £43.4 billion at 31 August 2016). The primary driver of this reduction is the Department's decision to de-recognise land and buildings from which academies operate, where DfE have judged the relevant academy not to have control of these assets. This de-recognition has led to a reduction in net assets on the sector's balance sheet of £8.3 billion. Excluding this decision, the sector's recognised net assets would have increased by £9 billion to around £52 billion – reflecting the overall increase in the size of the sector (see 'sector development' section below).

In all cases of de-recognition, these premises continue to be occupied and used by Academy Trusts (ATs). Due to the limitations in the accounting records held, we have approximated the opening valuation for some assets. The impact of this approximation does not affect the closing valuation of assets, but introduces uncertainty over the individual element of the valuation movement and de-recognition value for these assets. Further detail is available in Note 2 to the accounts.

Excluding fixed assets and pension liabilities, the sector's net assets have increased by £0.2 billion (8%), from £2.6 billion to £2.8 billion.

**Distribution of assets and liabilities by category:** The proportions of assets and liabilities recognised in the sector's balance sheet has remained relatively stable in percentage terms despite the de-recognition of £8.4 billion of land and buildings.

Assets	2016/17 £bn	2016/17 %	2015/16 £bn	2015/16 %
Land and Buildings	44.0	85.1	45.4	86.1
Other property, plant and equipment	2.7	5.2	2.8	5.4
Cash	3.5	6.8	3.2	6.1
Receivables	1.3	2.5	1.1	2.0
Other	0.2	0.4	0.2	0.3
<b>Total</b>	<b>51.8</b>	<b>100</b>	<b>52.7</b>	<b>100</b>

Liabilities	2016/17 £bn	2016/17 %	2015/16 £bn	2015/16 %
Pension deficit	7.0	76.1	7.4	79.7
Payables	2.2	23.8	1.9	20.2
Other	<0.1	0.1	<0.1	0.1
<b>Total</b>	<b>9.2</b>	<b>100</b>	<b>9.2</b>	<b>100</b>

### Income and expenditure movements:

Expenditure	2016/17 £bn	2015/16 £bn	2016/17 % of total expenditure	2015/16 % of total expenditure	% change
<b>Staff costs</b>	16.3	14.2	65.7	71	+14.7
<b>Other operating costs</b>	8.5	5.8	34.3	29.0	+46.1
<b>Total</b>	24.7	20.0	100	100	+23.7

Over this period, the number of academies within the sector has increased by 19% to 31 August 2017 and total staff numbers within the sector have increased by 21%, indicating that staff costs per employee are slightly lower than in 2015/16.

The key driver of changes in non-staff costs has been an increase in asset impairments of £2.5 billion, up from £0.3 billion in 2015/16. This increase can be attributed to four factors:

- The 2015/16 valuation exercise was conducted with effect at 31st August 2015, and so any valuation movements were reflected in the opening balances;
- 2016/17 reflects the first time that many sector assets have been revalued due to the five year cycle;
- To address the previous audit qualification, a significant proportion of assets were valued in the current year ahead of their scheduled five year cycle;
- As noted with regard to the de-recognition adjustment above, the previous accounting record gives some element of uncertainty as to the exact impairment and de-recognition charge for some assets.

These impairments are offset by increases in asset values of £7.8 billion resulting in a net movement of £5.3 billion (excluding de-recognition), although these asset value increases are not included in the income for the sector. Operating income has increased by 10%, with grant income increasing by 10% and non-grant income increasing by 9% from 2015/16 to 2016/17.

### Payments to individuals

The number of ATs paying an individual member of staff an emolument in excess of £150k has remained broadly stable at 125 trusts, compared to 121 trusts in 2015/16.

#### Number of ATs paying at least one individual above £150k or £100k

	2016/17: Number of ATs paying at least one individual above this	Proportion of ATs in sector	2015/16: Number of ATs paying at least one individual above this	Proportion of ATs in sector
<b>Payments of £150k or more</b>	125	4.0%	121	4.1%
<b>Payments of £100k or more</b>	941	30.1%	873	29.3%

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

- publication of ATs paying a member of staff or trustee £150k or more;
- seeking assurance from chairs of trustees that structured pay policies and procedures are in place where ATs pay any individual over £150k or two or more over £100k each; and
- challenging ATs to justify their decision-making where a member of staff is paid over £150k or two or more salaries are over £100k each.

## Cumulative AT revenue deficits

Number of ATs in cumulative deficit at 31/08/2017	Proportion of ATs in cumulative deficit at 31/08/2017	Number of ATs in cumulative deficit at 31/08/2016	Proportion of ATs in cumulative deficit at 31/08/2016
185	5.9%	167	5.6%

The table above presents the proportion as a percentage of all ATs included within the SARA from 2016/17 and 2015/16 respectively and therefore differ slightly from the figures presented in a recent ESFA statistical note.<sup>3</sup> The deficit figures above are calculated in respect of cumulative revenue reserves and exclude both capital income and expenditure, and also pension deficits. The total cumulative aggregate deficit for 2016/17 was £65 million (£50 million for 2015/16), compared to total cumulative aggregate surplus of £2.4 billion (£2.2 billion for 2015/16).

## Cash balances

	2016/17	2015/16
<b>Total cash balances</b>	£3.5bn	£3.2bn
<b>Average balance per academy</b>	£509k	£554k

The total value of cash held by the sector has increased by £319 million from £3.2 billion to £3.5 billion (9.9%), which represents a slightly lower rate than the increase in sector size. The proportion of cash held to operational cash expenditure remains stable at 17.5% in 2016/17 compared to 17.3% in 2015/16 (i.e. approximately two month's cash expenditure). The sector is encouraged not to hold more cash than is required to maintain its financial stability. The total value of overdrafts held by the sector is stable at around £1 million. According to Academies Financial Handbook guidance, ATs are required to obtain advance permission from the ESFA before incurring borrowing, including bank overdrafts.

## Related party transactions

	2016/17 number of transactions	2015/16 number of transactions	% change	2016/17 value of transactions £m	2015/16 value of transactions £m	% change
<b>Paid</b>	2,399	3,099	-22.6%	134	122	9.8%
<b>Received</b>	1,074	1,155	-7.0%	105	75	40.0%

Whilst the number of both payments to, and receipts from, related parties has decreased, the value of both payments and receipts has increased. In order to manage governance risks around related parties, the Department has announced that enhanced related party transaction approval procedures will be introduced from 1 April 2019 which requires trusts to declare all RPTs and to seek the ESFA's approval for all transactions over £20,000.<sup>4</sup>

<sup>3</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/728768/Academy\\_revenue\\_reserves\\_2016\\_to\\_2017.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728768/Academy_revenue_reserves_2016_to_2017.pdf)

<sup>4</sup> <https://www.gov.uk/government/speeches/damian-hinds-speech-at-national-governance-association-conference>

# SECTOR DEVELOPMENT

The number of schools operating as academies in England continued to grow in 2016/17, with an increase in the number of academies of 20% between 31 July 2016 and 31 July 2017. Figure 1 shows the growth in the number of academies over recent years.

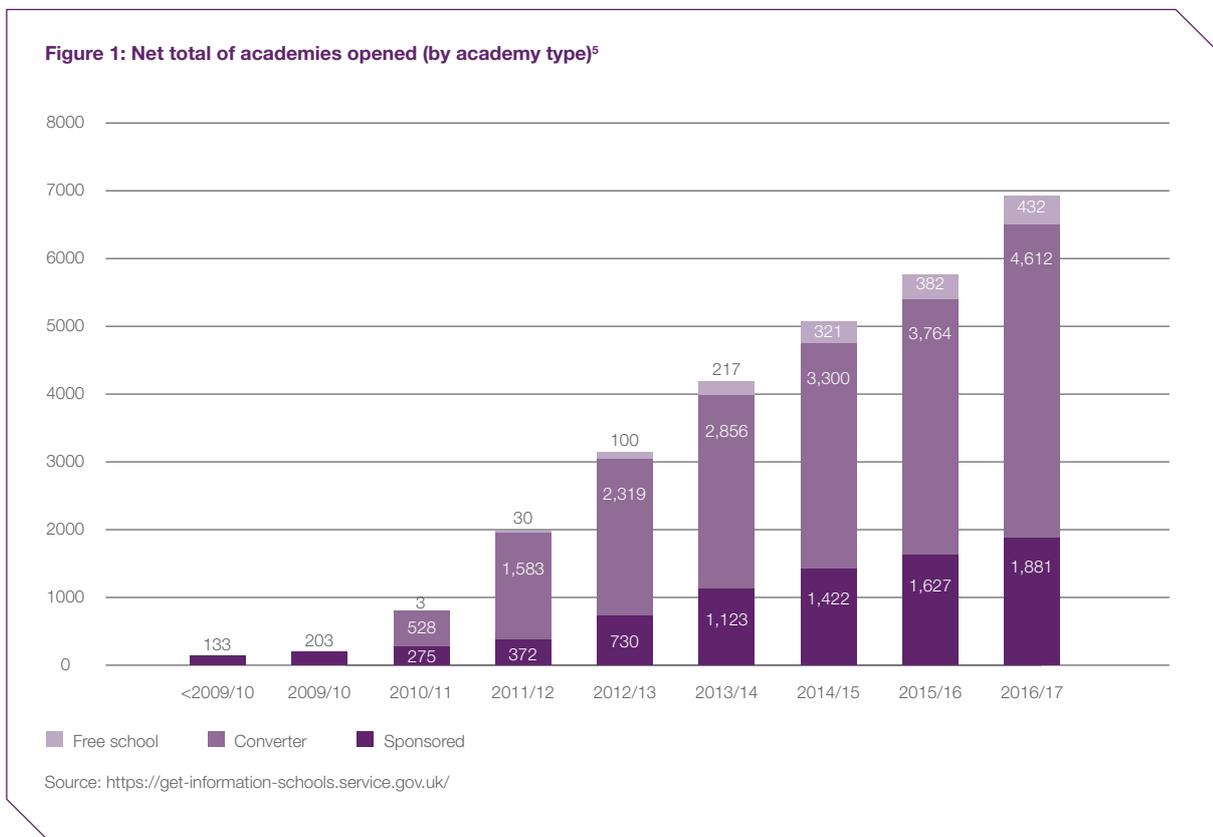


Figure 1 shows the number of academies that were open at, and that opened during the year to 31 July 2017, broken down by different types of provision.

<sup>5</sup> This figure shows the number of academies open as at 31 July each year, taking into account any closures during that year. Between 1 August 2016 and 31 July 2017, 84 academies closed. These are listed in Anex 1 <https://www.gov.uk/government/collections/academies-sector-annual-reports-and-accounts>. During August 2017, a further 47 academies opened and 43 academies closed. The academies that closed during August 2017 are also listed in Annex 1.

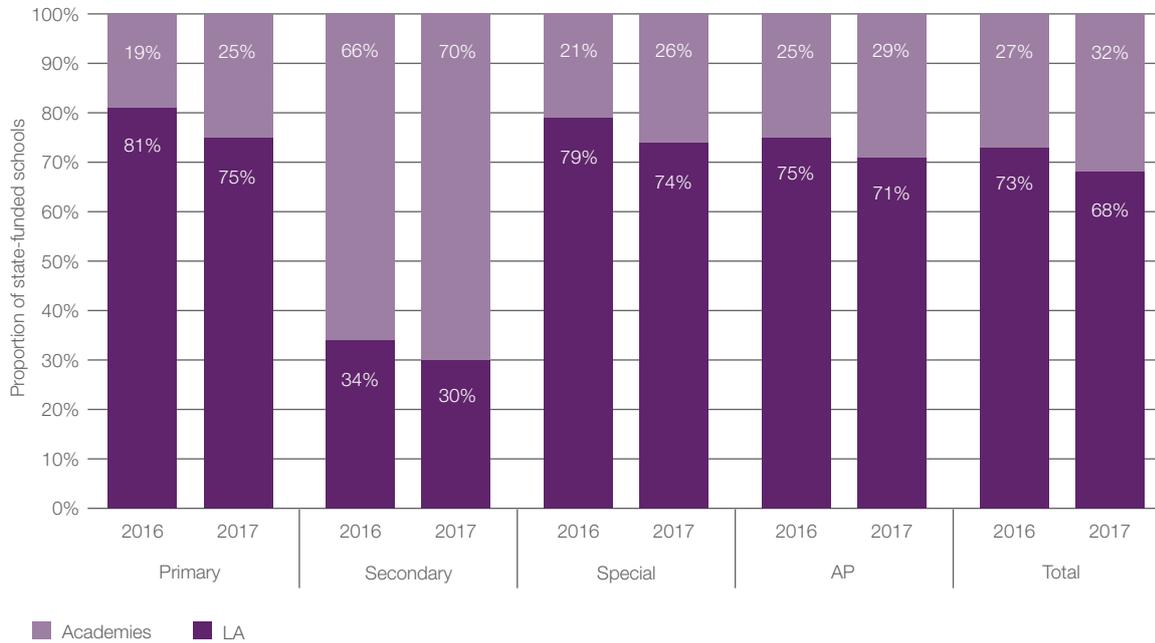
**Figure 2: Number of academies by type and provision open at 31 July 2017, including the number opened during the year to 31 July<sup>6</sup>**

	Academy type	Provision type				Total
		Primary	Secondary	Special	Alternative provision	
<b>Total open at 31 July 2017</b>	Sponsored	1,168	645	44	21	1,878
	Converter	2,877	1,507	186	45	4,615
	Free school	135	237	23	37	432
	<b>Total</b>	<b>4,180</b>	<b>2,389</b>	<b>253</b>	<b>103</b>	<b>6,925</b>
<b>Number opened in year to 31 July 2017</b>	Sponsored	195	66	11	8	280
	Converter	751	100	37	2	890
	Free school	19	32	4	5	60
	<b>Total</b>	<b>965</b>	<b>198</b>	<b>52</b>	<b>15</b>	<b>1,230</b>

Source: <https://get-information-schools.service.gov.uk/>

At 31 July 2017, over 30% of state-funded schools were operating as academies, although this proportion varied by type of provision, as shown in Figure 3. While academies accounted for 70% of all secondary provision, they accounted for between 25% and 29% of other types of provision. Additionally, as there are fewer state-funded secondary schools than primary schools, a smaller number of secondary academies represents a bigger proportion of state-funded secondary schools.

**Figure 3: Proportion of state-funded schools operating as academies by provision type at 31 July 2017<sup>7</sup>**



Source: <https://get-information-schools.service.gov.uk/>

Academies as a proportion of state-funded provision continued to vary by local authority (LAs). Of the 152 LAs in England, 142 offered state-funded primary provision. 21 LAs had at least 50% of their state-funded primary provision operating as academies. There were no LAs where all state-funded primary schools were academies. Two LAs had no primary academy provision, and 13 had 5% or less primary academy provision.

State-funded secondary-level provision was provided by 149 LAs. There were eight LAs where all provision was through academies, and a further 113 where more than 50% were academies. One LA had no state-funded secondary academy provision, but all others had at least 8%.

State-funded special provision was offered by 150 LAs: 47 LAs had no academy special provision, 56 LAs had less than 50% academy special provision, and 47 LAs had 50% or more, including eight with 100% academy provision.

There were 142 LAs with state-funded alternative provision, of which 80 LAs had no academy alternative provision, and 16 had less than 50%. There were 46 LAs with 50% or more – including 26 with 100% – academy alternative provision.

<sup>7</sup> At 31 August 2017, 32% of schools were operating as academies.

## MULTI-ACADEMY TRUSTS

At 31 July 2017, there were 4,949 (71%) academies, free schools, studio schools and UTCs in a multi-academy trust (MAT) with more than one academy, forming 987 MATs (compared to 3,636 academies in 763 MATs at 31 July 2016). There were 1,976 academies, free schools, studio schools and UTCs in a single-academy trust (SAT), or in a MAT with only one academy.<sup>8</sup> Figures 4a and 4b show the number of MATs broken down by phase and type of academy.



<sup>8</sup> This can occur where an academy is seeking to set up a MAT chain as the lead academy, so changes its constitution before brokering a formal relationship with other academies.

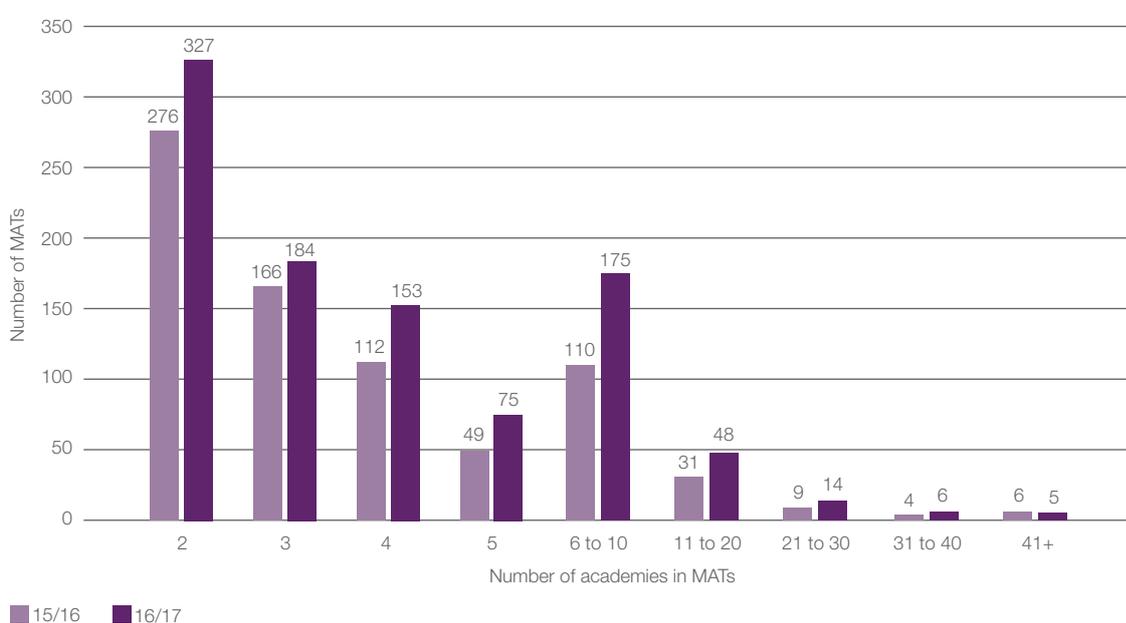
<sup>9</sup> Restated for 31 August 2017 in Annex 1. Available at: <https://get-information-schools.service.gov.uk/>

As of July 2017, sponsored academies were more likely to be part of a MAT than other types of academy as the majority of sponsors were academy converters. More information on academy sponsorship is provided in the following section.

The mean number of academies in a MAT was five. The smallest had two academies (although some single-ATs were technically constituted as MATs), while the largest had 61. Figure 5 shows the variation in the number of academies per MAT.

In late 2016, the National Schools Commissioner developed a small-scale pilot to understand how the sharing of experience between larger MATs and smaller MATs might support MATs to grow sustainably. The checks responded to a need – identified by MATs – for greater sharing of experience between MATs. The pilot tested a model of peer review where the chief executive of a larger MAT spent up to three days with a smaller MAT, helping the latter to identify areas to focus on.

**Figure 5: Number of academies per MAT as at 31 July 2017<sup>10</sup>**



Source: <https://get-information-schools.service.gov.uk/>

## ACADEMY SPONSORSHIP

Underperforming schools can be supported by a sponsor. Sponsors work with their academies through the AT and are responsible for the academy's educational performance, governance and financial management.

Sponsors can come from different backgrounds including universities, independent schools, businesses, charities, faith organisations, as well as existing multi and single ATs. In order to be approved as a sponsor, the organisation needs to demonstrate it has the capacity and capability to drive up standards and provide effective school improvement. The relevant Regional Schools Commissioner (RSC), advised by the head teacher board (HTB) for the region, grants sponsor status.

## STRENGTHENING TRUSTS' BOARDS

The Department funds *The Academy Ambassadors programme*,<sup>11</sup> a free service matching business people and professionals with MATs looking to strengthen their boards, which has resulted in experienced business leaders providing support to MATs by joining trust boards as non-executive directors.

## HOW ACADEMIES SUPPORT SCHOOL IMPROVEMENT AS 'SYSTEM LEADERS'

Academies take part in a range of school improvement programmes. These include:

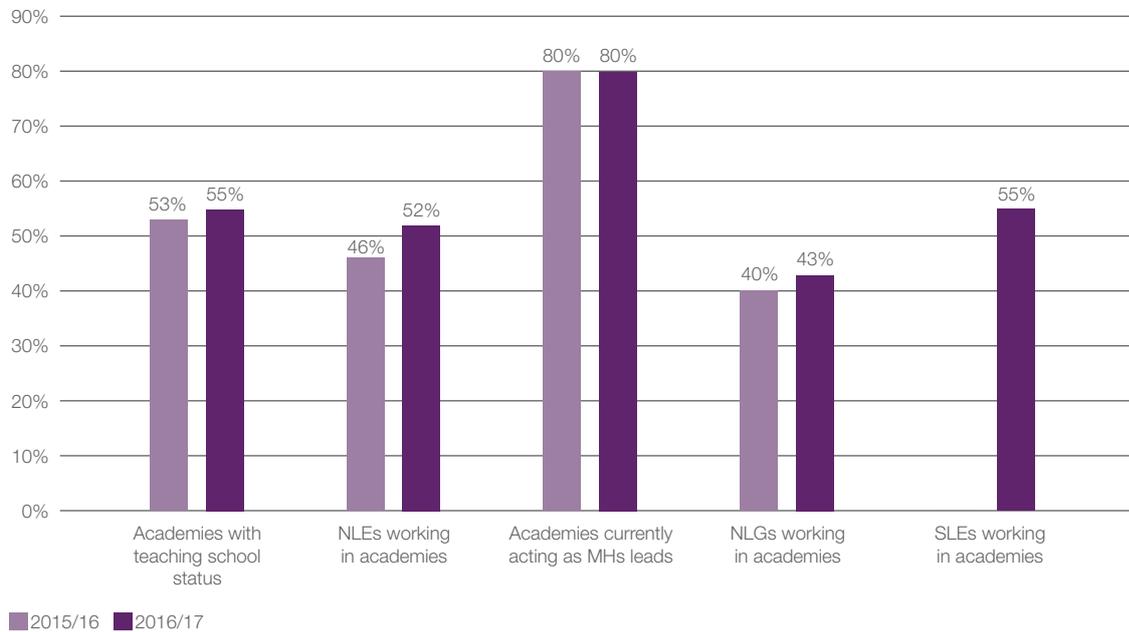
- **Teaching schools (TS)** – These are strong schools with responsibility for collaborating with other institutions in their local area to deliver initial teacher training (ITT), professional development, succession planning, school-to-school support and research and development. As at 31 July 2017,<sup>12</sup> there were 453 academies with teaching school status, representing 55% of all state-funded TS (compared to 387, representing 53% as at 31 July 2016).
- **National Leaders of Education & National Support Schools (NLEs/NSSs)** – NLEs are head teachers of strong schools who, together with the staff from their school (NSSs), use their skills and experience to aim to improve the quality of teaching and leadership in schools in challenging circumstances. As at 31 July 2017,<sup>13</sup> there were 1,359 NLEs (compared to 1,202 NLEs as at July 2016).
- **Maths Hubs (MHs)** – MHs are partnerships between good and outstanding schools, ATs and other organisations that have specialist expertise to support mathematics education. Each hub is led by a school or college that brings together partners to address changing maths education priorities. For example, addressing change in maths education or preparing for curriculum and qualification change.
- **National Leaders of Governance (NLGs)** – NLGs are highly effective chairs of governors who support chairs of governors in other schools. In July 2017,<sup>14</sup> there were 496 NLGs (compared to 511 NLGs as at 31 July 2016).
- **Specialist Leaders of Education (SLEs)** – SLEs are outstanding middle and senior leaders, below the head teacher role, who have a particular area of expertise. SLEs support middle and senior leaders in other schools providing peer-to-peer support. Teaching school alliances (TSA) are responsible for recruiting, designating, brokering, deploying and quality assuring SLEs. There were 9,087 SLEs at 31 August 2017 (c. 8,000 as at 31 August 2016).

11 Academy Ambassadors programme: <https://www.academyambassadors.org/>

12 As at 31 August 2017, there were 453 academies with teaching school status, representing 55% of all state-funded TS.

13 As at 31 August 2017, there were 1,330 NLEs, 689 of whom were working in academies. This number represented 52% of all NLEs.

14 As of 31 August 2017, there were 496 NLGs, 213 of whom were working in academies (43% of all NLGs).

**Figure 6 : Academies taking part in school improvement programmes**

Monthly reports relating to academies taking part in school improvement programmes are available online.<sup>15</sup>

## SUPPORTING SCHOOLS TO MAXIMISE VALUE FROM RESOURCES

The Department is committed to helping schools improve outcomes for pupils and promote social mobility by getting the best value for money from all of their resources, providing support, guidance and tools. This includes the schools financial benchmarking service, which allows schools and trusts to compare their performance and use of resources with other, similar schools. It also includes a programme of deals to save schools money on regular purchases, with many more deals due to be added over the coming year. Our agency supply deal aims to reduce the cost to schools of agency staff, and the cover provided to academies through the Risk Protection Arrangement is expanding at no extra cost to schools.

<sup>15</sup> Teaching schools and system leadership monthly reports: <https://www.gov.uk/government/publications/teaching-schools-and-system-leadership-monthly-report>

## EQUALITY AND PROVISION FOR VULNERABLE AND DISADVANTAGED PUPILS

Statistics on pupil characteristics are obtained on an annual basis through the school census, with information in this report taken from the *January 2017 results*,<sup>16</sup> to be congruent with the reporting period. Academic attainment by pupil characteristic is provided in Figures 14 and 16.

### Gender

The gender split in primary academies is broadly in line with the national average. Boys represent 50.9% of the intake in primary converter academies and 51.1% in sponsored academies, compared with 51% across all state-funded primary schools. 50.4% of pupils at secondary converter academies are girls, compared with 49.8% across all state-funded secondary schools (see Figure 7). At secondary sponsored academies 51.7% of pupils are boys, and 48.3% are girls.

### Ethnicity

Sponsored academies have a higher percentage of minority ethnic pupils than the national average. Conversely, converter academies have a lower percentage of minority ethnic pupils than the national average.

In 2017 across all state funded primary schools, 32.1% of pupils were from a minority ethnic group. In primary sponsored academies, the percentage of pupils from a minority ethnic group was 37.9% and in primary converter academies it was 28.3%. In 2017, across all state-funded secondary schools, 29.1% of pupils were from a minority ethnic group. In secondary sponsored academies the percentage was 32.8% and in secondary converter academies it was 25.8% (see Figure 7).

<sup>16</sup> Schools, pupils and their characteristics, January 2017:  
<https://www.gov.uk/government/statistics/schools-pupils-and-their-characteristics-january-2017>

**Figure 7: Distribution of gender and ethnicity of pupils split by type and phase of academy as at January 2017**

	Sponsored	Converter	Free schools <sup>17</sup>	LA-maintained	All state-funded
<b>Mainstream primary schools</b>					
<b>Gender</b>					
Boys	51.1%	50.9%	51.3%	51.0%	51.0%
Girls	48.9%	49.1%	48.7%	49.0%	49.0%
<b>Ethnicity</b>					
White	71.3%	77.8%	45.6%	74.5%	74.7%
Mixed	6.3%	5.5%	10.5%	6.0%	5.9%
Asian	11.8%	9.4%	26.2%	10.8%	10.7%
Black	7.0%	4.6%	10.4%	5.7%	5.6%
Chinese	0.3%	0.4%	0.7%	0.5%	0.4%
Any other ethnic group	2.3%	1.5%	4.5%	1.9%	1.9%
Unclassified	0.8%	0.7%	2.2%	0.7%	0.7%
Minority Ethnic Pupils <sup>18</sup>	37.9%	28.3%	64.8%	32.2%	32.1%
<b>Mainstream secondary schools</b>					
<b>Gender</b>					
Boys	51.7%	49.6%	56.9%	49.9%	50.2%
Girls	48.3%	50.4%	43.1%	50.1%	49.8%
<b>Ethnicity</b>					
White	72.8%	77.8%	56.5%	73.4%	75.1%
Mixed	5.5%	4.8%	7.1%	4.8%	5.0%
Asian	10.0%	9.8%	19.9%	11.8%	10.7%
Black	7.6%	4.3%	9.2%	6.4%	5.6%
Chinese	0.3%	0.5%	0.4%	0.3%	0.4%
Any other ethnic group	2.3%	1.5%	2.5%	1.7%	1.7%
Unclassified	1.5%	1.3%	4.3%	1.5%	1.5%
Minority ethnic pupils	32.8%	25.8%	45.9%	31.1%	29.1%

Source: School census January 2017

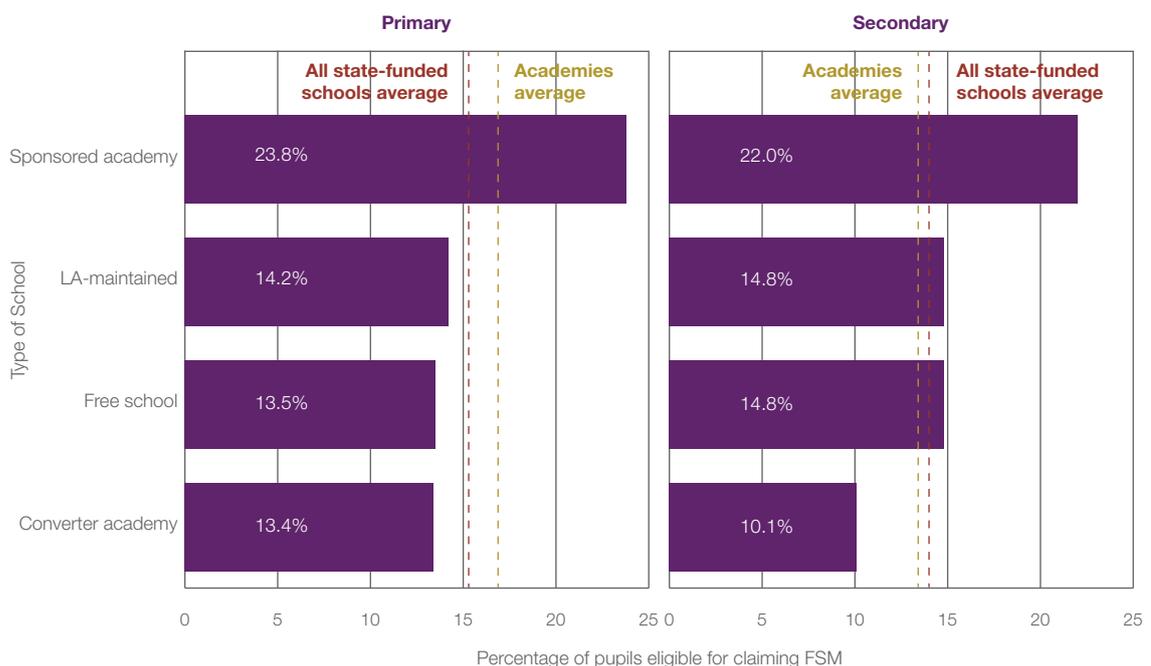
17 Including studio schools and UTCs.

18 Includes all pupils classified as belonging to an ethnic group other than White British (excludes unclassified).

## PUPILS ELIGIBLE FOR FREE SCHOOL MEALS

Overall, the percentage of pupils eligible for and claiming free school meals (FSM) in primary academies is higher than the national average across all state-funded primary schools. In January 2017, 16.3% of primary academy pupils were known to be eligible for and claiming FSM,<sup>19</sup> compared with 14.7% across all state funded primary schools (see Figure 8). Conversely, the percentage of FSM pupils in all secondary academies is slightly lower than the average across all state-funded schools. In secondary academies, 13.3% of pupils were known to be eligible for and claiming FSM compared with 13.8% across all state-funded secondary schools.<sup>20</sup>

**Figure 8<sup>21</sup>: Percentage of pupil's eligible for and claiming FSM by type and phase of academy as at January 2017<sup>22</sup>**



In primary and secondary sponsored academies, there is a higher percentage of pupils eligible for and claiming FSM than the national average. At primary level, 23.8% of pupils in sponsored academies are eligible for and claiming FSM compared with 14.7% across all state-funded primary schools. In primary free schools, 13.5% of pupils are eligible for and claiming free school meals, below the average for all state-funded primary schools. In secondary sponsored academies, 22.0% of pupils are eligible for and claiming FSM, compared with 13.8% in all state-funded secondary schools. In secondary free schools, 14.8% of pupils are eligible for and claiming FSM.

<sup>19</sup> Based on all full time pupils aged 15 and under, and part time pupils aged 5 to 15.

<sup>20</sup> Schools, pupils and their characteristics: January 2017 (Table 3b and Table 3c)  
<https://www.gov.uk/government/statistics/schools-pupils-and-their-characteristics-january-2017>

<sup>21</sup> Details in Table A, Annex 3 <https://www.gov.uk/government/collections/academies-sector-annual-reports-and-accounts>

<sup>22</sup> Includes UTC and studio schools at secondary level.

## SPECIAL EDUCATIONAL NEEDS

The law and statutory guidance on *special educational needs (SEN)*<sup>23</sup> and *exclusions*<sup>24</sup> apply equally to academies and LA-maintained schools. Under *the Children and Families Act 2014*, academies have a duty to promote and safeguard the education of children and young people with SEN.

Academies have a similar proportion of pupils with SEN to that of all state-funded schools. Sponsored academies have a higher percentage of pupils with SEN than the national average, while converter academies are below the national average.<sup>25</sup>

In January 2017, across all state-funded primary schools, 13.5% of pupils were identified as having a special educational need (including SEN support and education, health and care plans and statements). In primary sponsored academies, the percentage was 15.4% and in primary converter academies it was 12.8%. In primary free schools, 10.6% of pupils were identified as having SEN.

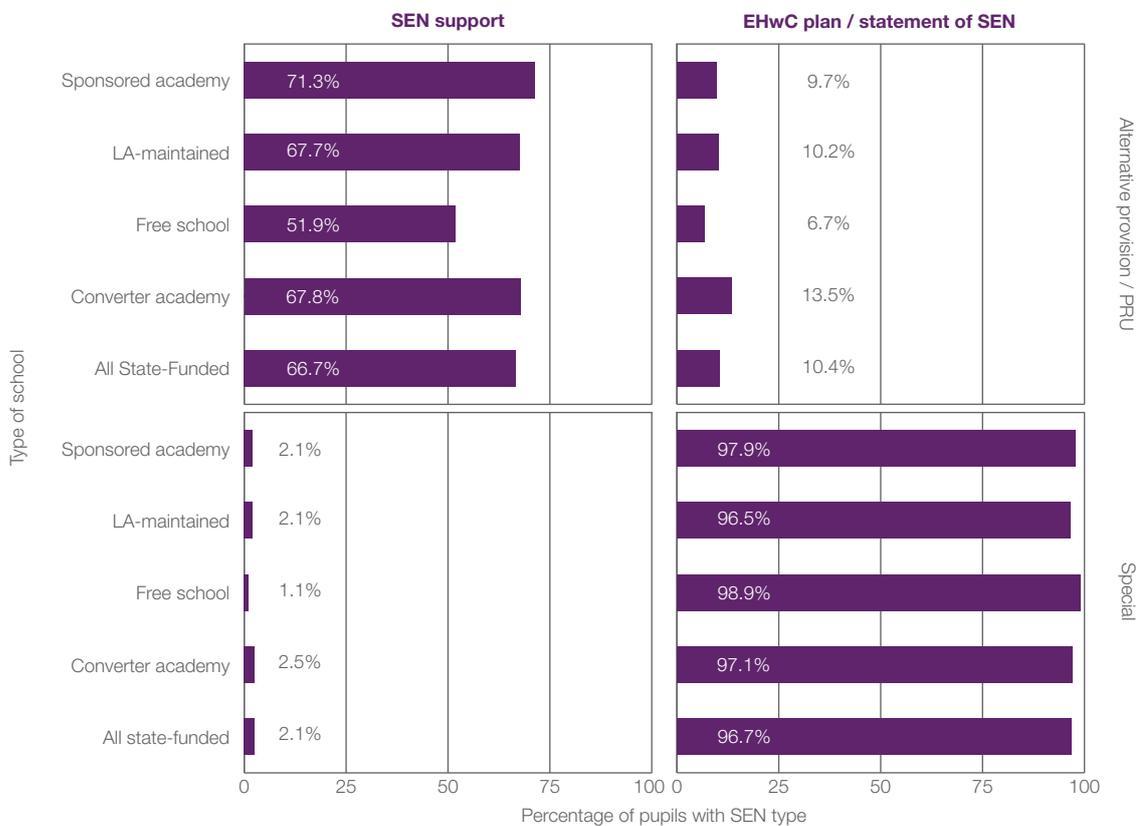
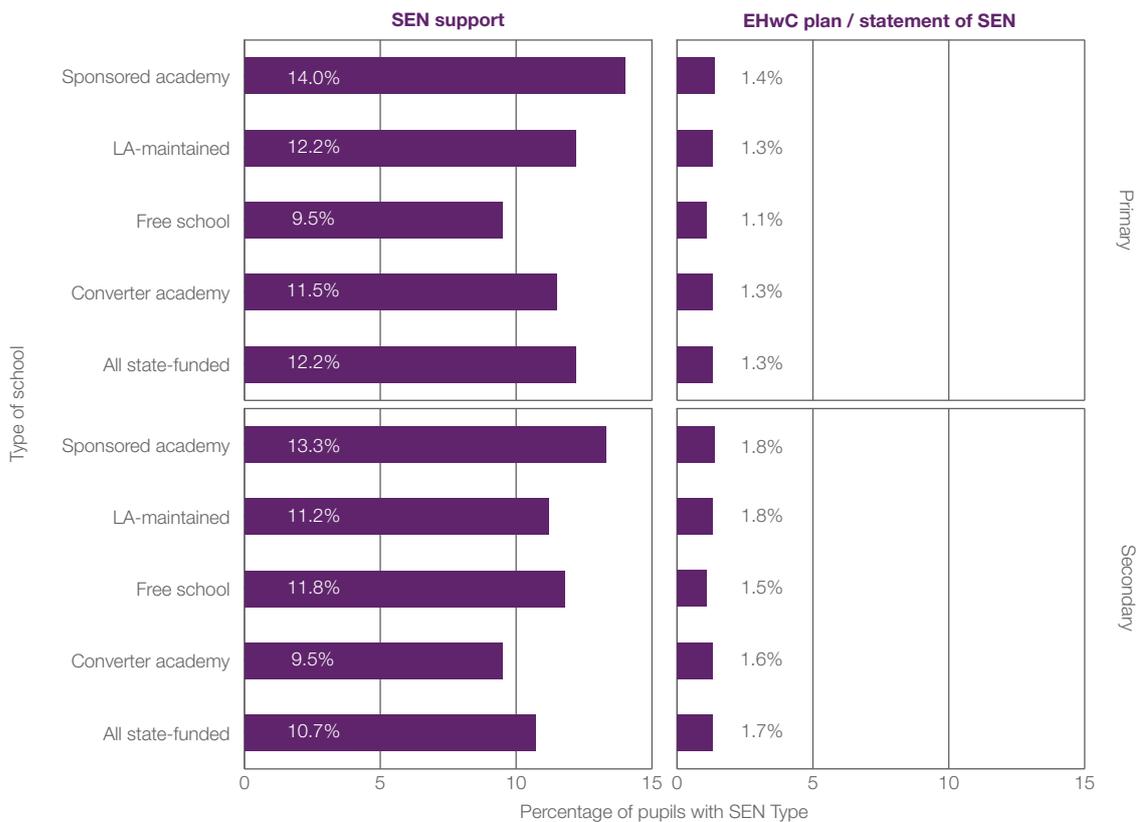
Across all state-funded secondary schools, 12.4% of pupils were identified as having SEN. In secondary sponsored academies, the percentage was 15.1% and in secondary converter academies it was 11.0%. In secondary free schools, UTCs and studio schools 13.4% of pupils were identified as having SEN (see Figure 9 and Table B, Annex 3 <https://www.gov.uk/government/collections/academies-sector-annual-reports-and-accounts>).

23 *The Children and Families Act 2014*: <http://www.legislation.gov.uk/ukpga/2014/6/contents/enacted> and the associated SEND Code of Practice: <https://www.gov.uk/government/publications/send-code-of-practice-0-to-25>

24 Statutory guidance on school exclusion: <https://www.gov.uk/government/publications/school-exclusion>

25 Special educational needs in England, January 2017: <https://www.gov.uk/government/statistics/special-educational-needs-in-england-january-2017>

**Figure 9<sup>26</sup>: Special educational needs split by type and phase of academy as at January 2017**



Special academies have close to 100% of pupils with some SEN requirement, with almost all requiring a statement of SEN or an EHC plan – see Table B, Annex 3 <https://www.gov.uk/government/collections/academies-sector-annual-reports-and-accounts>. Proportions of SEN requirements and support across all types of state-funded special schools are similar.

Although offering a different type of provision, three-quarters of pupils in alternative provision (AP) have SEN requirements, with a smaller proportion having a statement of SEN or EHC plan. Converter AP academies have 81.3% of pupils identified as SEN, while sponsored AP academies have 80.9%, both slightly higher than LA provision. However, AP free schools have 58.6% of pupils identified as SEN, lower than other types of state-funded AP.

# EDUCATIONAL PERFORMANCE

Comparisons between sponsored academies and LA schools are complex. For example, many of the poorest performing schools have now become sponsored academies, which raises the average quality of the remaining LA-maintained schools. Conversely, many high performing LA-maintained schools have become converter academies and this can act to reduce the average quality of the remaining LA-maintained schools. In addition, the group of schools included in each category changes from one year to the next. This means that comparing the headline performance figures reflects not only the change in performance and the effect of reforms, but also the change in school composition. As discussed above (P.25), the socio-economic background of academy sector pupils differs from the overall national population, with significantly more sponsored academy pupils eligible for FSM compared to the overall state-funded school population.

This report focuses on the results from testing done at Key Stage 2 (KS2), Key Stage 4 (KS4 – pupils aged between 14 and 16), and Level 3 (usually pupils aged 16 to 19).

Academy performance statistics refer to those academies that had been open for at least one full academic year. That means the statistics in this report refer to academies that were open by September 2016.

## PERFORMANCE AT PRIMARY ACADEMIES

The 2017 KS2 assessments were the second year to assess the new national curriculum, which was introduced in 2015. Because of these changes to the curriculum, figures for 2016 onwards are not comparable to those for earlier years.

At KS2, there are externally graded tests taken in maths and reading; writing is teacher assessed (TA) over the academic year. Looking at the combined results for all three assessments (see Figure 10), average KS2 attainment in sponsored academies is below the average for LA-maintained mainstream schools and all state-funded schools. Converter academies have a higher percentage of pupils achieving the expected standard in the three assessments than other types of academy. This may be partly explained by the fact that sponsored academies tended to be low performing schools before they became academies, while schools that chose to convert to academy status were often high performing schools before conversion.

At KS2, the progress made by pupils in LA-maintained schools and converter academies is marginally higher than the national average in all subjects as shown in Figure 10. Pupils in sponsored academies made less progress in reading and in mathematics than pupils with similar prior attainment in other types of schools. However, they made more progress in writing than pupils in other types of schools.

**Figure 10: KS2 attainment by type of school, 2016/17<sup>27</sup>**

School type	Attainment in reading, writing and mathematics		Reading	Writing teacher assessment	Mathematics	Grammar, punctuation and spelling
	Reaching the expected standard	Reaching a higher standard	Reaching the expected standard			
Sponsored academies	52%	5%	62%	71%	67%	68%
Converter academies	65%	10%	75%	80%	78%	80%
Free schools	54%	8%	68%	71%	71%	75%
LA-maintained Schools	62%	9%	73%	77%	76%	78%
All state-funded mainstream schools	62%	9%	72%	78%	77%	76%

**Figure 11: KS2 Progress in reading, writing and maths by type of school, 2016/17<sup>28</sup>**

School type	Number of schools	Reading		Writing		Maths	
		Progress score	Confidence interval	Progress score	Confidence interval	Progress score	Confidence interval
Sponsored academies	983	-0.8	-0.8 to -0.7	+0.2	+0.2 to +0.3	-0.3	-0.4 to -0.2
Converter academies	2,174	+0.1	+0.1 to +0.1	+0.1	+0.1 to +0.1	+0.1	+0.1 to +0.1
Free schools	36	-0.7	-1.1 to -0.3	-0.1	-0.5 to +0.3	-0.5	-0.8 to -0.1
LA-maintained Schools	11,784	+0.1	+0.1 to +0.1	0.0	0.0 to +0.1	+0.1	+0.1 to +0.1
All state-funded mainstream schools	14,977	+0.1	0.0 to +0.1	+0.1	0.0 to +0.1	+0.1	+0.1 to +0.1

Analysis of trends over time shows that sponsored academies open for two or more academic years showed an increase in attainment of between 7 and 9 percentage points<sup>29</sup> which is in line with the increase for all schools nationally (8 percentage points). Sponsored academies open for only a year showed the biggest improvement since 2016 (12 percentage points). It should be noted that for this group, figures for 2016 would include results for the predecessor schools prior to conversion to academy status. For both sponsored and converter academies the percentage of pupils reaching the expected standard was greatest for academies open for six or more academic years.

KS2 results can also be broken down by pupil characteristics, as shown in the national curriculum assessments data.<sup>30</sup> This shows that at KS2, pupils eligible for FSM made less progress than pupils at the same type of school who were not eligible for FSM.

The gap between the progress made in reading by FSM pupils and all other pupils is smallest in sponsored academies compared to other school types. In writing, the smallest gap is in LA maintained schools and in maths, the smallest gap is in converter academies.

27 Details in Table E, including more detailed breakdown by subject and pupil characteristic in Annex 3 <https://www.gov.uk/government/collections/academies-sector-annual-reports-and-accounts>.

28 Details in Table E, including more detailed breakdown by subject and pupil characteristic in Annex 3.

29 National curriculum assessments at Key Stage 2 in England, 2017 (Table D and Table E): [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/667372/SFR69\\_2017\\_text.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/667372/SFR69_2017_text.pdf)

30 National curriculum assessments at Key Stage 2 in England, 2017: <https://www.gov.uk/government/statistics/national-curriculum-assessments-key-stage-2-2017-revised>

A full breakdown of proportion of pupils meeting the expected standard by pupil characteristic and academy type is provided in Tables N13 and N14 of the KS2 national curriculum assessments.<sup>31</sup>

Pupil progress in primary school is calculated at school level by comparing their KS2 assessment results against those of pupils nationally who had similar starting points, as identified through the teacher assessed KS 1 attainment.

On average, pupils in sponsored academies made less progress than pupils with similar prior attainment in other types of schools, *in reading, and mathematics*,<sup>32</sup> but more progress in writing.

On average, pupils eligible for FSM made less progress than those not eligible for FSM at the same school. A full breakdown of progress results by subject and pupil characteristic is available in Annex 3.

## PERFORMANCE AT SECONDARY ACADEMIES

In 2017, pupils sat reformed GCSEs in English Language, English Literature and Mathematics for the first time, graded on a 9-1 scale. New GCSEs in other subjects are being phased in over 3 years: from September 2016, 2017 and the remaining few from 2018. When comparing 2017 headline measures to the equivalent data from 2016, it is important to note the changes in methodology underpinning the 2017 data.<sup>33</sup>

Attainment in English and Maths by school type can be found in Figure 10. Other headline measures of attainment can be found in the KS4 performance data publication.<sup>34</sup>

On average, converter academies have higher attainment across the headline measures than the average for state-funded schools. This may be explained by the fact that these were already high-performing schools that chose to convert to academies. The converse may be true of sponsored academies, which perform below the average for state-funded schools, as these are schools that were already underperforming before their conversion to academy status.

The numbers of free schools, UTCs and studio schools with year 11 pupils are too small to allow robust conclusions to be drawn about their performance at the end of KS4,<sup>35</sup> or to make comparisons between years.

The percentage of pupils achieving grade 4/C or above in English and maths has increased in both sponsored academies and converter academies. In 2017, 53.9% of pupils in sponsored academies achieved this, compared with 53% in 2016. In converter academies, 70.6% of pupils achieved a grade 4 or above in English and maths, compared with 69.8% of pupils achieving grade A\*-C in English and maths in 2016. This means that performance in academies remains above the national average for all state-funded schools on this measure (see Figure 13).

31 SFR69/2017: National curriculum assessments at Key Stage 2, 2017 (revised): [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/675991/SFR69\\_KS2\\_2017\\_National\\_Tables.xlsx](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/675991/SFR69_KS2_2017_National_Tables.xlsx)

32 National Curriculum assessments KS2 data (Table N5b): <https://www.gov.uk/government/statistics/national-curriculum-assessments-key-stage-2-2016-revised>

33 A more detailed explanation of the changes to the methodology is available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/676213/SFR01\\_2018\\_QualityandMethodology.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/676213/SFR01_2018_QualityandMethodology.pdf)

34 Revised GCSE and equivalent results in England, 2016 to 2017: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/676596/SFR01\\_2018.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/676596/SFR01_2018.pdf)

35 There are 53 free schools, 40 university technical colleges (UTCs) and 34 studio schools with results in 2017.

**Figure 12: Percentage of pupils achieving grade 4/C or above in English and maths by year and academy type in 2016 and 2017**

Academy type	Percentage of pupils achieving grade A*-C in English and maths in 2016	Percentage of pupils who achieved a 9-4 pass in English and maths in 2017
Sponsored academies	53.0	53.9
Converter academies	69.8	70.6
Free schools	64.5	69.8
University technical colleges	51.2	53.0
Studio schools	34.1	44.2
Local authority maintained mainstream schools	62.2	63.2
All state-funded mainstream schools	64.1	65.1

Sponsored academies open for five academic years had the lowest percentage of pupils achieving a grade 4 or above in 2017 for English and Maths (49.7%), and those open for seven years or more had the highest percentage (55.3%).

Converter academies tend to have a higher percentage of pupils achieving a grade 4 or above in English and maths the longer they have been open. Those open for four years are an exception and have a lower percentage than those open for three years (65.9% compared to 66.5% – see Figure 13).

**Figure 13<sup>36</sup>: Percentage of pupils achieving grade 4/C or above in English and maths by number of academic years open and academy type in 2016/17<sup>37</sup>**

	Number of schools with results	% achieving grade 4/C or above in English and maths	
		2015/16	2016/17
<b>Sponsored academies</b>			
Open for one academic year	41	50.7	51.4
Open for two academic years	56	53.5	54.6
Open for three academic years	58	52.6	54.5
Open for four academic years	78	49.3	53.7
Open for five academic years	60	50.6	49.7
Open for six academic years	47	52.5	51.5
Open for seven or more academic years	253	54.8	55.3
<b>All sponsored academies</b>	<b>593</b>	<b>53.0</b>	<b>53.9</b>
<b>Converter academies</b>			
Open for one academic year	57	63.6	64.7
Open for two academic years	47	65.5	66.3
Open for three academic years	67	66.1	66.5
Open for four academic years	155	64.0	65.9
Open for five academic years	371	68.0	68.8
Open for six academic years	651	72.9	73.6
Open for seven or more academic years	27	77.3	77.2
<b>All converter academies</b>	<b>1,375</b>	<b>69.8</b>	<b>70.6</b>
<b>All LA-maintained schools</b>	<b>1,038</b>	<b>62.4</b>	<b>63.2</b>

36 Details in Table F, Annex 3 <https://www.gov.uk/government/collections/academies-sector-annual-reports-and-accounts>.

37 Revised GCSE and equivalent results in England, 2015 to 2016 (Table 18 and Table 20): [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/584473/SFR03\\_2017.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/584473/SFR03_2017.pdf)

Following the changes to the English and Mathematics GCSEs in 2017, Attainment 8 scores were calculated on different point scales compared to 2016. This makes it difficult to draw comparisons with previous years and may have affected different school types in varying ways, as changes to accountability may lead schools to prioritise performance in different measures. The following analysis therefore only concentrates on progress measures. However, Progress 8 scores are not directly comparable between years so this report does not present comparisons between 2016 and 2017 Progress 8 scores. Further information on Attainment 8 and Progress 8 is available in *Revised GCSE and equivalent results in England 2016 to 2017*.<sup>38</sup>

Progress 8 aims to capture the progress pupils make from the end of KS2 to the end of KS4 (from the end of primary school to the end of secondary school). It compares pupils' achievement – their Attainment 8 score – with the average Attainment 8 score of all pupils nationally who had a similar starting point (or 'prior attainment'), calculated using assessment results from the end of primary school.

A school's Progress 8 score is calculated as the average of its pupils' Progress 8 scores. It gives an indication of whether, as a group, pupils in the school made above or below average progress compared to similar pupils in other schools. For example:

- a score of zero means pupils in this school on average made similar progress at KS4 to other pupils across England who got similar results at the end of KS2;
- a score above zero means pupils made more progress, on average, than pupils across England who got similar results at the end of KS2; and
- a score below zero means pupils made less progress, on average, than pupils across England who got similar results at the end of KS2, but does not mean pupils made no progress, or the school has failed.

Mainstream converter academies have higher Progress 8 scores compared with LA-maintained mainstream schools. The converse is true of sponsored academies, which perform below the average for LA-maintained schools. This may partly be due to the fact that these are schools were generally underperforming before their conversion to sponsored academy status.

Pupils eligible for and claiming free school meals made slightly more progress in sponsored academies compared to those with similar prior attainment in LA-maintained schools. However, sponsored academies still had lower Progress 8 scores than converter academies for pupils eligible for free school meals (Figure 14).

**Figure 14: Average Progress 8 score per pupil by school type and pupil characteristic, 2017**

Pupil characteristic	Sponsored	Converter	LA-maintained	All mainstream state-funded
All pupils	(0.12)	0.10	(0.06)	0.00
Pupils eligible for and claiming free school meals	(0.42)	(0.34)	(0.44)	(0.40)
All other pupils	(0.05)	0.14	0.01	0.06
White	(0.24)	0.02	(0.15)	(0.08)
Mixed	(0.08)	0.14	(0.09)	0.01
Asian	0.40	0.61	0.40	0.50
Black	0.24	0.27	0.12	0.19
Chinese	1.04	0.95	0.92	0.95
No Identified SEN	(0.06)	0.15	0.01	0.07
All SEN pupils	(0.50)	(0.32)	(0.49)	(0.42)
SEN support	(0.51)	(0.32)	(0.49)	(0.42)
SEN with a statement or EHC plan	(0.44)	(0.35)	(0.50)	(0.42)

Source: Analysis of NPD KS4 data 2017

<sup>38</sup> Revised GCSE and equivalent results in England, 2016 to 2017:  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/676596/SFR01\\_2018.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/676596/SFR01_2018.pdf)

Pupils at converter academies that have been open for a longer time (five or more years) on average make more progress than pupils in more recently converted academies, based on the progress measure shown in the related data.<sup>39</sup> The same can be said, although less strongly, for sponsored academies.

## PERFORMANCE AT ACADEMIES WITH POST-16 PROVISION

Following the introduction of a new 16 to 18 school and college accountability system in 2016, which introduced new headline measures and changes to the methodology for calculating 16 to 18 results, there were further additions in 2017. Tech certificates and other Level 2 vocational qualifications studied by 16 to 18 year olds were published for the first time as headline measures.

The Level 3 attainment measures show the results<sup>40</sup> that students achieved by the end of advanced level study. They take into account results achieved in all Level 3 qualifications recognised in the 2017 performance tables and during all years of 16 to 18 study.

In 2017, converter academies had a higher average point score per entry than the state-funded school average across A Levels, academic qualifications and applied general qualifications. Sponsored academies had a lower average point score per entry in A Levels and academic qualifications but performed at a similar level to the national average in applied general qualifications.

It is important to note that prior attainment at KS4 is not taken into account in these figures. The ability of the student intake may vary significantly across institution types and therefore impact on the patterns seen in the results. For example, sponsored academies may have lower prior attainment due to their background as typically underperforming schools that are taken over by a sponsor.

Level 3 value added takes into account the prior attainment of pupils and gives an indication of the progress that pupils in a school have made in each of the qualification types, compared to other pupils with similar prior attainment.

Converter academies had an overall A Level value added score that was slightly above the average for all state-funded schools. Sponsored academies had an A Level value added slightly below the average for all state funded schools.<sup>41</sup> The same pattern was also seen across all academic qualifications.

In applied general qualifications, sponsored academies had an overall average value added score that was above the national average for all state-funded schools, as did LA-maintained schools. Pupils in converter academies on average made less progress than the national average in applied general qualifications.<sup>42</sup>

## MAT LEVEL ATTAINMENT

In January 2018, the Department published new MAT performance measures based on the 2016/17 school performance data. These are consistent with the school accountability system. For KS2 the Department published three separate current year progress measures at MAT level – one each for reading, writing and maths. At KS4 the Department published one measure at MAT level based on current year Progress 8. For the first time it also published such measures for the disadvantaged pupil cohort.

At KS2, these measures capture the progress that pupils at a school make on average in each of the three subjects from the end of KS1 to the end of KS2. At KS4, Progress 8 aims to capture the average progress that pupils make from the end of primary school to the end of secondary school.

To be included in the MAT performance measures, the MAT must have at least three academies with /results in the relevant key stage as published in the school performance tables. These must have been part of the MAT for at least three full academic years. The measures include state-funded mainstream schools only. Where a MAT is above the national average by a statistically significant amount it can be said that pupils in these MATs do better than other pupils with similar prior attainment nationally.

39 Progress measure data 2016/17 (Tables 2d and 2e): [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/676352/SFR01\\_2018\\_National\\_tables.xlsx](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/676352/SFR01_2018_National_tables.xlsx)

40 16 to 18 attainment data (Table 1a): [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/675855/SFR03\\_2018\\_National\\_Tables.xlsx](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/675855/SFR03_2018_National_Tables.xlsx)

41 As Note 20, Table 1e.

42 As Note 20, Table 1g.

**Figure 15: 2016/17 MAT performance at KS2 and KS4 compared to national average**

Key Stage and measure	Significantly below average		Close to average		Significantly above average	
	Number of MATs	% of MATs	Number of MATs	% of MATs	Number of MATs	% of MATs
KS2 reading	52	34%	69	45%	34	22%
KS2 writing	24	15%	75	48%	56	36%
KS2 maths	46	30%	62	40%	47	30%
KS4 Progress 8	28	45%	15	24%	19	31%

Source: MAT Performance Measures<sup>43</sup>

The headline results are shown in Figure 15. 155 MATs satisfied the definition for inclusion in the KS2 MAT performance measures. This represents 893 individual schools and 35,442 pupils, which is about 6% of the mainstream state-funded KS2 cohort. 62 MATs satisfied the definition for inclusion in the KS4 MAT performance measures, representing 384 individual schools and 54,356 pupils, around 10% of the state-funded mainstream KS4 cohort.

At KS2, MAT performance was mixed across the three subject areas. There were about half as many MATs that were significantly below average in writing progress as in reading and maths. Conversely, there was a smaller percentage of MATs significantly above average in reading progress. At KS4, 45% of MATs were significantly below average in the Progress 8 measure.

**Figure 16: 2016/17 MAT performance of disadvantaged pupils at KS2 and KS4 compared to the national average for disadvantaged pupils**

Key Stage and measure	Significantly below average		Close to average		Significantly above average	
	Number of MATs	% of MATs	Number of MATs	% of MATs	Number of MATs	% of MATs
KS2 reading	24	15%	106	68%	25	16%
KS2 writing	21	14%	95	61%	39	25%
KS2 maths	34	22%	89	57%	32	21%
KS4 Progress 8	22	36%	24	39%	16	26%

Figure 16 shows that a higher proportion of MATs performed close to the average for disadvantaged pupils than for all pupils. Both the reading and maths progress measures indicated a similar proportion of MATs performing both significantly above and below average. The distribution of MAT performance for disadvantaged pupils in the writing progress measure is different to both the reading and maths progress measures. A higher proportion of MATs are performing significantly above average than significantly below average. This is likely to be in part due to the general pattern across all schools that pupils in sponsored academies (typically historically low-performing schools) made less progress in reading and in maths than pupils with similar prior attainment in other types of schools. However, they made more progress in writing.

In 2017, based on the KS4 Progress 8 measure, there were 16 MATs (26%) performing statistically significantly above the national average for disadvantaged pupils in state-funded mainstream schools. There were 22 MATs (36%) performing significantly below average for disadvantaged pupils and 24 MATs (39%) performing close to the national average for disadvantaged pupils.

<sup>43</sup> MAT performance measures, 2016 to 2017:  
<https://www.gov.uk/government/statistics/multi-academy-trust-performance-measures-2016-to-2017>

Given the move to new headline accountability measures in 2016 (progress scores in reading, writing and maths in primary schools and Progress 8 in secondary schools), the Department held only two years of data on this basis for schools. This is not sufficient to create a valid and robust improvement over time measure. Therefore, information about MAT level performance only reflects performance in one given year.

MATs with a national lead more commonly performed significantly above average in KS4 Progress 8 (Table G, Annex 3 <https://www.gov.uk/government/collections/academies-sector-annual-reports-and-accounts>), with 6 out of 10 of these MATs significantly above average. Of the regions with more than two MATs, West Midlands had the highest proportion significantly below average in terms of Progress 8. It is worth noting that national lead MATs tend to be larger, with more pupils, which in turn makes it more likely that any MAT level Progress 8 score is statistically significant.

At KS2, it was national lead MATs that were most often significantly above average in KS2 performance measures (Table I, Annex 3 <https://www.gov.uk/government/collections/academies-sector-annual-reports-and-accounts>), with 64% of them significantly above average in writing, and 55% in maths.

MAT performance at KS2 (Table J, Annex 3 <https://www.gov.uk/government/collections/academies-sector-annual-reports-and-accounts>), shows no clear relationship between the number of schools in a MAT and their performance in KS2 progress measures. Full information on the performance of MATs can be found in the *MAT Performance Measures publication*<sup>44</sup> and a regional breakdown can be found in Tables G – J, Annex 3 <https://www.gov.uk/government/collections/academies-sector-annual-reports-and-accounts>.

**Jonathan Slater**  
**Permanent Secretary**  
**30 October 2018**

<sup>44</sup> MAT performance measures, 2015 to 2016:  
<https://www.gov.uk/government/statistics/multi-academy-trust-performance-measures-2015-to-2016>

PHOTO REDACTED DUE TO THIRD PARTY RIGHTS OR OTHER LEGAL ISSUES

# ACCOUNTABILITY REPORT

PHOTO REDACTED DUE TO THIRD PARTY RIGHTS OR OTHER LEGAL ISSUES

# CORPORATE GOVERNANCE REPORT

The purpose of the Corporate Governance Report is to explain the composition and organisation of the Department's governance structures and to show how they support the achievement of the sector's objectives.

## STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

As the Principal Accounting Officer (AO) for the DfE, I am responsible for the academies sector annual report and accounts (SARA).

Under the terms of my appointment as AO, I am responsible for ensuring that appropriate systems and controls are in place to ensure that:

- any grants that are made to the sector are properly accounted for; and
- ATs are properly accountable for the grants they receive, for other sources of income and for the expenditure that this finances, including its regularity and propriety.

These sector accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the sector as a whole – including its net resource outturn, application of resources, changes in taxpayers' equity, and cash flows for the academic year.

In preparing these accounts, I am required to comply with the requirements of the *Government Financial Reporting Manual*<sup>45</sup> (FReM) and in particular to:

- observe the Accounts Direction issued by HM Treasury (Annex 4 <https://www.gov.uk/government/collections/academies-sector-annual-reports-and-accounts>), including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;

- state whether the applicable accounting standards have been followed, as set out in the FReM, and disclose and explain any material departures in the accounts; and
- prepare the accounts for the sector as a going concern.

In addition to these responsibilities, and specifically with regard to the SARA, I am responsible for:

- agreeing the process for producing the SARA and for ensuring that relevant data is collected and processed accurately and appropriately; and
- ensuring that there is an appropriate control environment for the production of the SARA.

I can confirm that I have discharged my responsibilities appropriately, and that:

- as far as I am aware, there is no relevant audit information of which the entity's auditors are unaware;
- I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the entity's auditors are aware of that information;
- the SARA as a whole is fair, balanced and understandable; and
- I take personal responsibility for the SARA and the judgments required for determining that it is fair, balanced and understandable.

45 FReM 2016-17: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/577272/2016-17\\_Government\\_Financial\\_Reporting\\_Manual.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/577272/2016-17_Government_Financial_Reporting_Manual.pdf)

# GOVERNANCE STATEMENT

## SCOPE OF RESPONSIBILITY

As the Permanent Secretary and AO for the DfE, I am responsible for ensuring there is an adequate framework in place to provide assurance that all resources are managed in an effective and proper manner, and that value for money is secured.

The sector operates under a strict system of accountability. The key features of this system are set out in the Department's system accountability statement.<sup>46</sup> ATs have statutory responsibilities under company and charity law, and are ultimately accountable – through me, and the ESFA AO – to Parliament.

**Figure 17: System of Accountability**



Within this system, my officials have designed and implemented a robust governance framework. I have delegated specific responsibilities to both the Chief Executive of the ESFA and to ATs. These responsibilities are articulated within the *Academies Financial Handbook 2016 (AFH)*.<sup>47</sup>

I confirm that I have reviewed the effectiveness of internal control arrangements across the sector, through my review of ESFA's work in overseeing financial management and governance.

## CONTROL FRAMEWORK AT TRUST LEVEL

ATs are held to account through a contract with government and bound by both company and charity law.

Each AT has a direct Funding Agreement (FA) with the Secretary of State that sets out the conditions on which the trust receives funding, its responsibilities and the Secretary of State's intervention powers.

ATs are responsible for:

- ensuring the quality of educational provision;
- challenging and monitoring the performance of their schools;
- overseeing the management of the trust's finance and property;
- overseeing the management of the staff;
- ensuring that the trust complies with charity and company law; and
- operating in accordance with the FA and the AFH, including ensuring that their accounts are reviewed by external auditors to provide an audit opinion and conclusion on their regularity.

<sup>46</sup> Department for Education Accountability System Statement: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/641079/Accounting\\_Officer\\_System\\_Statement\\_v2.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/641079/Accounting_Officer_System_Statement_v2.pdf) August 2017.

<sup>47</sup> Academies Financial Handbook 2015/16: <https://www.gov.uk/government/publications/academies-financial-handbook-2016>

The AFH covers all of the financial accountability requirements for ATs. It sets out the areas of HMTs *Managing Public Money*<sup>48</sup> that directly apply to ATs. In addition, the DfE's *Governance Handbook*<sup>49</sup> describes the elements of good governance to which trusts must give due regard. These documents are updated annually to cover improvements to governance and financial management arrangements. The AFH is reviewed annually and amended to reflect the monitoring and feedback applied to the sector.

Any new AT is required to complete a financial management and governance self-assessment (FMGS) and submit it to the Department within four months of opening. This provides a self-assessment on the implementation of the AFH requirements within the new trust. The FMGS is approved by the trust's board of trustees before submission, which provides accountability for the quality of the return.

Incoming FMGS returns are subject to a validation, where they are reviewed and AT actions and implementation dates are assessed for reasonableness. This is done shortly after receipt of the return. Any outstanding returns are pursued by ESFA.

In addition to this, ESFA have in place arrangements to follow up recommendations made in FMGS reports to ensure trusts take appropriate actions in a timely manner.

During 2016/17, the ESFA did not identify serious concerns in the implementation of FMGS returns. There were no major control weaknesses in financial management or governance from the planned assurance work on FMGS returns that required ESFA involvement.

Further to this, ATs are required to make an annual assessment of their governance through their governance statements, including a review of the composition of their board – in terms of skills, effectiveness, leadership and impact – to ensure that the quality of governance remains high. The *Governance Handbook*<sup>50</sup> identifies a range of training material to help AT boards do this.

Each AT is required to appoint its own AO, which should be the senior executive leader of the AT. Their role is to be accountable to Parliament,

through me and the ESFA Chief Executive, for the resources under the trust's control.

They are required to provide assurance on the management of public funds, particularly that:

- there is efficient and effective use of resources in their charge (value for money);
- public money is spent for the purposes intended by Parliament (regularity); and
- appropriate standards of conduct, behaviour and corporate governance are maintained when applying funds under their control (propriety).

I require AT AOs to sign a statement of regularity, propriety and compliance each year and submit it to the Department as part of the AT's audited accounts.

ATs' funding agreements require trusts to prepare and publish their own annual report and accounts in accordance with the *Companies Act 2006*.<sup>51</sup> ATs are required to appoint an independent auditor who reports on whether the accounts present a true and fair view of the AT's financial performance and position. The AFH also requires the auditor to give a conclusion, addressed jointly to the AT and the Secretary of State, on whether any matters of irregularity have come to their attention and include this conclusion within the audited accounts.

The reporting requirements placed on ATs provide independent assurance that they are using public funds for the purposes intended by Parliament and that ATs are acting within the authorities delegated to them in the AFH.

The Department requires each AT to submit their audited ARA to the ESFA by 31 December each year, covering the period ending 31 August. ATs are required to publish their ARA on their website to assist financial transparency. Copies of a trust's audited ARA are also available from *Companies House website*<sup>52</sup> as required by the *Companies Act 2006*.<sup>53</sup>

There were expected to be 3,054 accounts from ATs for the period ending 31 August 2017. At publication, 3,047 (99.8%) had been received, with seven outstanding. The seven outstanding are all trusts that have closed.

48 *Managing Public Money*: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/454191/Managing\\_Public\\_Money\\_AA\\_v2\\_-\\_jan15.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_-_jan15.pdf)

49 *Governance Handbook*, January 2017: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/582868/Governance\\_Handbook\\_-\\_January\\_2017.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/582868/Governance_Handbook_-_January_2017.pdf)

50 *Governance Handbook*, January 2017: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/582868/Governance\\_Handbook\\_-\\_January\\_2017.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/582868/Governance_Handbook_-_January_2017.pdf)

51 *Companies Act 2006*: <https://www.legislation.gov.uk/ukpga/2006/46/contents>

52 *Companies House*: <https://www.gov.uk/government/organisations/companies-house>

53 *Companies Act 2006*: <http://www.legislation.gov.uk/ukpga/2006/46/contents>

## INDEPENDENT AUDITORS' OPINIONS ON THE ACADEMY TRUST ACCOUNTS

Independent auditors undertake audits of accounts and provide independent opinions on the level of compliance with the published Academies Accounts Direction<sup>54</sup> and AFH and consistency with the ATs' financial records. A summary of audit opinions is presented below.

**Figure 18: Summary of Audit Opinions**

	2015/16		2016/17	
	Number	%	Number	%
Unqualified	2,830	93.9	2,804	91.8
Unqualified – emphasis of matter other	12	0.4	19	0.6
Unqualified – accounts produced on non-going concern basis (trust closing)	21	0.7	82	2.7
Unqualified – material uncertainty to continue as a going concern (financial issues)	89	3.0	93	3.0
Qualified	46	1.5	46	1.5
Disclaimer of opinion <sup>55</sup>	3	0.1	3	0.1
Adverse	–	–	–	–
Accounts not received	12	0.4	7	0.2
	<b>3,013</b>		<b>3,054</b>	

An unqualified opinion means that the auditor was able to conclude the accounts to be materially correct with no significant matters to bring to the reader's attention. In 2016/17, over 98% of AT accounts received unqualified opinions, which represented an increase from last year.

The audit opinions that were 'qualified' (or that contained an 'emphasis of matter') were largely due to issues in the following areas:

- recognition of land and buildings;
- non-disclosure of trustee remuneration; and
- local government pension scheme actuarial valuation.<sup>56</sup>

The number of trusts reporting a material uncertainty relating to going concern due to financial weakness remained broadly similar, but the number of trusts producing accounts on a basis other than going concern increased markedly. This resulted from trusts closing following re-brokerage and reflects the current mobility within the sector.

<sup>54</sup> Academies accounts direction 2016/17: <https://www.gov.uk/guidance/academies-accounts-direction#academies-accounts-direction-2016-to-2017-1>

<sup>55</sup> Two of these ATs are subject to ongoing ESFA intervention, with one in the process of being closed/re-brokered. The third trust closed during the year with its academies being re-brokered.

<sup>56</sup> ATs are reliant on information obtained from local authority pensions funds for this disclosure note. There were 10 trust accounts which were qualified for non-disclosure of the pension fund requirements. The reason for non-compliance included trusts closing, transfer of academies from one trust to another trust and short period accounts.

## INDEPENDENT AUDITORS' CONCLUSIONS ON REGULARITY

AT accounts include an independent reporting accountant's assurance report on regularity. This provides assurance that the income and expenditure incurred by the AT is in accordance with the purposes intended by Parliament and allowable within the delegated authority contained in the FA and AFH.

The table below shows that, at the time of publication, there were 137 instances where these assurance reports identified regularity exceptions.

**Figure 19: Summary of Audit Opinions on Regularity**

	2015/16		2016/17	
	Number	%	Number	%
No regularity exception noted	2,865	95.1	2,910	95.3%
Regularity exception noted	136	4.5	137	4.5%
Accounts not received	12	0.4	7	0.2%
	<b>3,013</b>		<b>3,054</b>	

A regularity exception means that the independent auditors found some element of income or expenditure that may have been outside permitted use, or where a trust's own agreed procedures were not followed.

Auditors concluded that there were no regularity exceptions in trust accounts for over 95% of trusts.

ESFA reviewed the exceptions raised for the remaining 4% of ATs. The areas where the auditors identified failure of trusts to comply fully with AFH requirements were broadly similar to last year and included:

- internal controls, including weaknesses in the process for checking financial systems, controls, transactions and risks;
- internal financial management or reporting;
- procurement processes; and
- related party transactions or the 'at cost' policy relating to goods and services purchased from related parties (rules applying to related party transactions are to be strengthened accordingly in 2018/19).

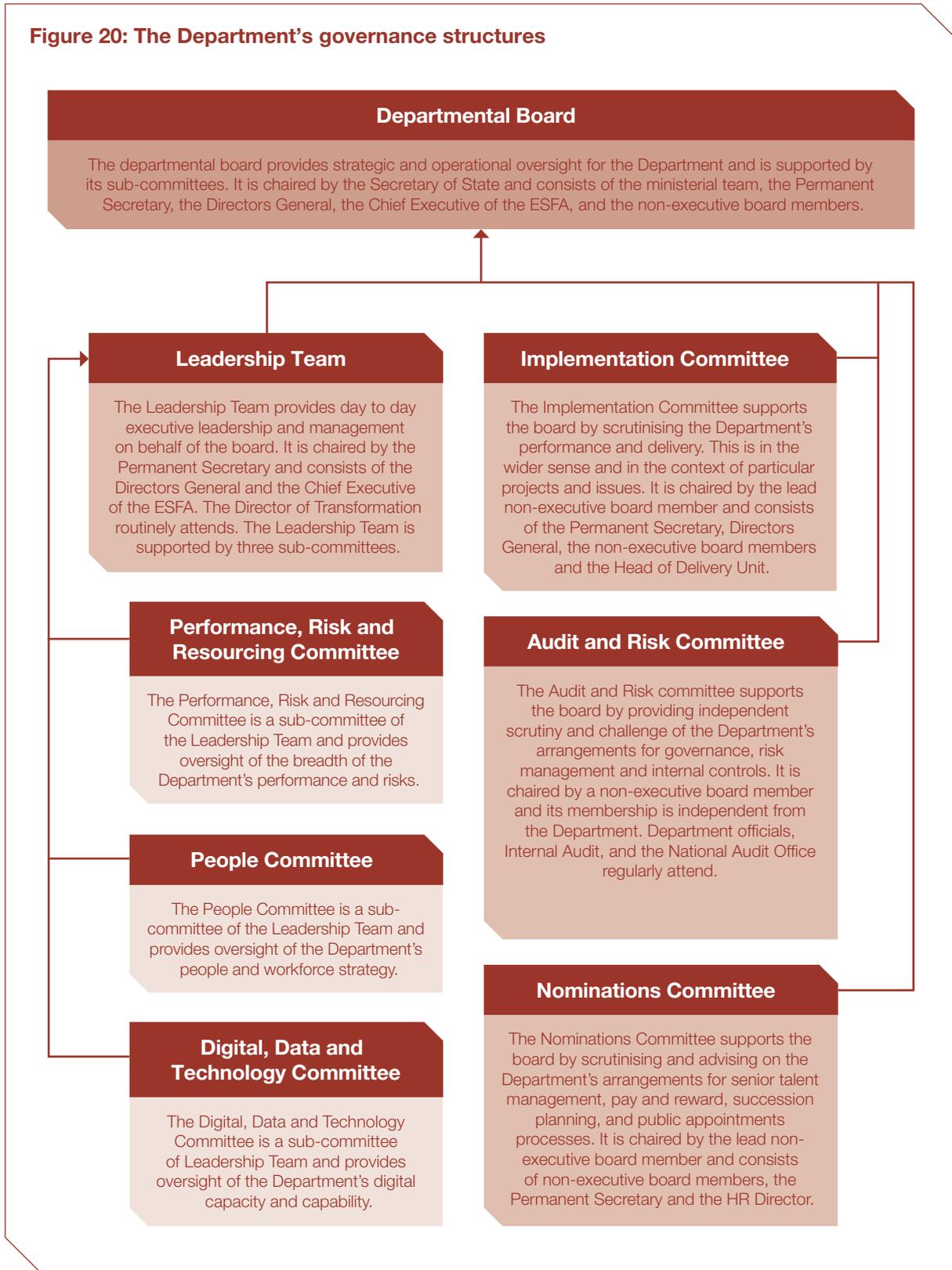
The majority of the regularity exceptions reported related to the system of internal control and the risk and control framework. These are key parts of the governance statement and breaches of the AFH, and were not related to specific transactions. These exceptions do not have a material impact on the SARA.

The ESFA reviews audit opinions, regularity report conclusions, audit management letters, accounting officer statements of regularity, propriety and compliance. Where the ESFA identifies issues of a material nature, proportionate action is taken to strengthen and improve controls and comply with ESFA requirements. More details on the role of the ESFA in the control framework are provided below.

## THE DEPARTMENT'S GOVERNANCE STRUCTURES

The ESFA and departmental Audit and Risk Committee (ARC) provide assurance that suitable controls are in place to ensure both that public funds are properly spent and that value for money for the taxpayer is achieved. The ESFA's Provider Risk Assurance division provides assurance to the ESFA and specifically its Accounting Officer over funds paid to ATs. It reports to the ESFA Accounting Officer through an annual statement of assurance.

Figure 20 shows how the ARC reports into the departmental board, alongside the role of the Department’s other committees.



## ROLE OF THE ESFA WITHIN THE CONTROL FRAMEWORK

The ESFA was established on 1 April 2017 as an Executive Agency of the Department for Education. It brings together the responsibilities of the Education Funding Agency (EFA) and Skills Funding Agency (SFA), creating a single body responsible for:

- funding education and training for children, young people, and adults;
- providing assurance that public funds are properly spent, achieve value for money for the tax payer, and deliver the policies and priorities set by the Secretary of State; and
- intervening if there is a risk of financial failure, or where there is evidence of mismanagement of public funds.

The ESFA's Management Board plays a key role in oversight of the sector, providing strategic leadership, direction, support and guidance to ensure the delivery of ESFA business plan objectives, organisational effectiveness and performance, and alignment with the Department's mission, strategy and purpose.

The ESFA communicates the financial control framework for ATs through the AFH. It also publishes an *Academies Accounts Direction*<sup>57</sup> to help trusts prepare their annual financial statements and to support auditors with the effective audit of the AT accounts.

The ESFA actively engages with the sector to raise standards of financial management and governance. In 2016/17, it ran or participated in eight events and seminars for ATs and audit firms to promote understanding of the accountability framework and to feedback findings from its assurance programme. This included an auditor conference in September 2016, which was attended by over 180 representatives from over 90 audit firms.

While the primary responsibility for the oversight of trusts rests with trustees themselves, the ESFA undertakes an annual risk-based programme of assurance work to review ATs' compliance with the framework. This includes analysis of AT financial statements, risk-based focused reviews and validation of FMGS forms by new ATs.<sup>58</sup>

The ESFA was able to provide substantial assurance from this work that there were no specific matters giving rise to a material impact on the SARA.

Where the ESFA has concerns about financial management or governance in an AT, it intervenes proportionate to the scale and nature of the risk, taking account of local circumstances. Intervention actions can range from corresponding and working with the academy trust to reach a stronger position, to terminating a trust's funding agreement in the most serious cases.<sup>59</sup> Interventions may also include issuing and publishing a Financial Notice to Improve (FNtI). A trust must comply with the terms of an FNtI, as this is a requirement of the AFH. In exceptional circumstances, the funding agreement could be terminated due to non-compliance with the terms of the FNtI. An FNtI sets out the actions ESFA requires a trust to take in order to address its concerns.

13 FNtIs (representing 0.4% of the total sector by number of ATs) were issued between 1 August 2016 and 31 July 2017, with no further notices issued during August 2017.<sup>60</sup>

Between 1 August 2016 and 31 July 2017 ESFA received 36 allegations from a variety of sources (compared with 35 for the year to 31 July 2016). These included whistle blowers, relating to fraud and financial irregularity in academies. A further five allegations were received during August 2017.

Following review and analysis, including triage of allegations where appropriate, ESFA undertook 14 visits between 1 August 2016 and 31 July 2017 (compared to six in 2015/16). This comprised:

- six fact-finding visits (compared to three in 2015/16);
- seven financial management and governance reviews (compared to one in 2015/16); and
- one investigation (compared to two 2015/16).

There were no visits in August 2017.

Between 1 August 2016 and 31 July 2017, ESFA published<sup>61</sup> seven financial management and governance reviews (compared to three in 2015/16) and two investigation reports (compared to one in 2015/16). No reports were published during August 2017. *Reports on the investigations are available online.*<sup>62</sup> None of the concerns raised resulted in a material financial impact on the SARA.

57 Academies accounts direction 2015/16: <https://www.gov.uk/guidance/academies-accounts-direction#academies-accounts-direction-2015-to-2016-1>

58 Further detail is available within EFA's 2016-17 Annual Report and Accounts, pages 26-17: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/630097/EFA\\_2016-17\\_Annual\\_Report\\_and\\_Accounts\\_PRINT.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/630097/EFA_2016-17_Annual_Report_and_Accounts_PRINT.pdf)

59 Further details are available within EFA's Annual Report and Accounts for the year ended 31 March 2017 (page 29): [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/630097/EFA\\_2016-17\\_Annual\\_Report\\_and\\_Accounts\\_PRINT.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/630097/EFA_2016-17_Annual_Report_and_Accounts_PRINT.pdf)

60 Financial notices to improve: <https://www.gov.uk/government/collections/academies-financial-notices-to-improve>

61 By publication date.

62 Academies Investigation Reports: <https://www.gov.uk/government/collections/academies-investigation-reports>

There is a need for ATs to notify ESFA of instances of fraud, theft and irregularity exceeding £5,000 individually, or £5,000 cumulatively in any academy financial year. In accordance with this, and the AFH (s4.8) requirement, ESFA received 32 notifications from ATs<sup>63</sup> between 1 August 2016 and 31 July 2017 (compared to 46 in 2015/16. A further notification was received during August 2017.

The value of reported fraud against ESFA as reported by trusts was £0 (compared to £425,540 in 2015/16). The amount recovered by ESFA was £0 (also £0 in 2015/16).

The value of reported fraud committed against ATs between 1 August 2016 and 31 July 2017 was £778,894<sup>64</sup> (compared to £1,014,525 in 2015/16). A further fraud valued at £8,351 was reported in August 2017. The amount recovered by ATs was £429,681<sup>65</sup> (compared to £605,615 in 2015/16). By comparison, the value of fraud reported to the Department by local authorities relating to LA-controlled schools was £1.1 million for the 2016/17 academic year.

The ESFA has a zero tolerance towards fraud and will investigate all allegations of concern to protect public money. The Academies Financial Handbook makes clear that ESFA may commission its own investigations into actual or potential fraud, and may involve other authorities including the police. The handbook also explains that ATs must put in place proportionate controls to address the risk of fraud and take appropriate action where it is suspected or identified.

To ensure lessons are learnt, ESFA commits to publishing all investigation and financial management and governance reviews undertaken in response to allegations,<sup>66</sup> alongside relevant fraud and irregularity guidance.<sup>67</sup>

## SECRETARY OF STATE AS PRINCIPAL REGULATOR

On 1 August 2011, the Secretary of State became Principal Regulator (PR) for foundation and voluntary schools, ATs, and sixth form colleges, as exempt charities. The Secretary of State became PR for further education corporations from 9 November 2016. One of the key duties of the PR is to promote compliance with charity law and the government has a duty to report on how

the Secretary of State carries out these duties. As agreed in the memorandum of understanding between the Charity Commission and the Department, this duty is discharged in this report.<sup>68</sup>

The memorandum of understanding between the Charity Commission and the Department sets out how they work together, both in co-ordinating regulatory operations and formulating policy. The Department has promoted compliance by publishing information on the role of the PR, academy compliance, and trustee responsibilities on [GOV.UK](http://GOV.UK).<sup>69</sup>

The articles of association for each AT set out the trust's charitable object, as well as the accounts and reports an AT must produce. Full details of the Secretary of State's powers are set out in the FA for each academy.

The ESFA takes action if it suspects charity law has breached and in such cases shares information with the Charity Commission to facilitate effective investigation. In 2016/17, DfE and Charity Commission officials met regularly to share information relating to ATs, agree suitable model documents and produce internal and external guidance. During this period, there was one instance where the Secretary of State invited the Charity Commission to use its regulatory powers towards an AT.

## FURTHER SOURCES OF ASSURANCE

### Regional School Commissioners (RSC)

The role of RSC was established on 1 September 2014. RSCs are civil servants, accountable to the National Schools Commissioner, and appointed to take decisions in the name of the Secretary of State. The Secretary of State remains responsible for the overall schools system.

The RSCs work to ensure that academy expenditure secures better outcomes for pupils. The RSC role includes:

- taking action where academies and free schools are underperforming;
- intervening in academies where governance is inadequate;

63 ATs may report frauds of a lower amount which are included in this number.

64 This figure is likely to increase as more information is received for ongoing cases.

65 This figure is likely to increase as academy trusts continue to pursue recovery.

66 Financial Management and Governance reviews: <https://www.gov.uk/government/collections/academies-financial-management-and-governance-reviews>

67 Fraud and irregularity guidance: <https://www.gov.uk/guidance/academies-guide-to-reducing-any-risk-of-financial-irregularities>

68 The reporting requirements placed upon the Secretary of State in relation to sixth form colleges, foundation and voluntary schools can be found in the memorandum of understanding between the Charity Commission and the Department: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/640051/Charity\\_Commission\\_-\\_Department\\_for\\_Education\\_-\\_MOU.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/640051/Charity_Commission_-_Department_for_Education_-_MOU.pdf)

69 Exempt charities and the role of the Secretary of State as PR: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/294996/Academies\\_as\\_exempt\\_charities\\_FINAL3.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294996/Academies_as_exempt_charities_FINAL3.pdf)

- deciding on applications from LA-maintained schools to convert to academy status;
- improving underperforming maintained schools by providing them with support from a strong sponsor;
- encouraging and deciding on applications from sponsors to operate in a region;
- taking action to improve poorly performing sponsors;
- advising on proposals for new free schools;
- advising on whether to cancel, defer or enter into FAs with free school projects; and
- deciding on applications to make significant changes to academies and free schools.

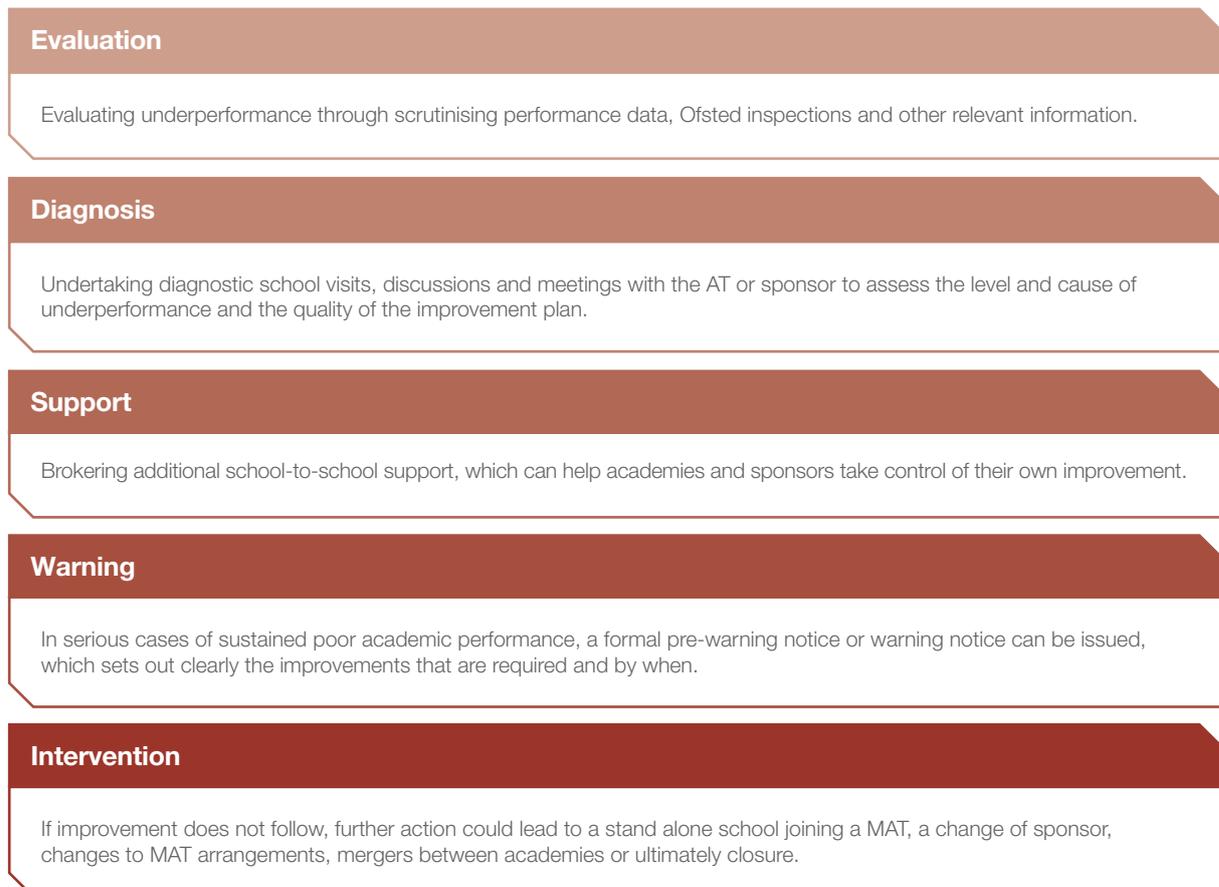
Each RSC is supported by a head teacher board (HTB), made up of six to eight members. On each HTB, four members are elected by local academy head teachers. Up to four further members can

be appointed or co-opted to fill particular skills or expertise gaps. HTB members are responsible for advising their RSC and contributing their local knowledge and professional expertise to aid the RSC's decision-making.

HTBs provide important local scrutiny to the decisions of an RSC. If an RSC takes a decision that contradicts the advice given by the majority of their HTB, this must be reported to the **minister**.<sup>70</sup>

RSCs use a range of intervention strategies of escalating severity to address underperformance in academies (see Figure 19). They carry out their functions within a **published national framework**.<sup>71</sup> Individual decisions are made with reference to each academy's FA, relevant legislation and published criteria. However, the regional approach means that RSCs are able to tailor their ways of working to meet local needs and priorities. The HTB advises the RSC on the best strategies to secure this improvement.

**Figure 21: RSC escalation approach for educational performance concerns in academies**



<sup>70</sup> A complete guide to HTB membership is available in the HTB terms of reference: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/624689/HTB\\_Terms\\_of\\_Reference.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/624689/HTB_Terms_of_Reference.pdf)

<sup>71</sup> RSC decision-making framework: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/577885/RSC\\_decision\\_making\\_framework\\_December\\_2016.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/577885/RSC_decision_making_framework_December_2016.pdf)

RSCs are not responsible for carrying out school improvement activities, but may advise the trust on suitable options. The responsibility for taking the necessary action to improve outcomes remains with the AT.

Underperforming academies are defined as those that are below the national floor standard on progress and attainment measures or those judged as Inadequate by the Office for Standards in Education, Children's Services and Skills (Ofsted).<sup>72</sup> Where an AT is failing to improve a school that is underperforming, the RSCs intervene.

Between 1 August 2016 and 31 July 2017, 18 RSC notices were issued to sponsored academies, 5 to converter academies, 2 to ATs and 1 to a free school.<sup>73</sup>

The Department publishes letters to ATs about poor performance or weaknesses in safeguarding, governance or financial management online.<sup>74</sup>

RSCs lead the relationship with sponsors operating solely in their region and with agreed national sponsors. They are responsible for managing the sponsor market in their region and intervening if any trust is failing. Discussions with sponsors focus on their performance and capacity, including plans for growth. An appropriate approach to growth is agreed with all sponsors reflecting their capacity and this becomes a guideline for working together to find solutions for failing schools.

In addition to interventions in specific academies causing concern, a sponsor's growth may be paused if there are:

- serious financial concerns and the ESFA has issued an FNTI;

- serious concerns about the leadership or governance of the sponsor including where there are due diligence issues with sponsors or trust senior management; and
- serious unresolved concerns with educational impact.

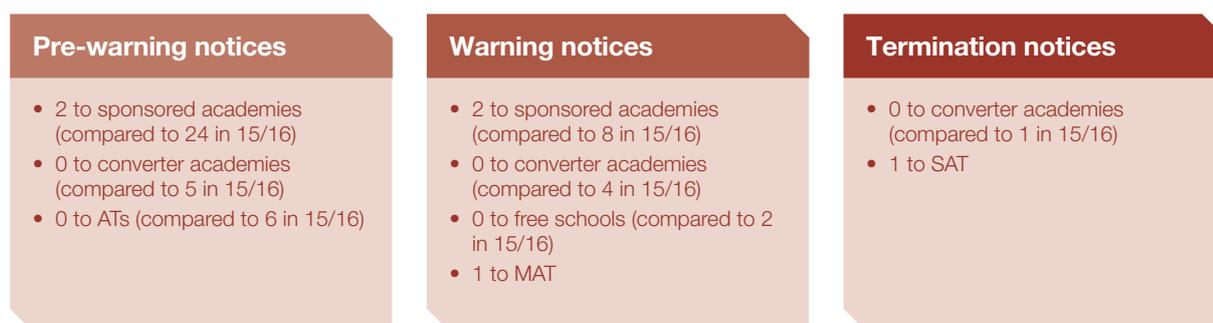
This could include a combination of the Department having issued pre-warning notices, the Department considering academy closure, and where the sponsor has failed to act rapidly following Department support.

Where improvements are not achieved rapidly at a sponsored academy or a sponsor is not providing good enough support, the RSC can take action. In line with the FA the RSC can challenge and, if necessary, move the academy to another trust. Where the decision is taken to transfer an academy to a new sponsor, the Department and RSC ensures that this is completed quickly, with minimum disruption to pupils, so they can benefit from improved standards as soon as possible.

The RSC are responsible for identifying underperforming LA-maintained schools that should become academies and matching them with an appropriate academy sponsor. During the year to 31 July 2017, 185 such schools were identified and issued with an Academy Order (203 schools for the year to 31 July 2016).<sup>75</sup>

The RSCs' key performance indicators (KPIs) are reviewed each year to ensure that they continue to appropriately reflect the developing role of RSCs and priorities of the government. Annex 5 <https://www.gov.uk/government/collections/academies-sector-annual-reports-and-accounts> includes performance from across the RSC regions for the RSCs' third year, the year from 1 September 2016 to 31 August 2017.

**Figure 22: RSC notices issued between 1 August 2016 and 31 July 2017<sup>76</sup>**



<sup>72</sup> More information regarding underperforming academies are provided in Annex 5.

<sup>73</sup> No further RSC notices were issued during August 2017.

<sup>74</sup> Letters to ATs about poor performance: <https://www.gov.uk/government/collections/letters-to-academies-about-poor-performance>

<sup>75</sup> No further Academy Orders were issued during August 2017.

<sup>76</sup> None were issued during August 2016.

**Figure 23: RSC interventions between 1 August 2016 and 31 July 2017**

### National Audit Office (NAO)

The NAO undertakes around 60 value for money studies each year which Parliament use to hold the government to account for how it spends public money. Each study examines an area of government expenditure, and their objective is to form a judgment on whether value for money has been achieved.

The NAO define good value for money as the optimal use of resources to achieve the intended outcomes. Their role is not to question government policy objectives, but to provide independent and rigorous analysis to Parliament on the way in which public money has been spent to achieve those policy objectives. As well as reaching an overall conclusion on value for money, the NAO makes recommendations on how to achieve better value for money and to improve the services under examination. More information regarding value for money studies can be found [online](#).<sup>77</sup>

Since September 2016, the NAO has published the following value for money reports which have relevance for the academies sector:

- *Financial sustainability of schools*<sup>78</sup> (December 2016) examined the Department's approach to managing the risks to school's financial sustainability, primarily the required efficiency savings of up to £3 billion by 2019-20. The Department is looking to schools to finance high standards by making savings and operating more efficiently.
- *Capital funding for schools*<sup>79</sup> (February 2017) examined the Department's strategy towards capital funding for schools. The Department

identified that having enough safe high quality schools in the right areas is a crucial part of the education system. To achieve this objective, the Department continues to work closely with local authorities and schools.

- *Delivering value through the apprenticeship programme*<sup>80</sup> (September 2016) examined how the Department is implementing, delivering and expanding the apprenticeships programme to meet the government's ambitions and to meet employers' needs. The apprenticeships programme's aim is for three million high quality apprenticeships by 2020.
- *Children in need of help or protection*<sup>81</sup> (October 2016) examined the Department's execution of the ambitious programme of reforms regarding children's services. The aim of the reforms is to improve the quality and consistency of all children's services ensuring they work quickly so every child grows up free from harm and in a stable nurturing home environment.
- *Converting maintained schools to academies*<sup>82</sup> (February 2018) examined the Department's approach to conversions, the robustness of the conversion process and the availability of sponsors and MATs to support converting schools.

In addition, the NAO also published an investigation *The DfE's management of a potential conflict of interest*<sup>83</sup> (October 2016), which focused on how the Department identified and managed a potential conflict of interest between the Chief Social Worker for Children and Families and a company called Morning Lane Associates.

77 NAO Value for money: <https://www.nao.org.uk/about-us/our-work/value-for-money-programme/>

78 Financial sustainability of schools: <https://www.nao.org.uk/report/financial-sustainability-in-schools/>

79 Capital funding for schools: <https://www.nao.org.uk/report/capital-funding-for-schools/>

80 Delivering value through the apprenticeship programme: <https://www.nao.org.uk/report/delivery-value-through-the-apprenticeships-programme/>

81 Children in need of help or protection: <https://www.nao.org.uk/report/children-in-need-of-help-or-protection/>

82 Converting maintained schools to academies: <https://www.nao.org.uk/report/converting-maintained-schools-to-academies/>

83 DfE's management of a potential conflict of interest 26 October 2016: <https://www.nao.org.uk/report/investigation-the-departments-management-of-a-potential-conflict-of-interest/>

## ASSESSMENT AND MANAGEMENT OF RISK

Risk management is essential to the successful delivery of the Academies Programme. Risks are regularly scrutinised at regional, programme and departmental level to ensure that they are correctly identified and that appropriate counter-measures and contingencies are in place. All risks have owners within the Department, with responsibility for the relevant policy or delivery area.

The top risks for the Academies Programme in 2016/17 remain relevant and high priority. They are:

- **Sponsor quality risk:** High quality sponsors are essential in driving up school performance across the sector. There is a risk of there being an insufficient number of high quality sponsors and MATs available to support underperforming schools.

To mitigate this, more good and outstanding schools have been encouraged to become sponsors and approval has been restricted to potential sponsors who can demonstrate a track record of helping other schools to improve. The growth of a high quality sponsor pipeline has been supported through the Sponsor Capacity Fund, which builds system capacity to support underperforming schools. The Department has provided seed funding for a successful pilot MAT CEO training programme to increase the quality of the senior leadership in MATs, and a number of further training providers have been engaged to develop and roll out further training provision across the country.

- **Strategic communications risk:** The academies system and RSCs are still relatively new, and this presents a challenge in terms of communicating what it means to be an academy to the wider schools sector. The academy sector faces a risk of failing to maximise school improvement if insufficient numbers of good and outstanding schools cannot be encouraged to apply to become sponsors. To mitigate this, targeted and proactive communications have been developed – sent from RSCs and the National School Commissioner – to explain what it means to become an academy.
- **Intervention and performance risk:** Taking action where academies and free schools are underperforming, in both governance and educational provision, is a core responsibility of RSCs. High numbers of underperforming

academies and free schools would impact on RSCs' capacity to intervene effectively and to support improved performance.

A system to identify and prioritise support for academies and trusts according to performance has been developed – including regular conversations between RSCs and MATs about their overall performance. A better understanding of system leadership capacity (in order to match the needs of underperforming academies or sponsors) has also been developed. High performing sponsors and other partners have been engaged to develop strategic approach to tackling regional academy underperformance.

- **Excellent school resource management risk:** It is vital that school leaders strive to maximise the efficient use of their resources to maintain good financial health and deliver the best outcomes for pupils.

To manage the risks to financial health, a range of information, tools and training has been produced. This includes advice on financial planning, data to support self-assessment such as benchmarking, and practical advice about buying and collaborative procurement. ATs are now expected to carry out three to five years financial planning and will have to submit three-year forecasts in their forecast returns to the Department.

From January 2018, a pool of School Resource Management Advisers (SRMAs) were deployed to provide practical support to those trusts, and LA-maintained schools that need it most. The role of SRMAs are to help trusts and schools identify how they can improve their use of resources to deliver their curriculum to support positive educational outcomes. The peer-to-peer nature of SRMAs will also help to build the capacity and capability in the sector on resource management and financial health and planning. Both NAO and PAC have been supportive of the work that the ESFA has begun to develop a more preventative approach and to evidence the impact of their interventions.

The Chief Executive of the ESFA writes at least once a year to the AO of each AT identifying key risks and issues for their consideration, including where appropriate highlighting changes that have been made to the AFH. Trust AOs are required to share these letters with their trustees, local governors and senior leadership team. Letters sent from the accounting officer of the ESFA to ATs can be found [online](#).<sup>84</sup>

ATs have a key role in the management of risks.

In their financial statements, ATs must identify the principal risks and uncertainties that they face and provide a summary of their plans and strategies for dealing with them. The AFH places a requirement on trusts that they must be aware of the risk of fraud, theft and irregularity occurring. They must also, as far as possible, address these risks in their internal control and assurance arrangements by putting in place proportionate controls. Trusts must take appropriate action where fraud, theft and /or irregularity is suspected or identified.

Further detail of strategic risks impacting on the academy system is included in the ESFA's 2016-17 Annual Report and Accounts.<sup>85</sup>

### **Timeliness and removing audit qualifications**

The 2016/17 SARA represents the second year of a three year Departmental plan to lay unqualified academy annual report and accounts pre-summer recess:

In 2015/16 the Department prioritised the production of the inaugural SARA, successfully removing the previous audit qualification in relation to non-coterminous year ends – with the accounts being laid in late October. The land & buildings qualification (covering recognition and valuation) remained in place at this point;

In 2016/17, the Department has prioritised the removal of the previous land & qualification, successfully removing the qualifications in relation to recognition and valuation – with the accounts being laid in early November. This achievement was driven by:

The collection, validation and analysis of c13,000 land agreements from the academies sector, leading a de-recognition adjustment of £8.4bn and a clear audit trail for the recognition of the land & buildings;

Significant work to demonstrate that the Department's desktop valuation methodology reasonably takes account of the physical condition of academy land & buildings (through use of the condition surveys undertaken within the wider Department) and work to ensure that, at academy level, consistent valuations were in place as at 31 August 2017.

The residual IAS 8 qualification in place on the 2016/17 SARA, which relates to the Department's choice not to restate prior period land & buildings figures, is in line with plans to prioritise work on closing balances.

For 2017/18, the Department aims to achieve an unqualified audit opinion, with the SARA laid prior to the 2019 summer recess. To do this, the Department will:

Review the historical valuation information it holds, in order to demonstrate the extent to which it can practicably restate historical land & buildings balances and support a Revaluation Reserve; and

Accelerate the wider work to produce the SARA, with no impact and /or additional burden placed on the academies sector.

### **DIRECTORS' REPORT**

Each AT is an incorporated company and an exempt charity. The ATs are charitable companies limited by guarantee, and are exempt from regulation by the Charities Commission. The Secretary of State is the ATs' charitable regulator; and has delegated this activity to the ESFA.

Each AT is required to disclose details of their trustees within their ARA, which is published on each AT's website alongside submission to the ESFA and is also accessible via the [Companies House website](#).<sup>86</sup>

Each AT is required to maintain their own local register of interests. They must publish on their websites relevant business and pecuniary interests of members, the AO, trustees and local governors.

**Jonathan Slater**  
**Permanent Secretary**  
**30 October 2018**

<sup>85</sup> ESFA Annual Report and Accounts 2017-18: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/727363/ESFA\\_ARA\\_2017-18\\_WEB.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/727363/ESFA_ARA_2017-18_WEB.pdf), P.60

<sup>86</sup> Companies House: <https://beta.companieshouse.gov.uk/>

# REMUNERATION AND STAFF REPORT

Information in this section is reported to meet the requirements of the 2016-17 *Government Financial Reporting Manual (FReM)*<sup>87</sup> and relates to the academic year ending 31 August 2017. This information has been collated from the audited Academies Accounts Return (AAR), which is an annual return submitted by individual ATs to the ESFA.

As set out in the introduction to the SARA, a number of FReM requirements have not been met by this report, due to structural differences between the sector and most central government organisations (such as the absence of a centralised set of staff policies for the sector) or data collection limitations (such as the lack of disclosure of personal data related incidents). Derogations from FReM, as approved by HM Treasury, are set out in the 2016/17 SARA Accounts Direction, within this report's annexes <https://www.gov.uk/government/collections/academies-sector-annual-reports-and-accounts>.

## REMUNERATION POLICY

As separate legal entities, each AT sets its own remuneration policy, taking account of their trust's circumstances. Their policies are often set by reference to the national pay spine, but are not subject to the 1% public sector cap on pay rises. However, the School Teachers' Review Body publishes an annual report with recommended pay increases, which many academies choose to follow. In 2015 and 2016 the maximum pay uplift recommended was 1%. From September 2017, it was recommended that the main pay range maxima and minima be increased by 2%, with other pay ranges to increase by 1%.

The Department does not set the employment and remuneration policies of ATs. Accordingly, in a departure from FReM, the Department has not presented the employment and remuneration policies of the sector as this would imply a greater level of influence of the Department than is actually held. Additionally, there is no single, centralised set of employment and remunerations policies for the sector. To reflect the level of control operated by the Department in this area, the Department has restricted remuneration disclosures in the Accounts Return to bands of remuneration paid. This is in line with general charity accounting rules in the Charity Commission's Statement of Recommended Practice. Employment and remuneration policies, as set by individual ATs, should be disclosed in their audited ARA.

## Trustee remuneration<sup>88</sup>

The table below presents a breakdown of the number of trustees who received remuneration. Details of payments to trustees are available in the ARA of the individual ATs, and trusts where an individual employee or trustee's remuneration is greater than £150,000 per annum are listed in Annex 6. The remuneration shown below includes salary, bonus payments, benefits-in-kind, and excludes employer pension costs.

<sup>87</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/577272/2016-17\\_Government\\_Financial\\_Reporting\\_Manual.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/577272/2016-17_Government_Financial_Reporting_Manual.pdf)

<sup>88</sup> The academy sector is not a single corporate body with a single board of trustees. Therefore, disclosures required by IAS 24 *Related Party Disclosures* (IAS 24) – the remuneration paid to senior management of the reporting body as a related party transaction – are not made in this document as the reporting body (the academy sector) does not possess senior management as a single board. Instead, the sector is made up of separate ATs that provide suitable remuneration report disclosures in their own ARA for each trust's board of trustees.

Remuneration bands	2016/17		2015/16	
	Number of trustees employed at academy		Number of trustees employed at academy	
£1 - £60,000	5,195		5,744	
£60,001 - £70,000	654		734	
£70,001 - £80,000	507		528	
£80,001 - £90,000	456		462	
£90,001 - £100,000	373		386	
£100,001 - £110,000	332		312	
£110,001 - £120,000	199		187	
£120,001 - £130,000	123		121	
£130,001 - £140,000	82		68	
£140,001 - £150,000	56		53	
£150,000+	103		101	
	<b>8,080</b>		<b>8,696</b>	

Trustees only receive remuneration for their work in the AT as an employee (such as headteacher, teacher, teaching assistant or other member of staff). Trustees do not receive remuneration for their trustee responsibilities. The majority of trustees are volunteers who are not employed by the AT and receive no remuneration.

## PENSION ENTITLEMENTS

### Pension costs

ATs operate a range of pension schemes for their employees, dependent upon their role. Further details of sector pension scheme arrangements and costs are disclosed in Note 13 to the accounts.

## COMPENSATION ON EARLY RETIREMENT OR FOR LOSS OF OFFICE AUDITED<sup>89</sup>

### Staff exit packages audited

The table below shows the total number and cost of exit packages agreed by ATs during the reporting year.

	2016/17			2015/16		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages agreed	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages agreed
< £10,000	1,910	1,755	3,665	1,856	1,713	3,569
£10,001 - £25,000	706	984	1,690	645	908	1,553
£25,001 - £50,000	185	323	508	174	253	427
£50,001 - £100,000	22	19	41	23	22	45
£100,001 - £150,000	–	2	2	1	3	4
<b>Total number of cases</b>	<b>2,823</b>	<b>3,083</b>	<b>5,906</b>	<b>2,699</b>	<b>2,899</b>	<b>5,598</b>
<b>Total cost (£m)</b>	<b>26.5</b>	<b>37.2</b>	<b>63.7</b>	<b>£24.7</b>	<b>£33.9</b>	<b>£58.6</b>

Redundancy and other departure costs have been paid in accordance with the provisions of the relevant compensation schemes. Exit costs are accounted for in full in the year the departure is agreed. Where an AT has agreed early retirements, with agreed employer funded top-up for early access to pensions, the employer top-up costs are met by the trust alongside compensation for loss of office. Information on departure costs and numbers for each AT are also reported in the individual trust's ARA to aid transparency.

<sup>89</sup> Sections of this report which are subject to audit are marked 'Audited'

## Loss of office payments

	Accounting officer	Other trustee	Total	Accounting officer	Other trustees	Total
	Number	Number	Number	Number	Number	Number
Serving at end of year	2	–	2	244	85	329
Left during year	8	5	13	598	26	624
<b>Total number of cases</b>	<b>10</b>	<b>5</b>	<b>15</b>	<b>842</b>	<b>111</b>	<b>953</b>

## PAYMENTS TO PAST DIRECTORS

Payments to past directors are not recorded as part of this document.

## FAIR PAY DISCLOSURE

Pay multiples at sector level are not recorded in this document. This information is available at trust level in AT ARAs.

## STAFF REPORT

### Gender of permanent employees

The split of male and female permanent employees at 31 August 2017 was as follows:

	2016/17			2015/16		
	Number	Number	Number	Number	Number	Number
	Male	Female	Total	Male	Female	Total
Trustees	1,760	3,291	5,051	3,595	5,416	9,011 <sup>90</sup>
Other (all non-trustee staff)	106,962	309,939	416,901	108,522	336,639	445,161
	<b>108,721</b>	<b>313,230</b>	<b>421,951</b>	<b>112,117</b>	<b>342,055</b>	<b>454,172</b>

For 2016/17 and 2015/16, these figures are not directly comparable and represent staff employed throughout the year to 31 August 2017. The average number of staff employed by the sector increased from 386,759 to 433,696, in contrast to the figures disclosed above. See below for more details on the average number of staff employed.

The number of days lost due to sickness absence was 2,832,253 (2,443,428 in 2015/16) days.

### Consultancy and off-payroll arrangements

During the year the ATs incurred consultancy costs of £176 million relating to advisory services.

	2016/17	2015/16
	£m	£m
Educational	154	138
Non-educational	23	21
	<b>176</b>	<b>159</b>

During the year 144 ATs had off-payroll arrangements, of these 10 had such arrangements with trustees. The arrangements with trustees were for interim executive headteacher or chief executive officer services. Details of these arrangements can be found in the individual AT accounts.

<sup>90</sup> Numbers different to those shown in section 7.3 due to inconsistencies in data provided.

**STAFF COSTS: AUDITED**

			2016/17	2015/16
	Permanently employed staff	Temporary staff	Total	Total
	£m	£m	£m	£m
Salaries	11,785	–	11,785	10,589
Temporary staff costs	–	736	736	697
Social security	1,096	25	1,121	866
Pension costs	2,539	49	2,588	1,989
Severance payments	72	2	74	70
	<b>15,492</b>	<b>812</b>	<b>16,304</b>	<b>14,211</b>
Less recoveries in respect of outward secondments	(2)	(–)	(2)	(–)
	<b>15,490</b>	<b>812</b>	<b>16,302</b>	<b>14,211</b>

**Average staff numbers**

	2016/17			2015/16		
	Permanently employed staff	Temporary staff	Total	Permanently employed staff	Temporary staff	Total
	Number	Number	Number	Number	Number	Number
Teachers	195,063	10,358	205,421	177,977	9,325	187,302
Management	28,526	399	28,925	29,907	565	30,472
Admin and support	188,215	11,135	199,350	159,653	9,332	168,985
	<b>411,804</b>	<b>21,892</b>	<b>433,696</b>	<b>367,537</b>	<b>19,222</b>	<b>386,759</b>

For 2016/17 and 2015/16, ATs have recorded a combination of headcount and full-time equivalent figures for average staff numbers. As more consistent disclosures are developed in future reports, the numbers disclosed above may not be directly comparable.

# PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

## GRANT TRACKER

This sets out how academies have spent the money voted to them by Parliament.

Parliament votes grant expenditure through the Department for Education Supply Estimate process, which operates on a financial year (April to March) basis.

The 'grant tracker' (opposite) reconciles the grants paid out by the Department (over the 2016-17 and 2017-18 financial years to March) with the amount recognised as grant income in the accounts of the ATs for the 2016/17 academic year.

There are two elements to this: the revenue grant tracker that looks at the largely formula based funding for schools, and the capital grant tracker which is a mixture of funding for school building programmes, other capital maintenance funding, and formula driven capital funding.

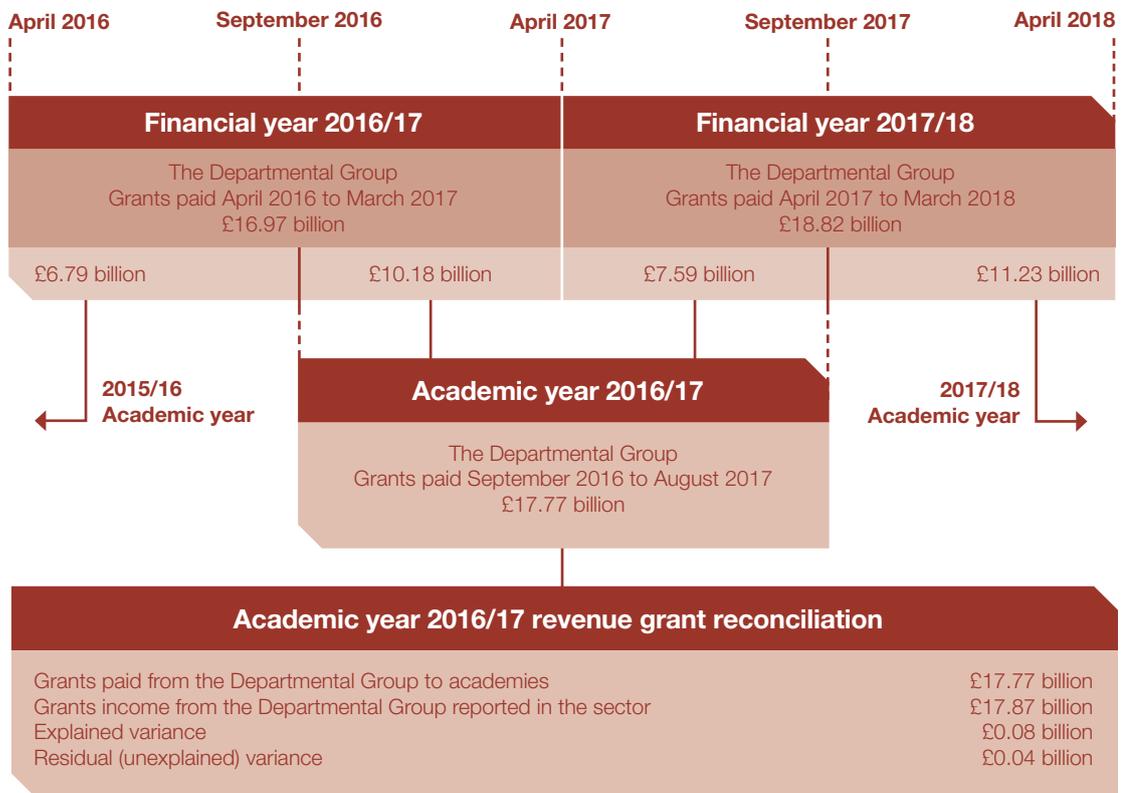
The revenue grant tracker (Figure 24) includes all academy revenue funding for academy operations and other education priorities. This includes:

- the General Annual Grant (GAG) – including all funding calculated by reference to the school funding formula for pupils age 5 to 16 and the post-16 national funding formula for young people aged 16 to 19. This also includes high needs place funding and the Education Services Grant;
- grants to meet other ministerial priorities, e.g. pupil premium, universal infant free school meals, year 7 catch up, PE & Sport grant; and
- grants for structural changes to the academy sector, e.g. academy conversion grants, start-up grants and re-brokerage grants.

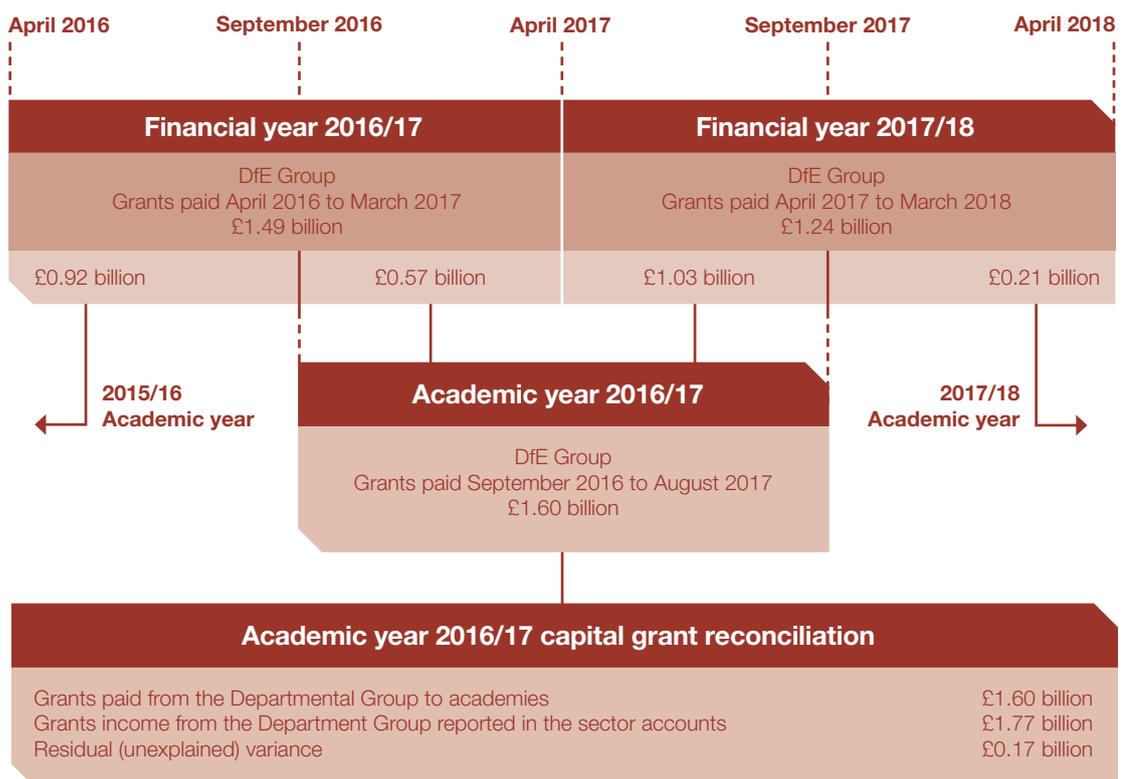
The capital grant tracker (Figure 24) includes all academy capital funding issued by the Department. This includes:

- formula based allocations, e.g. Devolved Formula Capital and the Condition Improvement Fund allocations for larger MATs;
- project based allocations, e.g. Academies Capital Maintenance Fund and Condition Improvement Fund, Priority School Building Programme; and
- funds for structural changes to the academy sector, e.g. capital funding for the Free Schools programme.

**Figure 24: Revenue grant tracker – academic year ended 31 August 2017**



**Figure 25: Capital grant tracker – academic year ended 31 August 2017**



## LOSSES AND SPECIAL PAYMENTS:<sup>91</sup> AUDITED

### Losses statement

	2016/17	2015/16
<b>Total number of cases</b>	<b>32</b>	<b>25</b>
	£m	£m
Cash losses	–	–
Fruitless payments and constructive losses	0.2	–
Claims waived or abandoned	0.3	0.2
Store losses	–	0.2
<b>Total value</b>	<b>0.5</b>	<b>0.4</b>

### Special payments statement

	2016/17	2015/16
<b>Total number of cases</b>	<b>1,409</b>	<b>1,358</b>
	£m	£m
Honoraria	–	–
Ex-gratia	0.1	0.2
Compensation	0.3	0.4
Severance	24.9	23.8
Other	1.1	0.9
<b>Total value</b>	<b>26.4</b>	<b>25.3</b>

ATs have the delegated authority to make special severance payments under £50,000. Payments over this value require prior approval from HMT via the ESFA.

No single loss or special payment over £300,000 was recorded by any trust.

### Gifts

	2016/17	2015/16
<b>Total number of cases</b>	<b>14</b>	<b>22</b>
	£m	£m
<b>Gifts</b>	<b>–</b>	<b>–</b>

### Accounting Officer's declaration

As far as I am aware, there is no relevant audit information that has not been made available to the Comptroller and Auditor General. I have taken all appropriate steps to make myself aware of all relevant audit information, and to establish that the Comptroller and Auditor General is aware of that information.

**Jonathan Slater**  
**Accounting Officer**  
**30 October 2018**

91 As defined in Managing Public Money: <https://www.gov.uk/government/publications/managing-public-money>

# THE REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

This is the second year in which the Department for Education (the Department) has produced Academy Sector Accounts. Previously, the results of academy trusts were consolidated into the Department's own group accounts. This year's Academy Sector Accounts consolidate the results of the 3,054 academy trusts that were open during the year ended 31 August 2017.

The Department's priority for the 2016/17 Academy Sector Accounts was to address the historical qualifications to my audit opinions on these accounts. It has made significant progress in achieving this, by providing sufficient appropriate evidence that it is correctly recognising and valuing land and buildings at the year-end. This has allowed me to remove the most significant element of my qualification.

**I qualified my opinion on the accounts in the first year, 2015/16, because the Department could not adequately support the recognition and valuation of land and buildings included in those accounts.** Academy trusts prepare their accounts in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice (the 'Charities SORP').

The Academy Sector Accounts are prepared in accordance with the Government Financial Reporting Manual (FReM), which has different requirements on asset valuation from the Charities SORP. For example the FReM requires that schools are held at their current value rather than historic cost, which is optional in the Charities SORP. Rather than consolidating the balances recognised by academy trusts in their own accounts, the Department therefore makes a central adjustment for land and buildings, to ensure that a consistent methodology is applied to the land and buildings assets in the accounts. In 2015/16, the Department assumed that all land and buildings used by academy trusts should be capitalised, but could not show that this assumption complied with the requirements set

out in the FReM – for example, where buildings are occupied on a short-term lease or are owned by another entity, such as a faith body. I also had concerns about the processes by which the Department ensures that asset valuations included in the accounts reflect the current condition of the sector's estate.

**For 2016/17, the Department has achieved its aim of compiling sufficient evidence to support the recognition and valuation of land and buildings at the year-end, 31 August 2017.** The Department has collected and assessed the basis of occupation in relation to 13,148 occupation arrangements for land and buildings across the sector. As a result, the Department identified assets at 2,929 academy schools that did not meet the FReM's criteria for recognition, and it has therefore reduced the year-end asset balance to remove these assets.

The most significant change related to the removal of faith school land and buildings, where these were occupied under licence, and therefore the Department did not have sufficient control over the asset to support recognition. The Department has also begun a three-year programme to inspect the condition of all school buildings, and used the evidence from this to show that its assumptions around the condition of the school estate were reasonable. The valuation process is necessarily limited by the nature of the school estate, and the Department's remote role. The Department could make this process more robust – for example through introducing a limited number of site inspections. However the approach is now reasonable, within the context of a significant degree of latitude that is allowable within Royal Institute of Chartered Surveyors' guidance on estimating the Depreciated Replacement Cost of specialised land and buildings, such as schools.

**As planned, the Department has not provided further evidence over the comparative land and building values reported in previous**

**years.** The Department mainly holds land and building information at the academy trust level, rather than the level of individual academy schools. Mergers, conversions and closures of academy trusts mean that the Department would need to carry out additional work to establish whether and how it could adjust previously reported land and building balances to address historical errors. The Department did not plan to complete this work for the 2016/17 accounts, and has taken the view that it should prioritise earlier publication of the accounts, rather than delaying publication to undertake further work.

**As a result of the additional evidence provided by the Department, I have reduced the extent to which my opinion is qualified in relation to insufficient appropriate evidence being available to me to support the accounts.** While I have identified a number of further improvements that the Department should make in future years, I am content that there is sufficient appropriate evidence to support the reported land and buildings balances at 31 August 2017, following an £8.4bn adjustment at that date. However, the Department has not established the extent to which it could practicably correct errors in balances for earlier periods, which would be required in order to comply with the FReM and in order to correctly calculate the revaluation reserve balance and associated impairment expenses.

**It is important that the Department now concentrates on addressing residual issues, alongside improving the timeliness and transparency of the accounts, and utilising the underlying data for its own benefit and that of the wider sector.** In order to resolve the remaining qualification issues, the Department needs to review the historical valuation information it holds, in order to determine the extent to which it can practicably correct historical balances and support a revaluation reserve. Publishing the Academy Sector Accounts allows the Department to present information on the academic performance of academies in the same document as the sector's financial position. The use of some exemptions, provided by HM Treasury, from standard reporting requirements – including on related party transactions and senior staff pay – has made production of the first sets of Academy Sector Accounts practical, but ongoing use of these exemptions reduces transparency. Further improving the timeliness of the accounts will support more effective parliamentary scrutiny of how taxpayers' money has been spent and what has been achieved. The Department can also make greater use of the data it collects to prepare the Academy Sector Accounts, to inform

its oversight of academies and to help them improve their financial management. This is particularly important given the current financial challenges facing schools, and the issues that the Department faces in identifying and addressing the risk of financial failure, that I set out in my December 2016 report Financial sustainability of schools.

## RECOMMENDATIONS

The Department has committed to continuing to improve the Academy Sector Accounts. When implementing this commitment, the Department should:

- a. Identify and review the evidence that it holds regarding historical valuation of land and building assets, in order to establish the extent that it can practicably correct historical errors and calculate a reasonable revaluation reserve.
- b. Continue to make improvements to its processes for valuing the land and buildings that it recognises in the Academy Sector Accounts.
- c. Build on the improvements that it has made to its accounts production process to facilitate more timely publication of the Academy Sector Accounts in future years, working towards its commitment of producing them before the parliamentary summer recess.
- d. Consider how to derive maximum value from the data it collects in producing the Academy Sector Accounts, to support its oversight of academy trusts and provide information that could help them improve their financial management.
- e. Consider with HM Treasury the extent to which it should reduce the number of exemptions from the normal FReM reporting requirements, and the timeframe for doing so, including in areas of high interest such as senior staff pay and related party transactions.
- f. Consider whether including additional information in the Academy Sector Annual Report and Accounts could help Parliament better hold the sector to account – for example, analysis of trends in financial performance among academy trusts in different regions or of different.

# THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I have audited the financial statements of the Academy Schools Sector in England for the year ended 31 August 2017 as prepared by the Department for Education under the Accounts Direction issued by HM Treasury. The financial statements comprise: the Consolidated Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described as having been audited.

## QUALIFIED OPINION ON THE FINANCIAL STATEMENTS

In my opinion except for the matters described in the Basis for my qualified opinion on the financial statements paragraph:

- The financial statements give a true and fair view of the state of the Academy Schools Sector in England's affairs as at 31 August 2017 and of the net operating deficit for the year then ended; and
- The financial statements have been properly prepared in accordance with the Academies Act 2010 and HM Treasury directions issued thereunder.

## BASIS FOR QUALIFIED OPINION ON THE FINANCIAL STATEMENTS

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of the Financial Statements of Public Sector Entities in the United Kingdom.' My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting

Council's Revised Ethical Standard 2016. I am independent of the Academies Schools Sector in England in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion, with the exception of the issue identified below.

The Department has recognised academy trust land and buildings in the Statement of Financial Position with a value of £44bn as at 31 August 2017, after making an accounting adjustment of £8.4bn at the year end to correct errors in its records. The Department also reports a revaluation reserve balance of £nil at 31 August 2017 after making an accounting adjustment of £4.6bn. The audit evidence available to me was limited because the Department, while able to support the 31 August 2017 land and buildings balance, was unable to demonstrate that it would be impracticable to have also corrected comparative balances in accordance with the requirements of International Accounting Standard 8. Nor could the Department support the adjustment of the revaluation reserve under International Accounting Standard 16 Property, Plant and Equipment. As a consequence, the Department was also unable to demonstrate that the associated impairment and gain on revaluation of property, plant and equipment recorded in the Consolidated Statement of Comprehensive Net Expenditure had been correctly calculated.

## OPINION ON REGULARITY

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## RESPONSIBILITIES OF THE ACCOUNTING OFFICER FOR THE FINANCIAL STATEMENTS

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements.

My responsibility is to audit and express an opinion on the financial statements in accordance with the Accounts Direction issued by HM Treasury.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academies Schools Sector in England's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Academies Schools Sector in England's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

## OTHER INFORMATION

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report, and the Parliamentary accountability and audit report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit

of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

## **OPINION ON OTHER MATTERS**

In my opinion:

- the parts of the Accountability Report that are described as having been audited have been properly prepared in accordance with the HM Treasury Accounts Direction;
- In light of the knowledge and understanding of the body and its environment obtained during the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **MATTERS ON WHICH I REPORT BY EXCEPTION**

In respect solely of the matters referred to in the basis for qualified opinion paragraph, I report on the following matters:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; and
- I have not received all of the information and explanations I require for my audit.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- the financial statements and the parts of the Accountability Report that are described as having been audited are not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## **REPORT**

My report on these financial statements is on pages 61 to 62.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**  
**5th November 2018**

National Audit Office  
 157-197 Buckingham Palace Road  
 Victoria  
 London



# FINANCIAL STATEMENTS

# FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF COMPREHENSIVE NET EXPENDITURE

for the year ended 31 August 2017

		2016/17	2015/16
	Note	£m	£m
<b>Operating income</b>			
Income	5	22,545	20,498
<b>Operating expenditure</b>			
Staff costs	6	(16,302)	(14,211)
Other operating expenditure	7	(8,497)	(5,753)
<b>Net operating (deficit)/surplus</b>		<b>(2,254)</b>	<b>534</b>
Net gain on conversion of non-local authority academies	4	342	938
Net gain on conversion of local authority academies	4	4,193	2,157
<b>Surplus for the year</b>		<b>2,281</b>	<b>3,629</b>
<b>Derecognition adjustment</b>		<b>(8,367)</b>	–
<b>Adjusted surplus for the year</b>		<b>(6,086)</b>	<b>3,629</b>
<b>Other comprehensive expenditure</b>			
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Gain on revaluation of property, plant and equipment	2	3,391	1,248
Actuarial gain/(loss) on defined benefit pension scheme	14	1,820	(2,973)
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Other recognised gains and losses		3	(1)
<b>Total other comprehensive income</b>		<b>5,214</b>	<b>(1,726)</b>
<b>Total comprehensive (expenditure)/income</b>		<b>(872)</b>	<b>1,903</b>

All income and expenditure reported in the Consolidated Statement of Comprehensive Net Expenditure are derived from continuing operations of the academy sector.

The notes on pages 73 to 96 form part of these Accounts.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 August 2017

	Note	2017 £m	2016 £m
<b>Non-current assets</b>			
Property, plant and equipment	2	46,747	48,207
Intangible assets		5	4
Investments	9	191	170
Receivables	10	22	11
		<b>46,965</b>	<b>48,392</b>
<b>Current assets</b>			
Inventories		9	10
Receivables	10	1,236	1,062
Cash and cash equivalents	11	3,543	3,224
		<b>4,788</b>	<b>4,296</b>
<b>Total assets</b>		<b>51,753</b>	<b>52,688</b>
<b>Current liabilities</b>			
Payables	12	(2,048)	(1,769)
Provisions		(1)	(2)
		<b>(2,049)</b>	<b>(1,771)</b>
<b>Total assets less current liabilities</b>		<b>49,704</b>	<b>50,917</b>
<b>Non-current liabilities</b>			
Payables	12	(139)	(101)
Provisions		(5)	(5)
Pension deficit	14	(6,979)	(7,358)
		<b>(7,123)</b>	<b>(7,464)</b>
<b>Assets less liabilities</b>		<b>42,581</b>	<b>43,453</b>
<b>Taxpayers' equity</b>			
Charitable Funds		42,581	42,205
Revaluation Reserve		–	1,248
		<b>42,581</b>	<b>43,453</b>

**Jonathan Slater**  
Accounting Officer  
30 October 2018

The notes on pages 73 to 96 form part of these Accounts.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

for the year ended 31 August 2017

		2016/17	2015/16
	Note	£m	£m
<b>Cash flows from operating activities</b>			
Net operating (deficit)/surplus		(2,254)	534
Depreciation and amortisation	2	1,006	1,032
Impairment	2	2,503	260
Increase in receivables	10	(185)	(197)
Increase in payables	12	317	212
Non-cash pension movements	14	1,413	887
Employer pension contributions	14	(696)	(594)
PPE donations	2	(242)	(99)
Other non-cash transactions		206	41
<b>Net cash inflow from operating activities</b>		<b>2,068</b>	<b>2,076</b>
<b>Cash flows from investing activities</b>			
Purchase of:			
property, plant and equipment	2	(2,087)	(2,190)
Proceeds of disposal of PPE		140	65
Other movements		(7)	(2)
<b>Net cash outflow from investing activities</b>		<b>(1,954)</b>	<b>(2,127)</b>
<b>Cash flows from financing activities</b>			
Cash acquired on conversion of academies	4	176	104
Other movements		29	33
<b>Net cash inflow from financing activities</b>		<b>205</b>	<b>137</b>
<b>Net increase in cash and cash equivalents in the year</b>	11	<b>319</b>	<b>86</b>
<b>Cash and cash equivalents at the beginning of the year net of overdrafts</b>	11	<b>3,223</b>	<b>3,137</b>
<b>Cash and cash equivalents at the end of the year net of overdrafts</b>	11	<b>3,542</b>	<b>3,223</b>

The notes on pages 73 to 96 form part of these Accounts.

## CONSOLIDATED STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 August 2017

	Note	Revaluation Reserve £m	Charitable Funds £m	2017 Total £m
<b>Balance at 1 September 2016</b>		<b>1,248</b>	<b>42,205</b>	<b>43,453</b>
Deficit for the year		–	(6,086)	(6,086)
<b>Other comprehensive income</b>				
Net gain on revaluation of property, plant and equipment	2	3,391	–	3,391
Actuarial gain/(loss) on defined benefit pension scheme	14	–	1,820	1,820
Fair value gain on investments		–	3	3
<b>Total other comprehensive income/(expenditure)</b>		<b>3,391</b>	<b>1,823</b>	<b>5,214</b>
<b>Total comprehensive income/(expenditure) for the year</b>		<b>3,391</b>	<b>(4,263)</b>	<b>(872)</b>
<b>Movements in reserves</b>				
Other movements		–	–	–
Accounting records adjustment		(4,639)	4,639	–
<b>Balance at 31 August 2017</b>		<b>–</b>	<b>42,581</b>	<b>42,581</b>

The Charitable Funds represents total assets less liabilities related to the sector's schools, less unrealised revaluation adjustments to property, plant and equipment (see Note 2).

The Revaluation Reserve reflected the unrealised element of the cumulative balance of the revaluation adjustments since 1 September 2015 to property, plant and equipment. For 2016/17, this reserve has been cleared to zero as part of a wider accounts adjustment to reflect material uncertainties therein. Further details on this are disclosed in the narrative to Note 2.

The notes on pages 7 to 36 form part of these Accounts.

## CONSOLIDATED STATEMENT OF CHANGES IN TAXPAYERS' EQUITY (CONTINUED)

for the year ended 31 August 2016

	Note	Revaluation Reserve £m	Charitable Funds £m	2016 Total £m
<b>Balance at 1 September 2015</b>		<b>–</b>	<b>41,551</b>	<b>41,551</b>
Surplus for the year		–	3,629	3,629
<b>Other comprehensive income</b>				
Net gain on revaluation of property, plant and equipment	2	1,248	–	1,248
Actuarial loss on defined benefit pension scheme	14	–	(2,973)	(2,973)
Other recognised losses		–	(1)	(1)
<b>Total other comprehensive income/(expenditure)</b>		<b>1,248</b>	<b>(2,974)</b>	<b>(1,726)</b>
<b>Total comprehensive income/(expenditure) for the year</b>		<b>1,248</b>	<b>655</b>	<b>1,903</b>
<b>Movement in reserves</b>				
Other general fund movements		–	(1)	(1)
<b>Balance at 31 August 2016</b>		<b>1,248</b>	<b>42,205</b>	<b>43,453</b>

The notes on pages 73 to 96 form part of these Accounts.

# NOTES TO THE ACCOUNTS

## 1. ACCOUNTING POLICIES

Accounting policies relating to specific notes to the accounts have been detailed underneath the relevant disclosures for each note. The policies disclosed in Note 1 relate to the overall basis and structure of these accounts.

### Statement of compliance

These accounts have been prepared in accordance with the 2016-17 *Government Financial Reporting Manual* (FReM) issued by HM Treasury (HMT) and with the Accounts Direction issued by HMT (Annex 4 <https://www.gov.uk/government/collections/academies-sector-annual-reports-and-accounts>). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRSs) as adapted or interpreted for the public sector context. These policies have been drafted accordingly, except for the departures as noted in Annex 4. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the academies sector for the purpose of giving a true and fair view has been selected. The particular policies adopted for 2016/17 are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of certain assets and liabilities as set out in these accounting policies.

ATs across the sector adopt a different accounting framework: *FRS102 The Financial Reporting Standard* (FRS 102) and the *Charities Statement of Recommended Practice* (SORP) are based on UK generally accepted accounting policies.

The Department has completed a comparison review between FReM and SORP. Where material differences have been identified adjustments are made in the consolidation process in order to comply with FReM.

### 1.2 Going concern

The accounts are produced on a going concern basis. The academies sector is financed by the Department, following decisions taken in the Government's Spending Review process and subsequent internal decision processes. The spending review and forward plans include provision for the continuation of funding. Therefore, the Department believes it is appropriate to prepare the accounts on a going concern basis.

Individual ATs may have going concern issues arising from specific circumstances of their operation, at both the trust and academy level. However, due to the difference in scale between the sector as a whole and individual academies, going concern risks to individual ATs are unlikely to lead to a going concern risk to the sector. In addition, the Department has the power to re-broker struggling academies to stronger ATs to maintain provision.

Consequently, the Department does not judge going concern weaknesses at individual academies to impact the going concern assumption held at the sector level.

### 1.3 Basis of consolidation

These accounts present the consolidation of ATs which make up the academies sector. Transactions between entities included in the consolidation are eliminated, to present the consolidated financial performance and financial position for the academy sector as a single economic entity. The consolidation underpinning SARA includes all ATs with operational academies as at the 31 August year end. All ATs which have open academies as at 31 August prepare audited financial statements.

ATs have been classified by the Office for National Statistics as central government public sector bodies since 2004. Up to 2015/16, ATs were included within the departmental consolidation boundary.

The Department continues to produce a separate set of consolidated accounts for its Group, including grants paid to ATs, based on its April to March financial year.

Throughout these accounts 'Department' refers to the core Department while 'sector' refers to the combination of all ATs that prepared audited statutory accounts as at the date of this ARA.

#### **1.4 Critical accounting judgements and estimates, and key sources of estimation uncertainty**

The preparation of these accounts requires the Department to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure for the sector. These are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an ongoing basis. The Department has specifically made such judgements on recognition of land and buildings, valuation of land and buildings, accounting for capital expenditure and assets under construction, accounting for the migration of opening balances and pensions. These are detailed beneath the relevant note in each case.

To the extent that it has been possible, sensitivity analysis around these estimates are included in the relevant note.

To provide increased clarity and brevity, the Department has chosen to aggregate most sub-totals of less than £100 million into categories such as 'Other Expenditure', except where certain totals are deemed to be significant by their nature even when less than this threshold.

#### **1.5 Early adoption**

The sector has not early adopted any accounting standards in 2016/17.

## 2. PROPERTY, PLANT AND EQUIPMENT

2016/17	2017 Land & buildings £m	2017 Leasehold improve'mts £m	2017 IT equipment £m	2017 Plant & machinery £m	2017 Furniture & fittings £m	2017 Motor vehicles £m	2017 AUC £m	2017 Total £m
<b>Cost or valuation</b>								
At 1 September 2016	45,584	348	1,080	169	1,100	35	1,662	49,978
Additions	470	100	142	14	142	4	1,215	2,087
Acquired on conversion: <sup>91</sup>								
LA	4,634	-	20	3	33	1	38	4,729 <sup>92</sup>
non-LA	226	1	2	-	3	-	126	358
Donations	234	2	1	-	3	-	2	242
Disposals	(333)	(37)	(34)	(4)	(16)	(2)	(7)	(433)
Revaluations	2,819	-	-	-	-	-	-	2,819
Impairment charge	(2,500)	-	(1)	-	(3)	-	1	(2,503) <sup>93</sup>
Reclassifications	1,468	17	3	2	8	-	(1,498)	-
Transferred to ESFA	-	-	-	-	-	-	(87)	(87)
De-recognition adjustment	(8,389)	-	-	-	-	-	-	(8,389)
<b>At 31 August 2017</b>	<b>44,213</b>	<b>431</b>	<b>1,213</b>	<b>184</b>	<b>1,270</b>	<b>38</b>	<b>1,452</b>	<b>48,801</b>
<b>Depreciation</b>								
At 1 September 2016	(219)	(60)	(802)	(75)	(595)	(20)	-	(1,771)
Charged in year	(639)	(27)	(167)	(18)	(149)	(5)	-	(1,005)
Disposals	80	4	32	1	10	1	-	128
Revaluations	572	-	-	-	-	-	-	572
Reclassifications	1	(1)	-	-	-	-	-	-
De-recognition adjustment	22	-	-	-	-	-	-	22
<b>At 31 August 2017</b>	<b>(163)</b>	<b>(84)</b>	<b>(937)</b>	<b>(92)</b>	<b>(734)</b>	<b>(24)</b>	<b>-</b>	<b>(2,054)</b>
<b>Carrying value as at:</b>								
<b>1 September 2016</b>	<b>45,365</b>	<b>288</b>	<b>278</b>	<b>94</b>	<b>505</b>	<b>15</b>	<b>1,662</b>	<b>48,207</b>
<b>31 August 2017</b>	<b>44,030</b>	<b>347</b>	<b>276</b>	<b>92</b>	<b>536</b>	<b>14</b>	<b>1,452</b>	<b>46,747</b>

91 For more detail, please see Note 3 – Transfer on conversion.

92 Please see Note 4.

93 Please see Note 3.

2015/16	2016 Land & buildings	2016 Leasehold improve'ts	2016 IT equipment	2016 Plant & machinery	2016 Furniture & fittings	2016 Motor vehicles	2016 AUC	2016 Total
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Cost or valuation</b>								
At 1 September 2015	40,576	275	966	155	937	30	1,188	44,127
Additions	526	72	130	13	134	5	1,310	2,190
Acquired on conversion: <sup>94</sup>								
LA	2,262	-	11	1	25	1	50	2,350
non-LA	830	-	4	-	4	-	148	986
Donations	90	-	3	-	2	-	4	99
Disposals	(135)	(3)	(38)	-	(8)	(1)	(5)	(190)
Revaluations	673	-	-	-	-	-	-	673
Impairment charge	(260)	-	-	-	-	-	-	(260)
Reclassifications	1,022	4	4	-	6	-	(1,036)	-
Transferred from EFA	-	-	-	-	-	-	3	3
<b>At 31 August 2016</b>	<b>45,584</b>	<b>348</b>	<b>1,080</b>	<b>169</b>	<b>1,100</b>	<b>35</b>	<b>1,662</b>	<b>49,978</b>
<b>Depreciation</b>								
At 1 September 2015	(133)	(38)	(661)	(58)	(460)	(16)	-	(1,366)
Charged in year	(661)	(25)	(178)	(17)	(144)	(5)	-	(1,030)
Disposals	1	2	38	-	8	1	-	50
Revaluations	575	-	-	-	-	-	-	575
Reclassifications	(1)	1	(1)	-	1	-	-	-
<b>At 31 August 2016</b>	<b>(219)</b>	<b>(60)</b>	<b>(802)</b>	<b>(75)</b>	<b>(595)</b>	<b>(20)</b>	<b>-</b>	<b>(1,771)</b>
<b>Carrying value as at:</b>								
<b>1 September 2015</b>	<b>40,443</b>	<b>237</b>	<b>305</b>	<b>97</b>	<b>477</b>	<b>14</b>	<b>1,188</b>	<b>42,761</b>
<b>31 August 2016</b>	<b>45,365</b>	<b>288</b>	<b>278</b>	<b>94</b>	<b>505</b>	<b>15</b>	<b>1,662</b>	<b>48,207</b>

94 For more detail, please see Note 4 – Transfer on conversion.

## ACCOUNTING POLICY: PROPERTY, PLANT AND EQUIPMENT

### Recognition of land and buildings

These accounts recognise land and buildings in the following circumstances:

- When the land is owned as a freehold by the AT or the Secretary of State;
- Where there is a long-leasehold. This requires the original lease term to have been in excess of 100 years; leases of more than 75 years but less than 100 years may be recognised if there are additional indicators of control.
- Where there is a customary occupation that shows the land and buildings have been in educational use for an extended period, normally for 100 years or more.

### Key Accounting Judgements and Estimates Affecting Recognition

#### De-recognition

Individual ATs are required to consider compliance with SORP in recognition of their own land and buildings. In accordance with the accounting framework, some ATs do not recognise land and buildings utilised in their operations. In prior years, a significant central consolidation adjustment for the sector was made to ATs' reported results to recognise all land and buildings used by ATs which met these criteria, irrespective of what the ATs recognised in their own accounts, in order to ensure compliance with FReM.

For 2016/17, we have conducted a review of all occupations of land and buildings by the sector. As a result of this review, we have identified a significant number of academies where recognition by the sector of an occupied school site as an asset is inappropriate. In these circumstances, we have de-recognised the affected land and/or buildings and removed these from the 2016/17 balance sheet.

Assets have been derecognised:

- Where documentation clarifies that occupation of a site does not give rise to an asset: for instance, a short leasehold of less than 75 years;
- Where on review, we now consider that an asset should not be recognised: for instance, where an agreement between the AT and the landowning church authority makes recognition of the asset by the sector inappropriate.
- Where the site is a customary occupation and has been in educational use for less than 100 years.

- Sites which are occupied under a licence have been judged by the Department not to be finance leases.

As the value of assets recognised on the balance sheet has been reduced, we have made a corresponding adjustment to reduce the value of reserves held by the sector. This movement (a net reduction in assets and reserves of £8.4bn) has been shown on both the Statement of Financial Position, and as a non-operating charge in the Statement of Comprehensive Net Expenditure, which reduces the surplus for year.

This does not represent an operational loss or any cash loss to the sector. These assets continue to be used by the sector and these accounts continue to reflect the maintenance costs of these assets.

### Other key judgements

#### Long leaseholds

Land and building assets are occupied through a number of routes from freehold, through leasehold to short-term rentals. Where the ATs lease their land and building assets from a local authority the majority of such leases are very long (often 100 or 125 years) and there is usually only a notional peppercorn or no rental cost. To reflect the commercial and economic nature of such long low value leases, they are classified as equivalent to freehold and all building assets are consolidated into a single asset class.

#### Private Finance Initiative (PFI)

There are small number of sites within the sector that are operated through private finance initiative (PFI) arrangements. Whilst the sites are managed through PFI arrangements the ATs are not direct counterparties to the PFI agreements, which remain with their local authorities or the ESFA.

However, PFI sites have been recognised as land and building assets by the SARA since the Department judges the economic benefit of occupation to flow to the sector.

The future impact of IFRS 16 Leases is considered further at Note 13.

## Valuation of land and buildings

### Valuation Policy

Land and buildings are valued on a depreciated replacement cost (DRC) basis using a modern equivalent asset. This approach is used, in line with IFRS 13 Fair Value Measurement, in order to reflect the amount required to replace the service capacity of the asset with an asset of comparable utility, adjusted for obsolescence. The calculation of the DRC value of the modern equivalent asset is performed by professional surveyors, currently Kier Services Ltd, in accordance with the Royal Institute of Chartered Surveyors' (RICS) Appraisal and Valuation Manual and the Department's Building Bulletin 103 and Building Bulletin 102.

Valuations are conducted when:

- A new academy is opened;
- An asset under construction is completed and becomes operational; and
- No more than five years have passed from the last valuation, in accordance with IAS 16.

In accordance with the accounting policies selected by the Department, the sector re-values land and buildings every five years from the anniversary of their initial recognition. Between quinquennial revaluations, asset values are updated using indices.

- Buildings have been indexed using the Office for National Statistics "Interim construction output prices: new work".
- Land values have been indexed, using the HPI residential land index issued by LSL Acadata.

The Department considers that a residential price index is the most appropriate index to use across the academy sector's portfolio of assets as a large majority of current schools, and of potential new sites for schools, are in residential areas.

The Department significantly brought forward the valuation of academies to address the prior year qualifications and to reach a consistently applied policy for the closing balance sheet. This action means 92% of the recognised land and building assets have been valued since 2015.

### Key Accounting Judgements and Estimates Affecting Valuation

#### The valuation model:

The value of land and buildings shown in the account represents the service potential for the asset which is derived through the use of a valuation model. As set out above, the model's function is to address the requirements of IFRS

13 Fair Value Measurement, by creating a Modern Equivalent Asset (MEA) value for recognised buildings assets. Because of the specialised nature of the assets, there is no open market valuation that can be obtained. Instead, we use a model based on professional valuation opinion to estimate the cost required to build an equivalent replacement school, modified to take account of physical and economic obsolescence. This is based on professional judgement as without a market for the asset, the model uses unobservable inputs and is classified at level 3 under IFRS 13.

The principal input factors which determine the service potential include:

- the number of pupils educated in the school;
- the geographic location of the school;
- the school phase (e.g. primary or secondary); and
- the prescribed space per pupil set under the government approved standards published within Building Bulletins, which differs by phase and the purpose of the academy.

These factors drive the "Cost or valuation" element of the asset, as disclosed in Note 2. The factors are closely interlinked and influence each other. The impact of changes in an input are as follows:

- A higher pupil roll will increase service potential due to an increase in space required;
- Geographic location drives the land value, permissible construction materials and methods (e.g. high-rise/low-rise), and the level of building costs at the valuation date.
- Land values are based on residential land values local to the school, except in cases where the equivalent asset could be constructed areas away from the main settlement (e.g. agricultural/ industrial land). Where no recent land sales have occurred, a 'floor' price of £50,000 is used as a matter of professional judgement. Were we to increase the floor price to £150,000<sup>95</sup>, then the valuation of land would be £52 million higher for the current year's valuation round. This would equate to an increase of around £100 million for the entire population of land values affected.
- All attributable building costs relating to construction are determined based on data obtained from the Building Cost Information Service, a service provided by the Royal Institute of Chartered Surveyors that collates information on building costs. This data varies over time and by region.

95 £150,000 is recommended by the Valuations Office Agency for policy appraisal purposes.

- The school phase (and the associated building standards) determines:
  - the size of equivalent asset to be constructed, with secondary schools generally being larger per pupil due to the range of subjects offered; and
  - the extent to which the geographic location of a school could be changed. Secondary schools normally can be relocated to the outside of settlements, where land values are less, due to their larger catchment area. The reclassification options are significantly more constrained for primary schools.

The other key judgement that drives the carrying value of buildings is the physical obsolescence factor used. Physical obsolescence is primarily calculated through estimating the decade of construction of an academy. An obsolescence rate is then applied, giving rise to additional depreciation. Best practice would be to conduct site visits specifically to inform assumptions, but the scale and devolved nature of the sector inhibit the Department's ability to do so. To mitigate the absence of site inspections, the desktop reviews are supplemented with additional data such as; recent condition survey, planning consents, and architectural plans. The valuers concluded from the supplementary evidence that the physical obsolescence rates used were reasonable.

Economic obsolescence occurs where there is evidence of a permanent diminution in service potential, e.g. a declining pupil roll or pupil roll substantially under capacity. In such cases these would factor into a reduced cost, and on revaluation would potentially result in an impairment charge. The model allows for the surveyor to exercise judgement and to adopt a forecast pupil roll in cases where this situation is temporary, for example in the first three years of an academy's operation.

### Valuation of Assets under Construction and Converter Schools.

The value of Assets Under Construction (AuC) is measured at cost plus direct costs directly attributable to bringing the assets into working condition, in line with IAS 16. Direct costs include all costs associated with purchasing the land and property and bringing the assets into use, and a fair proportion of the sector's internal costs. The sector recognises AUC assets where it has control over the asset, and the right to the future economic benefits from that asset. The majority of AuC is funded by the DfE Group capital grant to the sector (as disclosed in Note 5 and the capital grant tracker).

Upon conversion of an academy, the carrying value of academy land and buildings is calculated at depreciated replacement cost in order to comply with its accounting policies. The accounts do not reflect a revaluation adjustment as the valuation was before the assets' initial recognition in the sector's accounts.

### Other Asset Classes

For other classes of assets, individual ATs apply their own local accounting policies for capitalisation thresholds. Therefore, the de minimis value at which a purchased item will be capitalised vary across the sector, ranging from £500 to £2,000. These are held at modified historic cost and are not revalued.

### Depreciation

Depreciation is provided at rates calculated to write off the valuation of buildings and other property, plant and equipment by equal instalments over their estimated useful lives. Land and assets under construction are not depreciated but are assessed for impairment.

Asset lives, as applied in the SARA, are in the following ranges:

Freehold buildings	50 years
Leasehold buildings	50 years or the lease term, whichever is shorter
Leasehold improvements	over the remaining term of the lease
Motor vehicles	3 - 10 years
IT equipment	2 - 10 years
Plant and machinery	3 - 30 years
Furniture and fittings	2 - 20 years

### Consideration of prior period adjustment

Previous years accounts were qualified due to the recognition policy adopted by the Department and the valuation that flowed from it. To address this qualification, the Department reviewed all land and building occupations by the sector, and de-recognised assets where their recognition was not supported by collated evidence.

The Department has not restated the accounts for previous periods, despite the requirement to do so in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. This is due to two factors:

- The Department decided to gather data only on occupation for assets operational at 31st August 2017. This decision was taken on value for money grounds and to avoid creating undue burdens on the sector. Whilst this

was a pragmatic decision, it does mean that we cannot state with certainty the basis for occupation for Academies that closed, or changed their base of operations prior to this date.

- Secondly, the accounting records relating to asset valuation were held at a trust level, and not individual academy level, prior to 2015/16. This has meant it has not been possible, at this time, to reconstruct the value of the revaluation reserve after de-recognition was completed.

For 2016/17, the Department has decided to make two adjustments to reflect the impact of the evidence collected:

- A de-recognition adjustment to remove the value of assets no longer considered to be controlled by the sector. This adjustment has reduced the net asset position, with a corresponding expenditure charge to the account.
- The second adjustment to clear the revaluation reserve into the charitable funds reserve. This adjustment reflects the uncertainty over a significant element of the revaluation reserve and interactions between it and impairment charges for the sector caused by the historical issues with accounting records. For 2017/18, the Department will consider whether the valuation reports we hold from 2012/13 onwards are of sufficient detail to reconstruct the revaluation reserve and hence complete a restatement. We will work with the NAO to ensure our 2017/18 accounts are compliant with IAS 8.

### 3. RELATED PARTY TRANSACTIONS

Related parties for the sector include both the Department and the management of the Department, and senior management within each individual AT. As set out in Annex 4, HM Treasury has approved a derogation in respect of related parties. The relationship between the Department and the sector is considered in the Grant Trackers included in the accountability section of the annual report at P.59. The relationship between management of the Department and the sector have been disclosed in the ARA for the Department.<sup>96</sup>

The following tables show the value of all other related party transactions entered into by the sector during the year. Examples of these include transactions with:

- subsidiary companies or shared services;
- diocesan education authorities;
- a charity classified as a related party; and
- trustees (or trustees' family members) providing services to the trust.

Details of related parties are disclosed in trusts' own accounts.

Payments to related parties	2016/17	2016/17	2015/16	2015/16
	Number of related party transactions	Payments to related parties	Number of related party transactions	Payments to related parties
	Number	£m	Number	£m
£1 to £50,000	2,009	22	2,636	25
£50,001 to £100,000	202	14	183	13
£100,001 to £200,000	103	14	119	16
£200,001 to £250,000	23	5	25	6
£250,001+	62	79	70	62
	<b>2,399</b>	<b>134</b>	<b>3,033</b>	<b>122</b>

Payments from related parties	2016/17	2016/17	2015/16	2015/16
	Number of related party transactions	Payments to related parties	Number of related party transactions	Payments to related parties
	Number	£m	Number	£m
£1 to £50,000	775	9	857	10
£50,001 to £100,000	127	9	135	10
£100,001 to £200,000	76	12	88	12
£200,001 to £250,000	22	4	16	4
£250,001+	74	71	59	39
	<b>1,074</b>	<b>105</b>	<b>1,155</b>	<b>75</b>

Details of investigations carried out identifying any issues in relation to related parties can be found in the published *academies financial management and governance reviews*,<sup>97</sup> *academies investigation reports*.<sup>98</sup>

96 <https://www.gov.uk/government/publications/dfe-consolidated-annual-report-and-accounts-2016-to-2017>

97 <https://www.gov.uk/government/collections/academies-financial-management-and-governance-reviews>

98 <https://www.gov.uk/government/collections/academies-investigation-reports>

## 4. TRANSFER ON CONVERSION

	2016/17 LA	2016/17 Non-LA	2016/17 Total	2015/16 LA	2015/16 Non-LA	2015/16 Total
	£m	£m	£m	£m	£m	£m
<b>Non-current assets</b>						
Property, plant and equipment <sup>99</sup>	4,729	358	5,087	2,351	987	3,338
Intangible assets	–	–	–	–	–	–
Investments	6	–	6	2	–	2
Other	1	–	1	–	–	–
	<b>4,736</b>	<b>358</b>	<b>5,094</b>	<b>2,353</b>	<b>987</b>	<b>3,340</b>
<b>Current assets</b>						
Inventories	–	–	–	–	–	–
Receivables	13	17	30	31	5	36
Cash and cash equivalents	165	11	176	84	20	104
	<b>178</b>	<b>28</b>	<b>206</b>	<b>115</b>	<b>25</b>	<b>140</b>
<b>Current liabilities</b>						
Payables	(15)	(1)	(16)	(28)	(7)	(35)
	<b>(15)</b>	<b>(1)</b>	<b>(16)</b>	<b>(28)</b>	<b>(7)</b>	<b>(35)</b>
<b>Non-current liabilities</b>						
Payables	(25)	–	(25)	(5)	(2)	(7)
Pension scheme deficit	(681)	(43)	(724) <sup>100</sup>	(278)	(65)	(343)
	<b>(706)</b>	<b>(43)</b>	<b>(749)</b>	<b>(283)</b>	<b>(67)</b>	<b>(350)</b>
<b>Net asset transferred on conversion – total</b>	<b>4,193</b>	<b>342</b>	<b>4,535</b>	<b>2,157</b>	<b>938</b>	<b>3,095</b>

### Accounting policy: in-year conversions

ATs converting in-year are accounted for using the method of absorption accounting; this is the standard treatment for internal transfers of bodies already within the public sector. Under absorption accounting, assets and liabilities brought into the sector are not revalued to fair value but are transferred at the local authority's carrying value, adjusted to align with the consolidation accounting policies. Carrying value is after adjustments arising to align accounting policies (such as for land and buildings).

The net assets or liabilities acquired within the sector through the business combinations, for nil consideration, are recognised either in Operating Income or in Other Comprehensive Income. Net assets and liabilities brought into the sector from other government bodies (predominantly ex-local authority maintained schools) are recognised in non-operating costs. Net assets and liabilities brought into the sector from outside the public sector (predominantly converted faith and foundation schools) are recognised in operating income to reflect the gain or loss to the public sector.

On an existing school's conversion to academy status (such as a local authority maintained school, foundation school, faith school) the assets and liabilities of the school will be transferred at cost to the AT that operates the school. For academy schools without a legacy school (such as free schools and studio schools) assets and liabilities may be inherited by the AT from third parties such as sponsors.

In either case the AT will account for all inherited assets and liabilities introduced to the sector on the opening of an academy school under absorption accounting. New assets and liabilities are not revalued to fair value on introduction but carried at net book value. Land and building assets and pension scheme valuations are adjusted arising from harmonising accounting policies for new assets and liabilities.

Transfer on conversion settlements occur in the year after conversion of an academy school when there are changes to accounting estimates of the value of transferred assets and liabilities, for example pensions or property, plant and equipment. Schools convert into academies throughout the reporting period.

99 Please see note 2

100 Please see note 14

## 5. INCOME

	2016/17	2015/16
	£m	£m
<b>Grant income</b>		
DfE Group revenue grants income:		
General annual grant	16,382	14,805
Pupil premium grant	896	818
Other DfE group revenue grants	608	587
Other revenue grants:		
Local authority special educational needs grants	550	456
Other local authority revenue grants	446	353
Other grants	79	55
<b>Revenue grant income</b>	<b>18,961</b>	<b>17,074</b>
DfE Group capital grants	1,773	1,780
Local authority capital grants	140	115
Other capital grants	15	5
<b>Capital grant income</b>	<b>1,928</b>	<b>1,900</b>
<b>Non-grant income</b>		
Income from activities for generating funds	427	437
Catering income	180	186
Capital donations	179	171
Revenue donations	186	153
Rental income	124	109
Investment income	11	15
Miscellaneous income	549	453
<b>Other income</b>	<b>1,656</b>	<b>1,524</b>
	<b>22,545</b>	<b>20,498</b>

### Accounting policy: income

Grant income from the Department and other government bodies is recognised on an accruals basis.

Operating income is income which relates directly to the operating activities of the sector. It is generated by the sector in the course of its educational activities, which can encompass fundraising income, hire of facilities and sponsorship income.

This report's Grant Tracker provides a reconciliation between both grant and capital income from the Department (and the ESFA) recorded by the sector and expenditure on the sector recorded by the Department and the ESFA. The Grant Tracker can be found on page 59.

### Future developments in financial reporting

*IFRS 15 – Revenue from Contracts with Customers*, will take effect from 2018/19. We do not consider that this will have a material impact on the sector as the majority of income relates to donations and government grants which are unlikely to be impacted by this standard. Further, the remaining income in the sector largely relates to non-complex transactions such as payments for school trips, catering and similar costs which are delivered at a single point in time, where the treatment has not significantly altered.

## 6. STAFF COSTS

	2016/17	2016/17	2016/17	2015/16
	Permanently employed staff	Temporary staff costs	Total	Total
	£m	£m	£m	£m
Salaries	11,785	–	11,785	10,589
Temporary staff costs	–	736	736	697
Social security	1,096	25	1,121	866
Pension costs	2,539	49	2,588	1,989
Severance payments	72	2	74	70
	<b>15,492</b>	<b>812</b>	<b>16,304</b>	<b>14,211</b>
Less recoveries in respect of outward secondments	(2)	–	(2)	–
	<b>15,490</b>	<b>812</b>	<b>16,302</b>	<b>14,211</b>

Staff numbers and other relevant disclosures are included within the Staffing Report in the Accountability Section on page 54.

### Accounting policy: early departure costs

The sector is required to meet the additional cost of benefits beyond the normal pension scheme benefits in respect of some employees who retire early, and of compensation payments payable to some employees who take early severance. The Academies Financial Handbook sets out delegation limits, beyond which permission to make severance payments must be approved by both the ESFA and HM Treasury.

## 7. OTHER OPERATING EXPENDITURE

	2016/17	2015/16
	£m	£m
Educational supplies	619	581
Building maintenance and repair cost	527	459
Premises costs including rates and service charges	492	438
Catering	427	363
Consultancy and other professional fees	338	296
IT and telecommunications costs	269	247
Utilities	269	245
Exam fees	206	203
Staff related costs	197	181
Remuneration of academy auditors:		
audit fees	33	30
non-audit fees	10	9
Other expenditure	1,425	1,333
<b>Non-cash Items</b>		
Depreciation & amortisation	1,006 <sup>101</sup>	1,032
Impairment	2,503 <sup>102</sup>	260
Loss on disposal	166	75
Other non-cash expenditure	10	1
	<b>8,497</b>	<b>5,753</b>

Auditors' remuneration relates to the fees incurred by ATs for the audit of their financial statements and other services.

The National Audit Office charges a fee of £530,000 for the audit of this ARA. This is not reported in the values above.

101 Please see Note 2.

102 Please see Note 2.

## 8. FINANCIAL INSTRUMENTS

### 8.1 Financial assets by category

	2016/17 Cash & cash equivalents	2016/17 Loans and receivables held at amortised cost	2016/17 Designated at fair value through SoCNE	2017	2016
	£m	£m	£m	£m	£m
Investments <sup>103</sup>	–	–	191	191	170
Receivables <sup>104</sup>	–	1,258	–	1,258	1,073
Cash <sup>105</sup>	3,543	–	–	3,543	3,224
				<b>4,992</b>	<b>4,467</b>

All financial liabilities are carried at amortised cost.

### 8.2 Financial liabilities by category

	Carried at amortised cost	2017	2016
	£m	£m	£m
Payables			
Loans <sup>106</sup>	108	108	75
Other payables, excluding accruals <sup>107</sup>	1,419	1,419	1,419
		<b>1,527</b>	<b>1,209</b>

#### Accounting policy: financial instruments

The sector adopts *IFRS 7 Financial Instruments: Disclosures*, *IAS 32 Financial Instruments: Presentation* and *IAS 39 Financial Instruments: Recognition and Measurement*. The sector does not have any complex financial instruments. Financial assets and financial liabilities are recognised when the sector becomes party to the contractual provisions of the instrument.

#### Financial assets

Financial instruments are classified, as appropriate, as:

- loans and receivables;
- available-for-sale; or
- financial assets at fair value through profit and loss.

Financial assets include cash and cash equivalents, trade and other receivables and loans. The classification of financial assets is determined at initial recognition. Financial assets

are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable costs.

The subsequent measurement of financial assets depends on their classification.

#### Receivables

Trade and other receivables have fixed or determinable payments that are not quoted on an active market. They do not carry any interest and are initially recognised at their face value. Appropriate allowances (provisions/write-offs) for estimated irrecoverable amounts (bad debts) are recognised in the SoCNE when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the estimated future recoverable amount.

103 Please see Note 9.

104 Please see Note 10.

105 Please see Note 11.

106 Please see Note 11.

107 Please see Note 11.

### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and on demand deposits.

### Financial liabilities

Financial liabilities are classified as financial liabilities measured at amortised cost. Financial liabilities include trade and other payables, loans and accruals. The sector does not currently have financial liabilities measured at fair value through profit or loss, neither does it have derivative financial instruments. The sector determines the classification of its financial liabilities at initial recognition.

The measurement of financial liabilities depends on their classification.

### Payables

Trade and other payables including accruals are generally not interest bearing and are stated at their face value on initial recognition. Subsequently, they are measured at amortised cost using the effective interest method.

### Loan liabilities

The sector is able to take out interest free loans for the purchase cost of solar panels and the sector recognises only the sums outstanding at the year end. The sector may also take out interest bearing loans with the Secretary of State's permission. The sector states such loans at their face value on initial recognition. Subsequently, the sector measures interest bearing loans at amortised cost using the effective interest method.

### Financial instrument risk management

The nature of the sector's financial instruments does not expose it to significant financial risk.

### Future developments in financial reporting

*IFRS 9 Financial Instruments* will take effect from the 2018-19 financial year. The change simplifies the classification and measurement of financial assets, as well as amending when and how impairments are calculated and reported, moving from an incurred loss to an expected loss model. This will result in impairments being recognised earlier than under *IAS 39 Financial Instruments: Recognition and Measurement*.

The Department does not anticipate any significant impact from adopting this standard, as the counterparties to financial instruments within the sector are primarily public sector entities, and hence provide a very low risk of impairment. We therefore also expect changes to classification to have little impact.

## 9. INVESTMENTS

	Investments at cost	Investments at fair value	2017 Total	2016 Total
	£m	£m	£m	£m
<b>1 September 2016</b>	10	160	170	149
Additions	9	37	46	53
Acquired on conversion <sup>108</sup>				
LA	–	6	6	2
non-LA	–	–	–	–
Disposals	(2)	(29)	(31)	(39)
Other reclassifications and fair value adjustments	–	–	–	5
<b>Balance at 31 August 2017</b>	<b>17</b>	<b>174</b>	<b>191</b>	<b>170</b>

ATs are permitted to hold investments: these investments above are a combination of listed shares, managed funds and investment properties

<sup>108</sup> For more detail, please see Note 3 – Transfer on conversion.

## 10. RECEIVABLES

	2017	2016
	£m	£m
<b>Amounts falling due within one year:</b>		
Trade receivables	99	93
VAT receivable	249	219
Accrued capital grants	222	159
Prepayments and other accrued income	524	454
Other receivables	142	137
<b>Total receivables falling due within one year</b>	<b>1,236</b>	<b>1,062</b>
<b>Amounts falling due after more than one year:</b>		
Receivables due after more than one year	22	11
<b>Total receivables due after one year</b>	<b>22</b>	<b>11</b>
<b>Total receivables</b>	<b>1,258</b>	<b>1,073</b>

## 11. CASH AND CASH EQUIVALENTS

	2017	2016
	£m	£m
<b>Cash and cash equivalents in Statement of Financial Position</b>		
Balance at 1 September	3,224	3,138
Acquired on conversion <sup>109</sup>	176	104
Net change excluding conversions	143	(18)
<b>Balance at 31 August</b>	<b>3,543</b>	<b>3,224</b>
<b>Cash and cash equivalents in Statement of Cash Flows</b>		
Cash at bank and in hand	3,543	3,224
Overdrafts <sup>110</sup>	(1)	(1)
<b>Balance at 31 August</b>	<b>3,542</b>	<b>3,223</b>

Included in the above is £115 million in relation to amounts held for third parties (31 August 2016: £251 million), including in respect of 16-19 Bursary funds, parent teacher associations or equivalent, and other items.

All cash at bank and overdrafts are held with commercial banks. ATs are required to incur ESFA approval before undertaking borrowings, including bank overdrafts.

109 For more detail, please see Note 3 – Transfer on conversion.

110 Included in other payables in Note 11.

## 12. PAYABLES

	2017	2016
	£m	£m
<b>Amounts falling due within one year:</b>		
Accruals and other deferred income	810	717
Trade payables	540	471
Tax and social security payables	268	237
Loans	27	14
Other payables	403	330
<b>Total payables due within one year</b>	<b>2,048</b>	<b>1,769</b>
<b>Amounts falling due after more than one year:</b>		
Loans	81	61
Accruals and other deferred income	19	2
Other payables	39	38
<b>Total payables due after more than one year</b>	<b>139</b>	<b>101</b>
<b>Total payables</b>	<b>2,187</b>	<b>1,870</b>

ATs are required to obtain ESFA approval before undertaking borrowings, including taking out loans.

## 13. CAPITAL AND OTHER COMMITMENTS

### 13.1 Capital and other non-lease commitments

Contracted and approved commitments at 31 August not otherwise included in these financial statements:

	2017	2016
	£m	£m
Property, plant and equipment	407	398
Non-cancellable contracts	53	21
	<b>460</b>	<b>419</b>

## 13.2 Commitments under leases

### Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	2017	2016
	£m	£m
<b>Land and buildings</b>		
Not later than one year	64	47
Later than one year and not later than five years	232	162
Later than five years	811	606
	<b>1,107</b>	<b>815</b>
<b>Other</b>		
Not later than one year	72	59
Later than one year and not later than five years	127	95
Later than five years	122	78
	<b>321</b>	<b>232</b>

Total finance leases have an aggregate liability of £15 million (31 August 2016: £19 million).

### 13.3 Obligations relating to PFI service costs

The total amount charged in the Statement of Comprehensive Net Income in respect of off-balance sheet (SoFP) PFI or other service concession transactions was £53 million (2015/16: £80 million). These obligations are primarily transactions with local authorities who are the legal parties to the relevant PFI deals, rather than ATs being legal parties to PFI deals themselves. Total future minimum payments under other service concession arrangements are given in the table below for each of the following periods.

	2017	2016
	£m	£m
Not later than one year	54	56
Later than one year and not later than five years	207	206
Later than five years	637	646
	<b>898</b>	<b>908</b>

#### Accounting policy: leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the leased assets to the lessee. All other leases are classified as operating leases. Operating leases are charged to the SoCNE as expenditure is incurred.

**IFRS 16 – Leases:** The impact of the standard is to simplify the classification and measurement of leases by introducing a single lessee accounting model, removing the distinction between recognising an operating lease (off-balance sheet financing) and a finance lease (on-balance sheet financing). The new standard requires recognition of all leases which last over 12 months to be recognised as a finance lease (on-balance sheet). This will result in the recognition of a right-to-use asset, measured at the present value of future lease payments, with a matching liability.

The pattern of recognition of the expenditure will result in depreciation of the right-to-use asset and an associated finance cost being recognised.

As the FReM has not yet adopted IFRS 16, the Department has not yet quantified the full impact. The Department assesses the likely impact to be the following:

- We anticipate that the majority of leased assets reported in Note 13.2 will continue to be recognised;
- Land and buildings operated by the sector may be recognised under IFRS 16 as right-of-use assets, but not recognised as assets in 2016/17 (as we do not consider these to be recognisable under IAS 16), as detailed in Note 2;
- As FRS 1 does not place an obligation on ATs to apply the recognition criteria used by

IFRS 16, the Department will need to collate appropriate data and develop a suitable accounting treatment within SARA in order to comply IFRS 16 for plant and equipment other than land and buildings, which are currently treated as operating leases.

## 14. PENSION SCHEME DISCLOSURES

### 14.1 Academies' pension schemes

The sector participates in pension schemes for its employees.

#### Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme. It operates under the Teachers' Pensions Regulations 2010 (as amended) and the Teachers' Pension Scheme Regulations 2014 (as amended).

Membership is automatic for full-time teachers and part-time teachers in academies on appointment or change of contract, although teachers may opt out.

The TPS is an unfunded scheme and members contribute on a 'pay as you go' basis. Employee and employer contributions are credited to the Exchequer. Retirement and other pension benefits are paid by public funds provided by Parliament.

The latest actuarial valuation of the TPS was carried out as at 31 March 2012 and was published by DfE in June 2014. Subsequently, the employer contribution rate increased from 14.1% to 16.4% on 1 September 2015. In addition, and on the same date, employers commenced payment of a 0.08% levy to cover administration expenses.

A formal actuarial valuation is currently in progress with the results expected to be implemented in 2019.

The valuation report and supporting documentation can be found on the *Teachers' Pension Scheme website*.<sup>111</sup>

The SARA has accounted for employer contributions to the TPS as if it was a defined contribution scheme.

#### Local Government Pension Scheme

Local Government Pension Scheme (LGPS) is open to non-teaching staff in ATs and is a funded multi-employer defined benefit scheme. This is therefore the sector's only scheme for which the scheme administrators can allocate the underlying assets and liabilities to the employing organisations.

The LGPS is a single national scheme that is administered at a local level by fund units that in many, but not all cases, approximate local authorities. While the scheme is national, benefits are accrued at the local fund level.

The scheme provides funded defined benefits, historically on the basis of final pensionable salary and from 1 April 2015 on the basis of career average salary. The assets of the scheme are held separately from those of the sector and are invested in managed funds. Employer contribution rates are determined by a qualified actuary and on the basis of triennial valuations.

Parliament has agreed, at the request of the Secretary of State for Education, to a guarantee that, in the event of academy closure, outstanding LGPS liabilities would be met by the Department. The guarantee came into force on 18 July 2013.

Employers' contributions for 2016/17 were £696 million. The agreed contribution for future years ranges (2015/16: £594 million) from 7.2% to 29.4% for employers' dependant on the local authority.

Following the triennial valuation of local government pension schemes at 31 March 2016, each academy's employer contribution rate increased from April 2017, at the maximum of 1% per annum until employers reach their new rate. Schemes confirmed these increases with each academy in the first half of 2017. In addition, the lump sum annual contributions have increased.

111 <https://www.teacherspensions.co.uk/>

## 14.2 Summary of movements in the LGPS net liability

Funded pension schemes are shown on a net liability basis (or net asset where the total scheme asset balance exceeds the gross liability). This means that scheme assets are deducted from the gross pension liability balance.

	2016/17	2015/16
	£m	£m
<b>At 1 September</b>	7,358	3,751
Net liabilities assumed on conversion <sup>112</sup>	724	341
Current service cost	1,252	740
Employee contributions	–	–
Employer contributions	(696)	(594)
Benefits paid	–	–
Past service cost	6	4
Net finance cost	155	139
Settlements	(3)	2
Curtailments	3	2
Actuarial loss (gain)	(1,820)	2,973
<b>At 31 August</b>	<b>6,979</b>	<b>7,358</b>

As shown in the table above, the change in the net pension liability is largely dictated by three factors:

- the actuarial gain;
- the current service costs which increase the liability; and
- the net interest costs which increase the liability.

This volatility of actuarial gains or losses is predominantly due to the change in assumptions, in particular the discount rate net of inflation and demographic assumptions.

The current service cost is an estimate made by scheme actuaries of the benefit earned by employees in the year and it is used to determine standard contribution rates for each scheme. In 2016/17 these standard contribution rates increased for a number of schemes, including TPS and LGPS, resulting in higher levels of employer's expenditure. The actual rate of employer contributions is determined as part of a funding valuation using different assumptions.

The net interest cost reflects the increase in the present value of the pension liability during the year because the benefits are one period closer to settlement. The financing cost is based on the discount rate (including inflation) at the start of the year and is calculated on the gross liability of unfunded schemes and the net liability of funded schemes. The expense from unwinding

the discount rate is recognised against net expenditure.

An analysis of the in-year movement in LGPS gross obligations and gross assets are provided in Notes 14.3 and 14.4. Employee contributions and benefits paid impacted on both the gross liability and the scheme assets and so have a mainly neutral impact on the net liability.

IAS 19 Employee Benefits requires the actuarial gain/ loss to be further analysed into three component figures:

- experience gains/losses;
- change in actuarial assumptions; and
- other movements.

FRS 102 *Financial Reporting Standard*, which is followed by the academies sector, does not require this analysis and it is not included within the ATs' own accounts. On that basis, the analysis of actuarial gain/loss, as required by IAS 19 for central government accounts such as SARA, is not presented here. We have obtained a derogation from HM Treasury in respect of this disclosure for the years 2016/17 and 2017/18. Thereafter we will collect the required information.

<sup>112</sup> For more detail, please see Note 4 – Transfer on conversion.

**14.3 Movements in the present value of LGPS gross liability**

	2016/17	2015/16
	£m	£m
<b>At 1 September</b>	13,563	8,207
Liabilities assumed on conversion: <sup>113</sup>		
local authority	1,139	456
non-local authority	69	102
Current service cost	1,252	740
Interest cost	310	340
Employee contributions	198	175
Past service cost	6	4
Actuarial loss (gain)	(1,187)	3,623
Benefits paid	(117)	(86)
Unfunded benefits paid	–	–
Losses on curtailments	3	2
<b>At 31 August</b>	<b>15,236</b>	<b>13,563</b>

**14.4 Movements in the fair value of LGPS scheme assets**

	2016/17	2015/16
	£m	£m
<b>At 1 September</b>	6,205	4,456
Assets transferred on conversion: <sup>114</sup>		
local authority	458	179
non-local authority	26	38
Employer contributions	696	594
Employee contributions	198	175
Actuarial gain or (loss)	633	650
Benefits paid	(117)	(86)
Interest income	155	201
Assets transferred on scheme settlements	(2)	(2)
Effect of non-routine settlements	5	–
<b>At 31 August</b>	<b>8,257</b>	<b>6,205</b>

113 For more detail, please see Note 4 – Transfer on conversion.

114 For more detail, please see Note 4 – Transfer on conversion.

#### 14.5 Scheme assets

	2016/17	2015/16
	Percentage	Percentage
Equities	65%	66%
Corporate bonds	10%	12%
Property	8%	8%
Gilts	6%	4%
Cash and other liquid assets	4%	3%
Other	7%	7%
	<b>100%</b>	<b>100%</b>

#### 14.6 Analysis of non-interest costs charged to SoCNE

	2016/17	2015/16
	£m	£m
Current service cost	1,252	740
Past service cost	6	4
Loss on curtailments and settlements	3	2
Loss on transfer of assets on scheme settlements	2	2
<b>Net cost</b>	<b>1,263</b>	<b>748</b>

#### 14.7 Analysis of interest costs charged to SoCNE

	2016/17	2015/16
	£m	£m
Interest income	(155)	(201)
Interest on scheme liabilities	310	340
<b>Net cost</b>	<b>155</b>	<b>139</b>

#### 14.8 Analysis of amounts in other comprehensive expenditure

	2016/17	2015/16
	£m	£m
Total actuarial loss (gain)	(1,820)	2,973
<b>Net cost</b>	<b>(1,820)</b>	<b>2,973</b>

## 14.9 Major financial assumptions

<b>Table setting out the LGPS</b>	<b>2016/17</b>	<b>2015/16</b>
Rate of inflation	0.4% - 4.2%	1.8% - 2.3%
Rate of increase in salaries	1.0% - 4.4%	3.1% - 4.1%
Discount rate	1.7% - 5.9%	2.0% - 3.4%
Rate of return on pensions	0.4% - 4.2%	1.8% - 3.2%
<b>Average future life expectancies</b>		
Current pensioners: males	20 - 27	20 - 26
Current pensioners: females	22 - 29	22 - 29
Future pensioners retiring in 20 years: males	21 - 28	22 - 27
Future pensioners retiring in 20 years: females	22 - 29	22 - 30

Based on appropriate professional advice, ATs have set the financial assumptions used in the preparation of the actuarial valuation of liabilities appropriate for their individual circumstances. These assumptions have a range of uncertainty. Pension schemes operate over very long timescales and these assumptions may not be borne out in practice. The movement in pension liabilities reflects the movement in the actuarial assumptions in the year.

### 14.10 Sensitivity Analysis

The table below illustrates high level sensitivities, to demonstrate the impact on the consolidated liability value to small changes in the most material assumptions: discount rate, CPI inflation, salary growth and life expectancy. These have been estimated for the aggregate consolidated liability value rather than considered the sensitivity for each AT and then aggregating these.

<b>Assumption</b>	<b>Illustrative change in assumption</b>	<b>Illustrative change in pension liabilities at 31 August 2017</b>
Discount rate	+/- 0.1%	+/- £400m
CPI inflation (and associated pension increases and salary growth)	+/- 0.1%	+/- £400m
Salary growth	+/- 0.1%	+/- £150m
Life expectancy	+/- 1 year	+/- £450m

### Accounting policy: pensions

The sector has adopted FRS102, which is materially compliant with *IAS 19 Employee Benefits*, to account for its pension schemes.

Accordingly, for funded defined benefit schemes the sector recognises a liability in respect of any deficit, being the excess of the present value of the scheme's liabilities over the value of the assets in the scheme, to the extent that the sector has a legal or constructive obligation to make good the deficit in the scheme. The pension scheme surplus (to the extent that it is considered recoverable) or deficit is recognised in full on the face of the SoFP. Actuarial gains/losses from the scheme are recognised in reserves.

Where the sector makes contributions to defined contribution and unfunded defined benefit pension schemes (which do not have underlying assets) the sector recognises contributions payable in the SoCNE.

### Pension valuation for the Local Government Pension Scheme

Local Government Pension Scheme deficits are recognised in the SoFP – all other defined benefit schemes are unfunded multi-employer schemes for which there are no underlying assets or liabilities to allocate across the employers. Details of the pension deficit are shown in Note 14.2.

Pension scheme assets are held at fair value. Scheme liabilities are estimated using a projected unit method and discounted at their current rate of return on a high quality corporate bond of equivalent term to the liability. All estimates are performed by actuaries in accordance with FRS102, which is materially consistent with *IAS 19 Employee Benefits*.

## 15. CONTINGENT LIABILITIES

### Quantifiable

The sector held no material contingent liabilities as at 31 August 2017.

### Unquantifiable

During the operation of its Funding Agreement, in the event of an AT's sale or disposal by other means of an asset for which a government capital grant was received, the AT is required either to:

- re-invest the proceeds; or
- to repay the Secretary of State the same proportion of the proceeds of the sale or disposal as equates with the proportion of the original cost met by the Secretary of State.

Upon termination of the Funding Agreement, whether as a result of the Secretary of State or the AT serving notice, the AT shall repay to the Secretary of State sums determined by reference to:

- the value at the time of the trust's site and premises and other assets held for the purpose of the AT; and
- the extent to which expenditure incurred in providing those assets was met by payments by the Secretary of State under the Funding Agreement.

Apart from the above, the sector has not recorded material contingent liabilities as at 31 August 2017.

## 16. EVENTS AFTER THE REPORTING PERIOD

ATs have continued to be incorporated and open new academy schools throughout the period from 31 August 2017 to the date that these accounts were authorised for issue. <https://www.gov.uk/government/collections/academies-sector-annual-reports-and-accounts>

These sector accounts apply *IAS 10 Events after the Reporting Period*, except for the requirement that the accounts be adjusted for events that existed in the reporting period that are not included in the AT accounts. Any significant events will be disclosed as non-adjusting events.

These accounts were authorised for issue by Jonathan Slater (Accounting Officer) on the date they were certified by the Comptroller and Auditor General.

There have not been any other significant post reporting period events that have required disclosure in the accounts.

