Academy schools sector in England

Consolidated annual report and accounts

For the year ended 31 August 2018

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Annexes to the accounts 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.

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

The Academies Act 2010 requires reporting of performance information over the academic year ending 31 July. The 'Accounts Direction' (see annex 4) provided by HM Treasury to DfE 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 also been presented in line with 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 (page 6) and wider performance of the sector
- accountability report – a summary of DfE's governance structures that provide oversight over the academies sector and also including the sector's remuneration and staff report (page 36)
- financial statements – the standard reporting requirement required by HM Treasury, including details of related party transactions in the sector (page 70)

1 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.

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

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 DfE holds academy trusts to account and that they exercise effective control over the use of public funds.

This is the third such report prepared by DfE, and I am delighted that the information is not only available for scrutiny four months earlier than last year, but for the first time it has a clear audit opinion on the current year.

The academies sector has enjoyed notable successes in the 2017/18 academic year, as detailed in this report. In 2017/18, the sector provided education for 3.8 million children at nearly 8,000 academies. In the 2018/19 academic year over 50% of pupils in state education attended one of the 8,300 academies now operational.

We continue to work with the sector to drive improvement in the standard of education across the country. In this regard, it is encouraging that converter academies (making up 67% of all academies) outperformed local authority schools on Progress 8 across most of the 12 pupil characteristic groupings.

DfE supports trusts in deploying appropriate controls over their expenditure, and publicly challenging those that do not. The increased transparency of the sector enables us to scrutinise academies much more closely than local authority maintained schools.

To demonstrate our commitment to this we enhanced the controls and transparency around related party transactions (disclosed in note 4 of the SARA). Since April 2019 we have required trusts to seek prior approval for any such transaction exceeding £20,000.

We have continued with our commitment to ensure executive pay is proportionate and justifiable. Annex 6 to the SARA lists all trusts paying a member of staff in excess of £150,000 and annex 8 provides details of how to identify the trust that runs your local academy. I can confirm that we have acted on this information, challenging the trusts to justify this expenditure, and seeing alterations to this remuneration in 50 trusts by May 2019.

I'm grateful to staff and pupils for their continuing hard work in improving standards throughout the sector, and look forward to the continued progress into 2019/20 and beyond.

Lord Agnew
Parliamentary Under-Secretary
for the School System

Permanent Secretary's overview

I am pleased to introduce the third combined academy sector annual report and accounts – which sets out the consolidated performance and financial results for all academy schools in England over the 2017/18 academic year.

At the start of the 2017/18 academic year, there were 6,925 academies. The academies sector continues to grow. Over the course of the 2017/18 academic year 1,172 academies opened, with the majority making a voluntary choice to do so. As at 31 July 2018, there were 7,920 open academies and free schools in England, an increase of 14%. In total, by August 2018, nearly three quarters of secondary schools and three in ten primary schools had become academies and free schools. Today, academies and free schools educate over half of all pupils who are in state-funded education in England.

The number of free schools also continues to increase, with 55 new free schools opening their doors in the year to July 2018. As at 31 July 2018 there were 474 open free schools in England.

Our key objective is to ensure that all children can access a place at a 'good' or 'outstanding' school, and it's vital that academies contribute towards that goal. By looking at the academies sector as a whole – taking financial and educational performance side by side – we can work towards this goal. That's why this report remains an important part of our accountability framework, and I am grateful to all academies for their support in its preparation.

Jonathan Slater
Permanent Secretary
11 July 2019


Remember
thumbs forward

Performance report

Key data: The Academy Sector at a glance

98.5% of trusts received an **unqualified audit opinion** as at 31 August (2016/17: 98.1%)

The number of **academy trusts** has decreased during the year to 31 August to **2,986** (2016/17: 3,054)[3].

The number of **pupils educated at academies** has increased during the year to **3.8 million** (2016/17: 3.4 million).

At Key Stage 4, the average progress 8 score in mainstream academies was 0.03 grades (across pupils' best 8 subjects) above the national average.

Progress 8: Progress 8: compares pupils' key stage 4 results to those of other pupils nationally with similar prior attainment[5].

The number of **academies** has increased during the year to 31 July to **7,920** (2016/17: 6,925).

78% of all academies (6,177 academies) are in an academy trust with **more than 1 academy** (2016/17; 71%, 4,949 academies)

At Key Stage 2, mainstream academies had an average maths progress score of 0.1 scaled score points above the national average, writing progress of 0.2 scaled score points above average and reading progress in line with the national average.

Progress Score Calculation: compares pupils' key stage 2 results to those of other pupils nationally with similar prior attainment[4].

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3 During the year the number of academy trusts has decreased. This is primarily due to reorganisation within the sector with a decrease in the number of SATs and MATs with only one academy and a trend towards academies being in MATs with more than two academies

4 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/560969/Primary_school_accountability_summary.pdf.pdf

5 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/561021/Progress_8_and_Attainment_8_how_measures_are_calculated.pdf

Performance analysis

Financial overview

Summary: The revaluation reserve, PPE note and other related figures in this account have been restated. Further detail on the restatement can be found on page 10, in note 2 and in note 1.5. For the financial year ending 31 August 2018, the academy sector received £25.3 billion in income (2016/17: £22.5 billion) and spent £25.7 billion (2016/17 restated: £23.6 billion). A significant contributor to the deficit in both years is non-cash movements relating to land and building valuations and depreciation. Adjusting for non-cash expenditure, the sector has an operating surplus of £1.8 billion (2016/17 restated £1.5 billion).

After gains on conversion of academies the sector generated a total surplus for the year of £3.0 billion (2016/17 restated: £3.4 billion). This further gain is also largely non-cash, principally relating to the land and building assets recognised, offset by the value of its Local Government Pension Scheme (LGPS) liability.

Statement of Financial Position: The net assets of the sector recognised in these accounts have increased to £48.9 billion as at 31 August 2018 compared to £42.6 billion at 31 August 2017. This increase reflects the overall increase in the size of the sector (see 'sector development' section on page 15).

Excluding fixed assets and pension liabilities, which are less directly impacted by day-to-day management decisions, the sector's net assets have increased to £2.9 billion (2016/17 £2.8 billion), a marginal increase of 3.9%.

Distribution of assets and liabilities by category: The proportions of assets and liabilities recognised in the sector's balance sheet has remained relatively stable. The land and buildings value has increased as a result of new academies joining the sector during the year.

Assets	2017/18 £billion	2017/18 %	2016/17 £billion	2016/17 %
Land and buildings	50.0	86.6%	44.0	85.1%
Other property, plant and equipment	2.5	4.3%	2.7	5.2%
Cash and cash equivalents	3.9	6.7%	3.5	6.8%
Receivables	1.3	2.2%	1.3	2.5%
Other	0.1	0.2%	0.2	0.4%
Total	**57.8**	**100%**	**51.7**	**100%**

Liabilities	2017/18 £billion	2017/18 %	2016/17 £billion	2016/17 %
Pension deficit	(6.6)	73.6%	(7.0)	76.1%
Payables	(2.3)	26.3%	(2.2)	23.8%
Other	<(0.1)	0.1%	<(0.1)	0.1%
Total	**(8.9)**	**100%**	**(9.2)**	**100%**

Income	2017/18 £billion	2017/18 %	2016/17 £billion	2016/17 %
Revenue grant income	21.1	83.4%	19.0	84.1%
Capital grant income	1.8	7.1%	1.9	8.6%
Other income	2.4	9.5%	1.7	7.3%
Total	**25.3**	**100%**	**22.5**	**100%**

Expenditure	2017/18 £billion	2017/18 %	2016/17 restated £billion	2016/17 %
Staff costs	18.2	71.0%	16.3	69.1%
Other operating costs	7.5	29.0%	7.3	30.9%
Total	**25.7**	**100%**	**23.6**	**100%**

The revaluation reserve, PPE note and other related figures in this account have been restated. Further detail on the restatement can be found in note 2 and note 1.5. The principle impact of the restatement is as follows:

- Where we have concluded that the sector does not control its building assets, these have been de-recognised from the account. This has reduced the opening balance sheet by £8.4 billion as at 1/9/16. We had recognised this as expenditure in 2016/17.
- Following our review of the accounting records, where we could not rely upon the older valuations and had a reliable valuation in 2016/17, we have treated these adjustments as an adjustment through Other comprehesive Income. These amounted to £0.2 billion in 2016/17, which was the net reduction in impairment and revaluation in this year.

During the period to 31 August 2018, the number of academies within the sector has increased by 14%. This is the main driver for the year-on-year increase in income of £2.8 billion from £22.5 billion to £25.3 billion. After restatement to 2016/17, expenditure has increased by £2.0 billion from £23.6 billion to £25.7 billion. However when excluding non-cash impairment costs in both years, the underlying increase in expenditure is 13.1% which is broadly comparable with the increase in income. More detail on non-cash costs can be found in note 8.

Staff costs make up a significant proportion of total expenditure and these costs have increased by 11.9 % in the year. Staff numbers within the sector have increased by 8.0% indicating that staff costs per employee are slightly higher than in 2016/17. These increases broadly align with the increased number of academies in the sector this year.

Payments to individuals

The percentage of ATs paying an individual member of staff an emolument in excess of £150,000 has remained broadly stable at 4.8% (146 trusts), compared to 4.0% (125 trusts) in 2016/17.

Number of ATs paying at least one individual above £150,000 or between £100,000 and £150,000

	2017/18: Number of AT's paying at least one individual above this[6]	Proportion of ATs in sector	2016/17: Number of AT's paying at least one individual above this[4]	Proportion of ATs in sector
Payments of £150k or more	146	4.8%	125	4.0%
Payments of between £100k – £150k	988	32.4%	941	30.1%

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

- publication of ATs paying a member of staff or trustee £150,000 or more
- seeking assurance from chairs of trustees that structured pay policies and procedures are in place where ATs pay any individual over £150,000 or two or more over £100,000 each
- with reference to the size of the AT, challenging ATs to justify their decision-making where a member of staff is paid over £150,000 or two or more salaries are over £100,000 each

Whilst the challenge to academy leader excessive pay was carried out during 2017/18 and has continued into 2018/19, any change as a result of these actions will take some time to be reflected in the note above and the full impact will be realised in future years.

Cumulative AT Revenue Deficits

The Statement of Financial Position shows that the sector is reporting a net surplus, however, there are a number of ATs in a net deficit position. Any AT reporting a cumulative deficit must agree a recovery plan with ESFA to put the AT back on a financially sustainable path.[7]

6 The figures in the table above are based on whether an AT reported any individuals being paid over £100,000 (but less than £150,000) or greater than £150,000. As a result the numbers within this table could include the same AT within the £100,000-£150,000 and the greater than £150,000 section.

7 https://www.gov.uk/government/publications/academy-trust-financial-management-good-practice-guides/academy-trust-deficit-recovery

Figure 1a: Number of ATs with cumulative revenue surplus/deficit

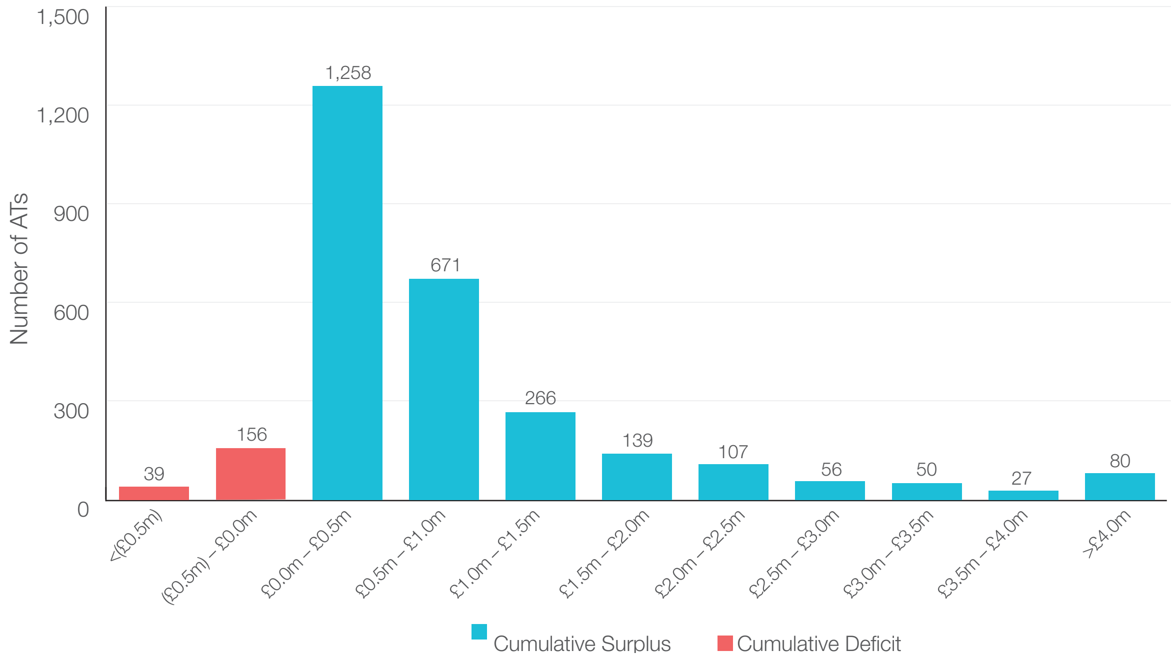


Figure 1b: Analysis of ATs with cumulative revenue surplus/deficit by size of AT

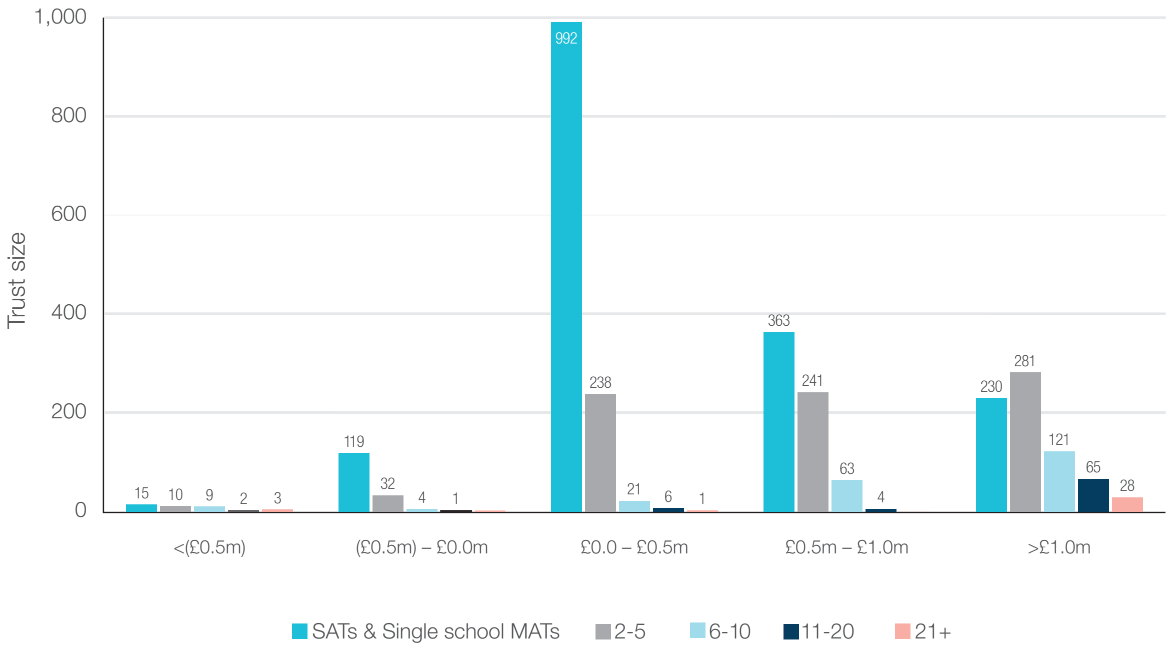
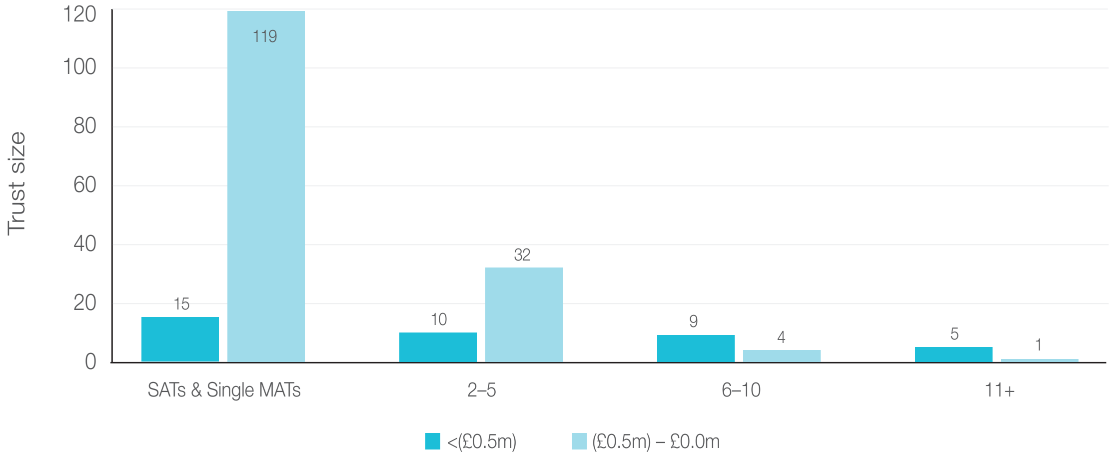


Figure 1c: Analysis of ATs with deficits by size of AT



Number of ATs in cumulative deficit at 31/08/2018	Proportion of ATs in cumulative deficit at 31/08/2018	Number of ATs in cumulative deficit at 31/08/2017	Proportion of ATs in cumulative deficit at 31/08/2017
195	6.4%	185	5.9%

The above table and Figure 1a present the proportion of those ATs with a cumulative deficit as a percentage of all ATs included within the SARA in 2017/18 and 2016/17 respectively and therefore differs slightly from the data published on the schools financial benchmarking website[8], and in a statistical note last year.[9,10] Figure 1b presents the cumulative deficit and surplus by size of ATs and figure 1c presents those ATs with a cumulative deficit in 2017/18 by size of AT.

The deficit figures above are calculated from cumulative revenue reserves and exclude capital income and expenditure and pension deficits. The total aggregate cumulative deficit for 2017/18 was £78 million (£65 million for 2016/17), compared to total cumulative aggregate surplus of £2.5 billion (£2.4 billion for 2016/17). Included within the current year number of ATs with a cumulative deficit figure are 113 ATs which also reported a cumulative deficit in the prior year. ESFA will work with these trusts to put a recovery plan in place where an AT has a cumulative deficit.

8 https://schools-financial-benchmarking.service.gov.uk/Help/DataSources
9 https://www.gov.uk/government/statistics/academy-trusts-with-a-revenue-surplus-or-deficit-2016-to-2017
10 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728768/Academy_revenue_reserves_2016_to_2017.pdf

Cash balances

	2017/18 £million	2016/17 £million	% change
Total cash balances	3,889	3,543	9.8%
Average balance per academy	0.5	0.5	0.0%

The total value of cash held by the sector has increased by £0.4 billion from £3.5 billion to £3.9 billion (9.8%), which represents a slightly lower rate than the increase in sector size. The proportion of cash held to operational cash expenditure remains stable at 15.1% in 2017/18 compared to 14.9% in 2016/17 (which represents approximately two month's cash expenditure). The sector is encouraged not to hold more cash than is required to maintain financial stability. The total value of overdrafts held by the sector is stable at £1 million: according to Academies Financial Handbook guidance, ATs are required to obtain advance permission from the ESFA before incurring borrowing, including bank overdrafts. The total number of ATs with an overdraft at the reporting date was 15 which represents 0.5% of all ATs during the year.

Related party transactions

	2017/18 number of transactions	2016/17 number of transactions	% change	2017/18 value of transactions £million	2016/17 value of transactions £million	% change
Paid	2,390	2,399	(0.4%)	105	134	(21.4%)
Received	1,101	1,074	2.5%	139	105	32.4%

While the number and value of payments to related parties has decreased the number and value of receipts from related parties has increased. DfE is actively managing governance risks around related parties. In April 2019, new reporting arrangements were introduced[11], where ATs must declare their intention to enter into an agreement with a related party before confirming it with their supplier. They must also seek approval from the ESFA before they agree any related party transaction exceeding £20,000 – whether as a single contract, or cumulative value with the same supplier. This reporting requirement relates to new agreements made on or after 1 April 2019 and is in addition to existing reporting arrangements. ATs should continue to disclose related party transactions in their annual financial statements.

11 https://www.gov.uk/government/news/esfa-introduces-new-arrangements-for-related-party-transactions

Sector development

The number of schools operating as academies in England continued to grow in 2017/18, with an increase in the number of academies of 14% between 31 July 2017 and 31 July 2018. Figure 2 shows the growth in the number of academies over recent years.

Figure 2: Net total of academies opened (by academy type)[12,13] (source: https://get-information-schools.service.gov.uk/)

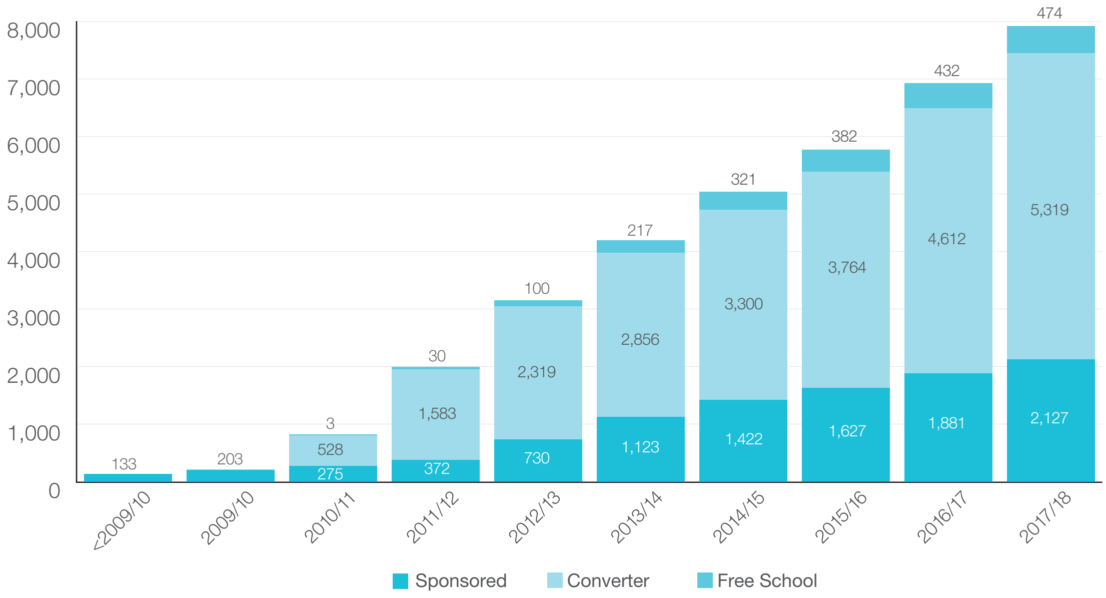


Figure 2 shows the number of academies that were open at and that opened during the year to 31 July 2018, broken down by different types of provision.

12 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 2017 and 31 July 2018, 103 academies closed. These are listed in annex 1. During August 2018, a further 44 academies closed. The academies that closed during August 2018 are also listed in annex 1.

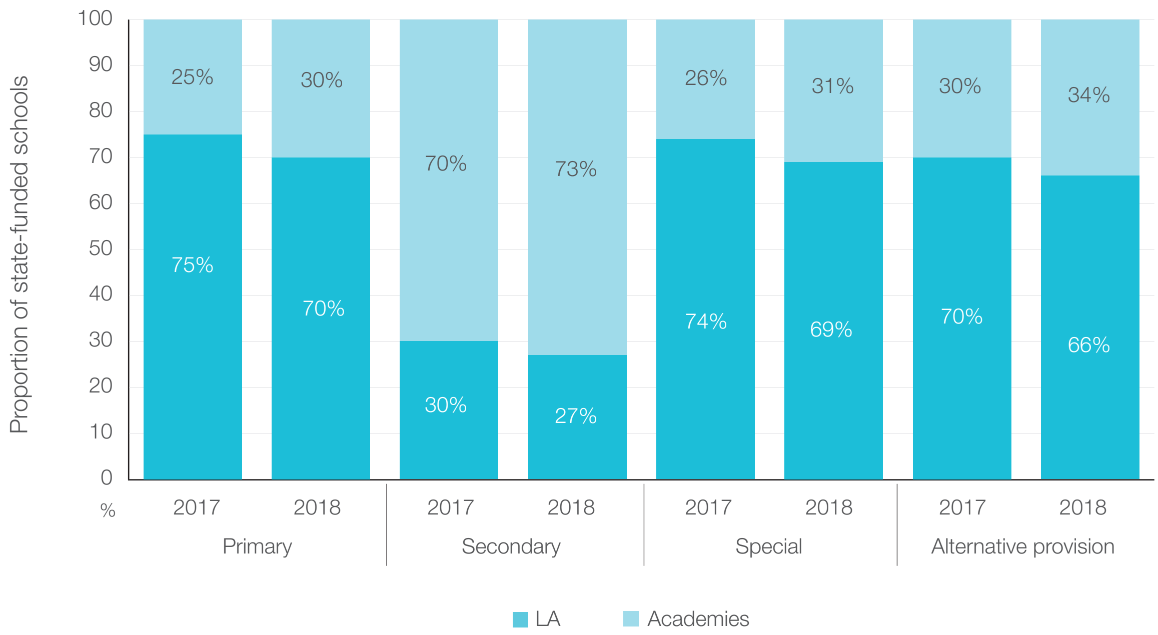
13 Free schools are a type of academy. They are brand new state-funded schools. Any suitable sponsor – including local parents, private businesses and ATs – can apply to the Secretary of State for Education to open a free school; Converter academies are usually strongly performing schools, or schools on an upward performance trajectory, prior to converting to academy status; Sponsored academies are usually under-performing schools prior to converting to academy status. They are run via an AT by sponsors; For further details of types of academies please see annex 7.

Figure 3: Number of academies by type and provision open at 31 July 2018, including the number opened during the year to 31 July[14] (source: https://get-information-schools.service.gov.uk/)

		Provision type				
	Academy type	Primary	Secondary	Special	Alternative provision	Total
Total open at 31 July 2018	Sponsored	1,350	701	53	23	**2,127**
	Converter	3,481	1,562	219	57	**5,319**
	Free school	152	252	29	41	**474**
	Total	**4,983**	**2,515**	**301**	**121**	**7,920**
Number opened in year to 31 July 2018	Sponsored	204	78	9	2	**293**
	Converter	639	89	42	13	**783**
	Free school	17	31	7	41	**96**
	Total	**860**	**198**	**58**	**56**	**1,172**

At 31 July 2018, 37% of state-funded schools were operating as academies, although this proportion varied by type of provision, as shown in figure 4. While academies accounted for 73% of all secondary provision, they accounted for between 30% and 37% 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 4: Proportion of state-funded schools operating as academies by provision type at 31 July 2018[15] (source: https://get-information-schools.service.gov.uk)



14 Restated for 31 August 2018 in annex 1.
15 At 31 August 2018, 37% of schools were operating as academies.

Academies as a proportion of state-funded provision continued to vary by local authority (LA). Of the 152 LAs in England, 151 offered state-funded primary provision and 28 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 10 had 5% or less primary academy provision.

State-funded secondary level provision was provided by 151 LAs. There were 11 LAs where all provision was through academies, and a further 124 where more than 50% were academies. Two LAs had no state-funded secondary academy provision, but all others had at least 8%.

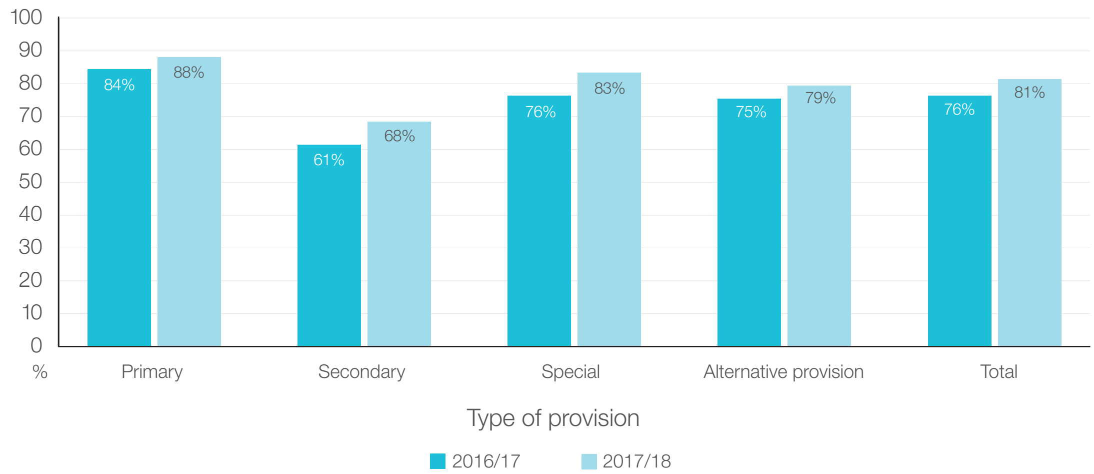
State-funded special provision was offered by 150 LAs. 40 LAs had no academy special provision and 12 LAs had 100% academy provision.

There were 142 LAs with state-funded alternative provision, of which 83 LAs had no academy alternative provision. There were 53 LAs with 50% or more – including 31 with 100% – academy alternative provision.

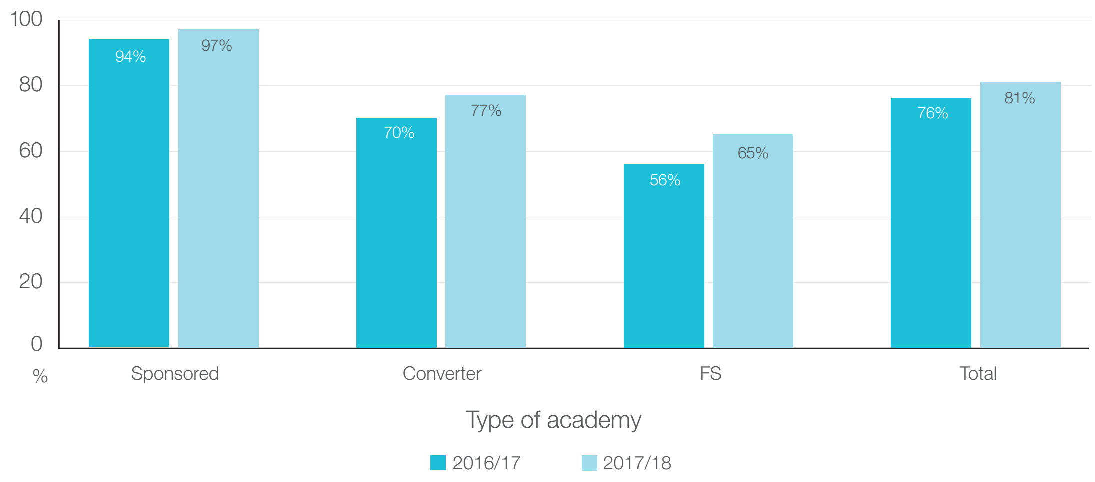
Multi-academy trusts

At 31 July 2018, there were 6,177 (78%) academies, free schools, studio schools and UTCs in a multi-academy trust (MAT) with more than one academy, forming 1,141 MATs, (compared to 4,949 academies in 987 MATs at 31 July 2017). There were 1,743 academies, free schools, studio schools and UTCs in a single academy trust (SAT), or in a MAT with only one academy[16] (compared to 1,976 academies at 31 July 2017). Figures 5a and 5b show the number of MATs broken down by phase and type of academy.

Figures 5a and 5b: Academies in MATs as at 31 July 2018 by phase and type[17]



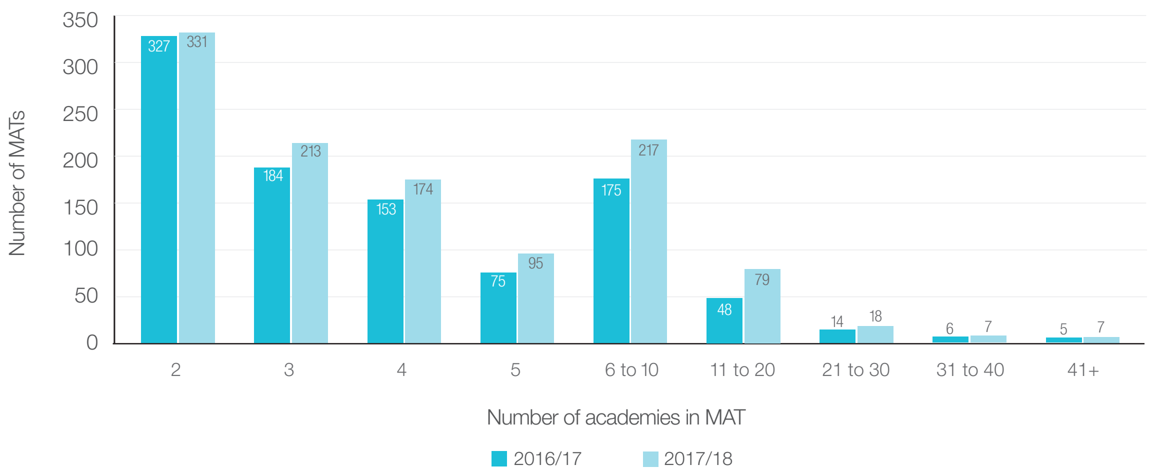
16 This can occur where an academy is seeking to set up a MAT chain as the lead academy, so changes its constitution before brokering a formal relationship with other academies.
17 Restated for 31 August 2018 in annex 1. Available at: https://get-information-schools.service.gov.uk/



As of July 2018, 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. Excluding MATs with only one academy[18], the smallest had two academies, while the largest had 63. Figure 6 shows the variation in the number of academies per MAT.

Figure 6: Number of academies per MAT as at 31 July 201819 (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.

18 Some Academy Trusts are technically MATs but have only one operational Academy.
19 Restated for 31 August 2018 in annex 1.

Sponsors can come from different backgrounds including universities, independent schools, 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

DfE funds the Academy Ambassadors programme[20], a free service matching professionals with MATs looking to strengthen their boards. It has resulted in experienced leaders providing support to MATs by joining trust boards as non-executive directors.

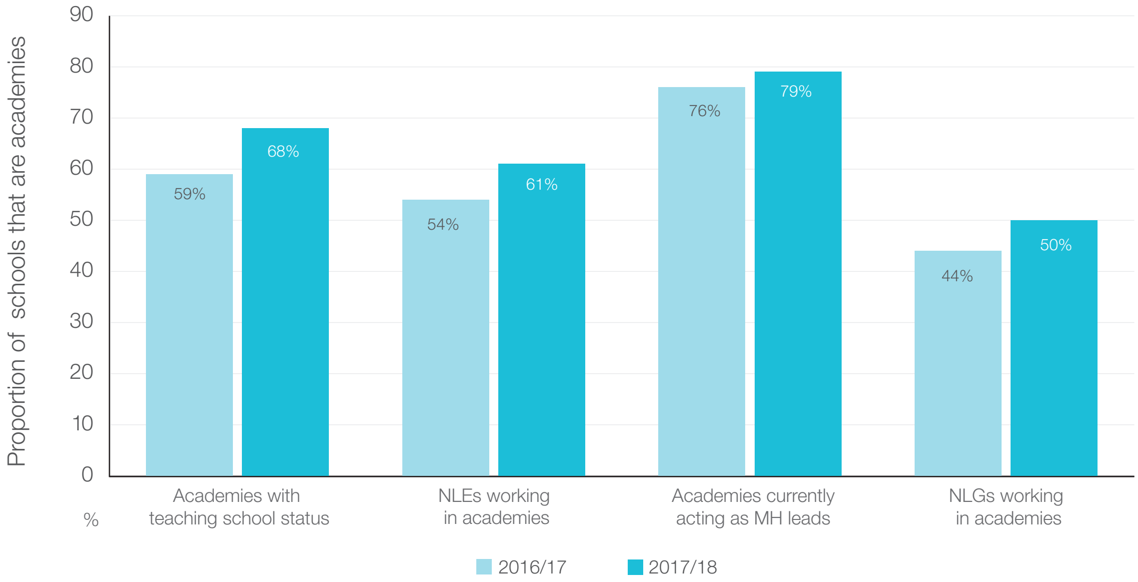
How academies support school improvements as 'system leaders'

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 2018, there were 530 academies with teaching school status representing 63% of all state-funded TS (compared to 453, representing 55% as at 31 July 2017).
- **National Leaders of Education and National Support Schools (NLEs/NSSs):** NLEs are head teachers of strong schools who, together with the staff from their school, use their skills and experience to aim to improve the quality of teaching and leadership in schools in challenging circumstances. As at 31 July 2018, there were 1,319 NLEs (compared to 1,359 NLEs as at 31 July 2017).
- **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.
- **Computing hubs:** Computing hubs are part of the National Centre for Computing Education. They work as networks of good and outstanding state-funded schools and colleges, offering free, quality-assured resources and continued professional development (CPD) to support primary and secondary teachers. Local hub steering groups will involve teaching school alliances, MATs, higher educational institutes (HEIs), and other local partners, to encourage collaboration and the sharing of best practice. This is backed by £84 million of funding, to improve the teaching of computing and drive up participation in computer science.
- **English hubs:** English hubs are a network of 32 schools with excellent early language and reading teaching, backed by £26.3 million of funding. They are working to increase reading standards across the country and to improve educational outcomes for the most disadvantaged children, particularly in underperforming schools.
- **National Leaders of Governance (NLGs):** NLGs are highly effective chairs of governors who support chairs of governors in other schools. As at 31 July 2018, there were 442 NLGs (compared to 496 NLGs as at 31 July 2017).

20 Academy Ambassadors programme: https://www.academyambassadors.org/

Figure 7: Academies designated and funded to take part in school improvement programmes



Supporting schools to maximise value from resources

DfE 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. In August 2018 we published the School Resource Management Strategy, which includes the schools financial benchmarking service, the self-assessment tool and the efficiency metric which allows schools and trusts to compare their performance and use of resources with similar schools. We are continuing to develop the benchmarking site in response to user feedback, including by accelerating the availability of data: 2017/18 data for maintained schools was available for benchmarking four months earlier than the previous year. The Teaching Vacancies website, a free vacancy list site for schools, has been available to all schools in England since March 2019. It sits alongside our agency supply deal which aims to reduce the cost to schools of agency staff. The strategy also includes a programme of deals to save schools money on regular purchases, such as energy, IT equipment and catering. The insurance cover provided to academies through the risk protection arrangement is expanding at no extra cost to schools.

Equality and provision for vulnerable and disadvantaged pupils

Statistics on pupil characteristics in academies are obtained on an annual basis through the school census, with information in this report taken from the January 2018 results, to be congruent with the reporting period. Academic attainment by pupil characteristic is provided in tables E1 and E2 in annex 3.

Gender

The gender split in primary academies is broadly in line with the national average. Boys represent 50.9% of the pupils in primary converter academies and 51.1% in sponsored academies, compared with 51.0% 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 8).[21] At secondary sponsored academies: 51.6% of pupils are boys and 48.4% 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 2018 across all state funded primary schools, 33.1% of pupils were from a minority ethnic group. In primary sponsored academies, the percentage of pupils from a minority ethnic group was 37.5% and in primary converter academies it was 29.2%. In 2018, across all state-funded secondary schools, 30.3% of pupils were from a minority ethnic group. In secondary sponsored academies the percentage was 33.0% and in secondary converter academies it was 26.8% (see figure 8).[22]

21 Schools, Pupils and their Characteristics: January 2018, tables 1a and 2b, https://www.gov.uk/government/statistics/schools-pupils-and-their-characteristics-january-2018

22 Schools, Pupils and their Characteristics: January 2018, tables 4a, b and c.

Figure 8: Distribution of gender and ethnicity of pupils split by type and phase of academy as at January 2018 (source: School Census January 2018)

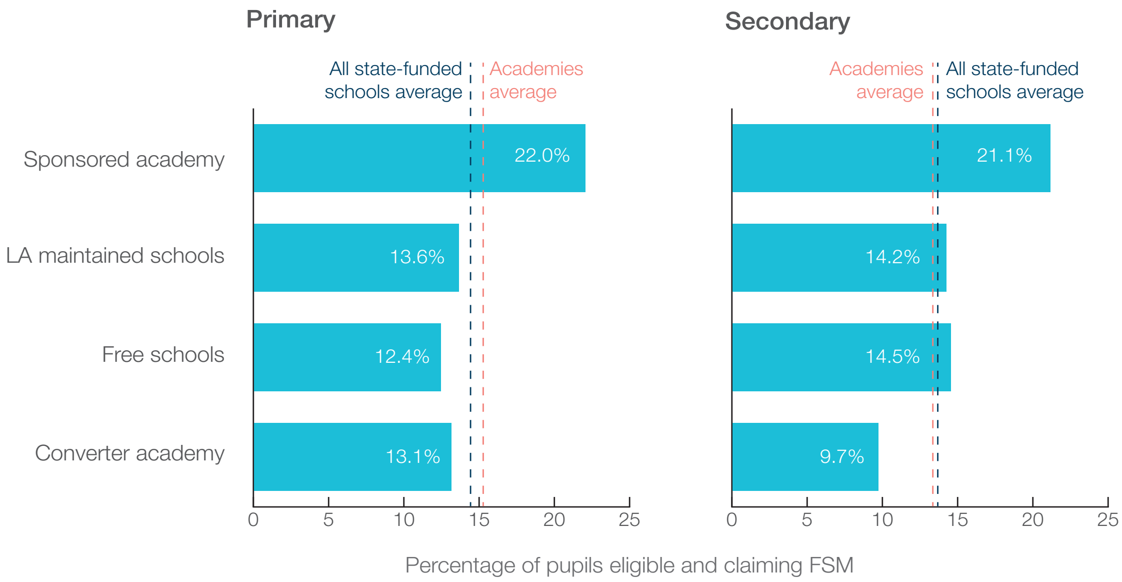
	Sponsored	Converter	Free schools[23]	LA maintained	All state-funded
Mainstream primary schools					
Gender					
Boys	51.1%	50.9%	50.8%	51.0%	51.0%
Girls	48.9%	49.1%	49.2%	49.0%	49.0%
Ethnicity					
White	71.5%	77.1%	46.2%	73.5%	73.9%
Mixed	6.5%	5.7%	11.3%	6.2%	6.2%
Asian	11.5%	9.7%	25.7%	11.3%	11.1%
Black	6.7%	4.6%	9.7%	5.7%	5.5%
Chinese	0.4%	0.5%	0.7%	0.5%	0.5%
Any other ethnic group	2.3%	1.5%	4.2%	2.0%	2.0%
Unclassified	1.2%	0.9%	2.1%	0.8%	0.9%
Total[24]	**100%**	**100%**	**100%**	**100%**	**100%**
Minority ethnic pupils[25]	37.5%	29.2%	63.9%	33.4%	33.1%
Mainstream secondary schools					
Gender					
Boys	51.6%	49.6%	56.4%	49.8%	50.2%
Girls	48.4%	50.4%	43.6%	50.2%	49.8%
Ethnicity					
White	72.5%	77.0%	54.4%	72.1%	74.2%
Mixed	5.6%	5.0%	7.6%	5.2%	5.2%
Asian	10.0%	10.3%	20.1%	12.2%	11.0%
Black	7.5%	4.4%	9.9%	6.9%	5.8%
Chinese	0.3%	0.5%	0.4%	0.3%	0.4%
Any other ethnic group	2.4%	1.5%	2.8%	1.9%	1.8%
Unclassified	1.8%	1.3%	4.8%	1.4%	1.5%
Total[24]	**100%**	**100%**	**100%**	**100%**	**100%**
Minority Ethnic Pupils[25]	33.0%	26.8%	48.5%	33.0%	30.3%

23 Including studio schools and UTCs.
24 Numbers may not sum due to rounding.
25 Includes all pupils classified as belonging to an ethnic group other than White British (excludes unclassified). White major ethnic group shown here contains White British and additional White ethnic groups not shown here.

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 2018, 15.5% of primary academy pupils were known to be eligible for and claiming FSM[26],compared with 14.2% across all state funded primary schools (see figure 9). Conversely, the percentage of FSM pupils in all secondary academies is slightly lower than the average across all state-funded schools. In secondary academies, 13.0% of pupils were known to be eligible for and claiming FSM compared with 13.3% across all state-funded secondary schools.[27]

Figure 9: Percentage of pupils eligible for and claiming FSM by type and phase of academy as at January 2018[28]



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, 22.0% of pupils in sponsored academies are eligible for and claiming FSM compared with 14.2% across all state-funded primary schools. In primary free schools, 12.4% of pupils are eligible for and claiming free school meals, below the average for all state-funded primary schools. In secondary sponsored academies, 21.1% of pupils are eligible for and claiming FSM, compared with 13.3% in all state-funded secondary schools. In secondary free schools, 14.5% of pupils are eligible for and claiming FSM.

26 Based on all full time pupils aged 15 and under, and part time pupils aged 5 to 15.
27 Schools, Pupils and their Characteristics: January 2018, tables 3b, 3c.
28 Details in table A in annex 3.

Special educational needs

The law and statutory guidance on special educational needs (SEN)[29] and exclusions[30] 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.

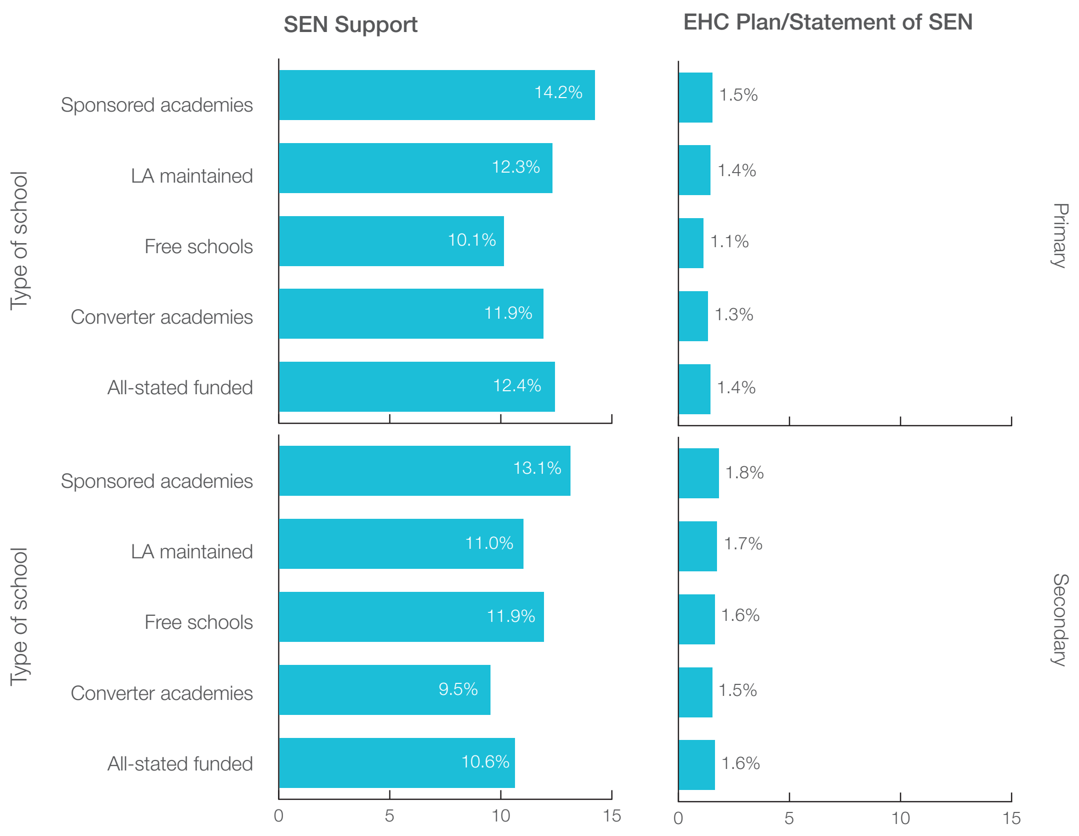
Academies have a similar proportion of pupils with SEN to that of all state-funded schools. Sponsored academies have a higher percentage of pupils with SEN than the national average, while converter academies are below the national average.[31]

In January 2018, across all state-funded primary schools, 13.8% of pupils were identified as having a special educational need (including both SEN Support and education, health and care plans or SEN statements). In primary sponsored academies, the percentage was 15.7% and in primary converter academies it was 13.2%. In primary free schools, 11.3% of pupils were identified as having SEN.

Across all state-funded secondary schools, 12.3% of pupils were identified as having SEN. In secondary sponsored academies, the percentage was 14.9% and in secondary converter academies it was 11%. In secondary free schools, UTCs and studio schools 13.5% of pupils were identified as having SEN (see figure 10 and table B in annex 3).

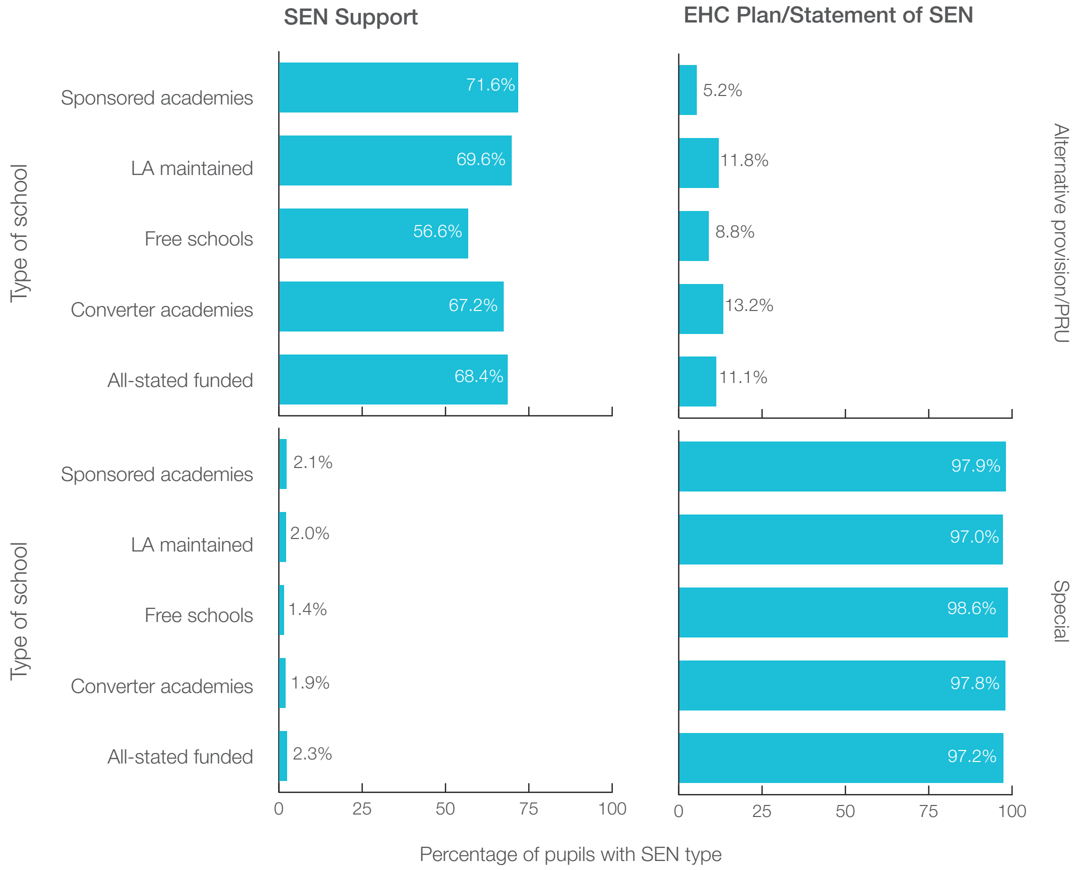
Figure 10: Special educational needs split by type and phase of academy as at January 2018[32]

Primary and Secondary schools – SEN by school type, 2018



29 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
30 Statutory guidance on school-exclusion: https://www.gov.uk/government/publications/school-exclusion
31 Special Educational needs in England: January 2018, https://www.gov.uk/government/statistics/special-educational-needs-in-england-january-2018
32 Details in table B in annex 3.

Alternative provision and special schools – SEN by school type, 2018



Special academies have close to 100% of pupils with some SEN requirement, with almost all having a statement of SEN or an education, health and care (EHC) plan. Proportions of EHC plan and SEN statements 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) in 2018 had SEN requirements, with a smaller proportion with a statement of SEN or EHC plan. Converter AP academies had 80.5% of pupils identified as SEN in 2018, while sponsored AP academies had 76.8%, both slightly higher than LA provision. However, AP free schools had 65.3% of pupils identified as SEN, lower than other types of state-funded AP.

Educational performance

Making fair comparisons between sponsored academies and LA schools is 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.

This report focuses on the results from tests and teacher assessments completed by pupils at the end of key stage 2 (KS2 – pupils aged 11), key stage 4 (KS4 – pupils aged 16), and level 3 (usually pupils aged 16-19).

Since the last consolidated annual report and accounts, DfE has published analysis of the performance of sponsored academies that takes into account the different make-up of schools in the academies sector and the LA maintained sector.[33]

The key findings of that analysis were:

- standards in under-performing schools that became sponsored academies in recent years have, in many cases, risen more quickly than in similar LA maintained schools
- sponsored academies (that had typically replaced under-performing local authority-run schools) which had been open for longer had made substantial gains in performance and were in line with similar non-academies
- for some groups of sponsored academies, changes in performance between years were not always improvements. For some groups performance year-on-year is volatile and oscillates around that of similar schools.

Academy performance statistics in the remainder of this document 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 2017.

Performance at primary academies

The 2018 KS2 assessments were the third 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, and writing is teacher assessed (TA) over the academic year. Looking at the combined results for reading, writing and Maths (see figure 11), average KS2 attainment in sponsored academies is below the average for LA maintained mainstream schools and the average across all state-funded schools. Converter academies have a higher percentage of pupils achieving the expected standard in reading, writing and Maths assessments than other types of academy.

33 https://www.gov.uk/government/publications/sponsored-academy-performance

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 11 below. Pupils in sponsored academies 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 than pupils in other types of schools.

Figure 11: KS2 attainment by type of school, 2017/18

School type	Attainment in reading, writing and Mathematics: Reaching the expected standard	Attainment in reading, writing and Mathematics: Reaching a higher standard	Reading	Writing teacher assessment	Mathematics	Grammar, punctuation and spelling
			Reaching the expected standard			
Sponsored academies	57%	7%	68%	73%	70%	70%
Converter academies	67%	11%	78%	81%	78%	80%
Free schools	61%	12%	75%	75%	73%	76%
LA maintained schools	66%	10%	77%	79%	77%	79%
All State-funded mainstream schools	65%	10%	76%	79%	77%	79%

Figure 12: KS2 progress in reading, writing and Maths by type of school, 2017/18[34]

School type	Number of schools	Reading		Writing		Maths	
		Progress score	Confidence interval	Progress score	Confidence Interval	Progress score	Confidence Interval
Sponsored academies	1,187	-0.4	-0.4 to 0.3	0.2	0.1 to 0.2	-0.1	-0.1 to 0.0
Converter academies	2,767	0.1	0.0 to 0.1	0.2	0.2 to 0.2	0.2	0.1 to 0.2
Free schools	57	0.4	0.1 to 0.7	-0.1	-0.4 to 0.2	-0.1	-0.3 to 0.2
LA maintained schools	11,044	0.1	0.1 to 0.2	0.1	0.0 to 0.1	0.1	0.1 to 0.1
All State-funded mainstream schools	15,055	0.1	0.1 to 0.1	0.1	0.1 to 0.1	0.1	0.1 to 0.1

34 Details including a more detailed breakdown by subject and pupil characteristic can be found in National table N13 from https://www.gov.uk/government/statistics/key-stage-2-and-multi-academy-trust-performance-2018-revised

Analysis of trends over time shows that sponsored academies open for two or more academic years showed an increase in attainment of between five and seven percentage points[35] which is in line with the increase for all schools nationally (eight percentage points). Sponsored academies open for two years showed the biggest improvement since 2017 (eight percentage points). For both sponsored and converter academies the percentage of pupils reaching the expected standard was greatest for academies open for seven or more academic years.

KS2 results can also be broken down by pupil characteristics, as shown in the national curriculum assessments data.[36] 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 each of reading, writing and Maths by FSM pupils and all other pupils is similar in sponsored academies and converter academies, and smaller than the gap between pupils in LA maintained mainstream schools.

A full breakdown of percentage of pupils meeting the expected standard by pupil characteristic and academy type is provided in tables N13 of the KS2 national curriculum assessments.[37]

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 table N13 of the Key stage 2 performance data.[38]

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 for first teaching over three years: from September 2016, 2017 and the remainder from 2018. When comparing headline measures between 2016 and 2018, it is important to note these developments.[39]

Attainment in English and Maths by school type can be found in figure 13. Other headline measures of attainment can be found in the KS4 performance data publication.[40]

Converter academies have on average higher attainment and progress across the headline measures than the average for state-funded schools. This may be at least partly explained by the fact that these were already high performing schools that chose to convert to academies.

Since 2017, the percentage of pupils achieving grade 4 or above in English and Maths has increased in both sponsored academies and converter academies. In 2018, 54.3% of pupils in sponsored academies achieved this, compared with 53.9% in 2017. In converter academies, 70.7% of pupils achieved a grade 4 or above in English and Maths, compared with 70.6% of pupils in 2017. This means that performance in converter academies remains above the national average for all state funded schools on this measure (see figure 13).

35 https://www.gov.uk/government/statistics/key-stage-2-and-multi-academy-trust-performance-2018-revised, National Table N5a.

36 https://www.gov.uk/government/statistics/key-stage-2-and-multi-academy-trust-performance-2018-revised

37 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/763832/Key_stage_2_national_tables.xlsx

38 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/763832/Key_stage_2_national_tables.xlsx

39 A more detailed explanation of the change to the methodology can be found in https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/676213/SFR01_2018_QualityandMethodology.pdf

40 https://www.gov.uk/government/statistics/key-stage-4-and-multi-academy-trust-performance-2018-revised

Figure 13: Percentage of pupils achieving grade 4 or above in English and Maths by year and academy type in 2018[41]

Academy type	Percentage of pupils who achieved a 9-4 pass in English and Maths in 2018	Percentage of pupils who achieved a 9-4 pass in English and Maths in 2017
Sponsored academies	54.3%	53.9%
Converter academies	70.7%	70.6%
Free schools	68.0%	69.8%
University technical colleges	50.5%	53.0%
Studio schools	41.3%	44.2%
LA maintained mainstream schools	64.0%	63.2%
All state-funded mainstream schools	65.5%	65.1%

Groups of sponsored academies broken down by the length of time they had been open do not show a strong trend (figure 14). Those open for one academic year had the lowest percentage of pupils achieving a grade 4 or above in 2018 for English and Maths (50.1%), and those open for nine years or more had the highest percentage (57.6%).

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 five years are an exception and have a lower percentage than those open for four years (66.8% compared to 67.0% – see figure 14). It is not obvious why this is the case.

41 Source: Table 2a https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/772852/2018_National_tables.xlsx

Figure 14: Percentage of pupils achieving grade 4/C or above in English and Maths by number of academic years open and academy type in 2017/18[42,43]

	Number of schools with results	% achieving grade 4/C or above in English and Maths	
		2016/17	2017/8
Sponsored Academies			
Open for one academic year	67	48.8	50.1
Open for two academic years	41	51.4	52.2
Open for three academic years	56	54.6	55.9
Open for four academic years	59	54.5	54.8
Open for five academic years	73	54.1	53.2
Open for six academic years	58	50.2	52.2
Open for seven academic years	45	52.3	54.1
Open for eight academic years	59	51.6	50.1
Open for nine or more academic years	185	56.2	57.6
All sponsored academies	**643**	**54.1**	**54.3**
Converter academies			
Open for one academic year	76	61.5	62.4
Open for two academic years	58	64.5	64.2
Open for three academic years	46	66.6	66.8
Open for four academic years	65	66.7	67.0
Open for five academic years	149	66.3	66.8
Open for six academic years	367	69.1	69.3
Open for seven academic years	643	73.8	74.0
Open for eight academic years	27	77.2	78.9
All converter academies	**1,431**	**70.8**	**70.7**
All LA maintained schools	**930**	**63.2**	**64.0**

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 different 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 2017 and 2018 Progress 8 scores. Further information about Attainment 8 and Progress 8 is available in 'Revised GCSE and equivalent results in England 2017 to 2018'.[44]

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.

42 Details in table F in annex 3.
43 Details in table 2f of published key stage 4 performance data https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/772852/2018_National_tables.xlsx
44 https://www.gov.uk/government/statistics/key-stage-4-and-multi-academy-trust-performance-2018-revised

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:

- 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.
- 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.

Pupils eligible for and claiming free school meals made slightly less progress in sponsored academies compared to those with similar prior attainment in LA maintained schools and converter academies. Pupils eligible for FSM in converter academies made more progress on average than those with similar prior attainment across all state-funded mainstream schools (figure 15).

Figure 15: Average Progress 8 score per pupil by school type and pupil characteristic, 2018 (source: Analysis of NPD KS4 data 2018)[45]

Pupil characteristic	Sponsored	Converter	LA maintained	All mainstream state-funded
All pupils	-0.19	0.11	-0.03	0.01
Pupils eligible for and claiming free school meals	-0.51	-0.40	-0.48	-0.46
All other pupils	-0.11	0.16	0.04	0.07
White	-0.30	0.04	-0.12	-0.07
Mixed	-0.15	0.15	-0.07	0.02
Asian	0.33	0.60	0.38	0.48
Black	0.15	0.25	0.09	0.16
Chinese	1.04	1.07	1.06	1.06
No Identified SEN	-0.12	0.17	0.03	0.08
All SEN pupils	-0.61	-0.34	-0.46	-0.44
SEN support	-0.61	-0.32	-0.44	-0.43
SEN with a statement or EHC plan	-0.58	-0.41	-0.53	-0.49

Pupils at converter academies that have been open for a longer time (eight 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.[46] The same can be said, although less strongly, for sponsored academies.

45 Characteristics table CH3a, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/772851/2018_National_characteristics_tables.xlsx

46 Progress measure data 2017/18: https://www.gov.uk/government/statistics/key-stage-4-and-multi-academy-trust-performance-2018-revised National Tables 2d and 2e.

Performance at academies with post-16 provision

Changes to the accountability regime for vocational qualifications, as a result of recommendations from Professor Alison Wolf's Review of Vocational Education[47], have taken effect since 2016. This significantly raised the quality threshold for qualifications to be included in the 16 to 18 performance measures. From 2018 onwards, qualifications have to meet the full set of characteristic requirements in order to count in performance tables. These include criteria relating to size, content and assessment, including a requirement that a proportion of the qualification's content is subject to external assessment. Prior to 2018, qualifications could count in performance tables if they met interim requirements. Information on the requirements can be found in the technical guidance for awarding bodies. Measures in 16 to 18 performance tables only include vocational qualifications that are on the approved list of applied general, tech level and technical certificate qualifications (from 2019 for technical certificate).

The level 3 attainment measures show the results[48] that students achieved by the end of advanced level study. They take into account results achieved in all level 3 qualifications recognised in the 2018 performance tables and during all years of 16-18 study.

In 2018, converter academies had a higher average point score per entry than the state-funded school average across A Levels, academic qualifications, tech levels and applied general qualifications. Sponsored academies had a lower average point score per entry across those same groups of 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 below the average for all state funded schools.[49] 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 below the national average for all state-funded schools. Pupils in converter academies on average made less progress than the national average in applied general qualifications.[50]

Converter academies and sixth form colleges have the largest number of students enrolled in A level programmes (46.1% and 19.4% of the total number of A level students respectively). Similarly, 35.5% of students in Applied General programmes are in converter Academies, but the second largest number of students are in other FE sector colleges (19.8%). In contrast, almost two-thirds (61.3%) of students in Tech Level programmes are in other FE sector colleges. For Technical Certificate and level 2 vocational programmes, around 90% are in other FE sector colleges (93.8% and 89.7% respectively). A level programmes at converter academies had the highest retention rate (94.6%). Sponsored academies had a retention rate of 91.1%. Meanwhile, studio schools had the lowest retention rate (68.9%). UTCs, had the lowest retention rate in 2017 and the second lowest retention rate in 2018 (76.0%).

47 https://www.gov.uk/government/publications/review-of-vocational-education-the-wolf-report
48 16 to 18 attainment data: https://www.gov.uk/government/statistics/a-level-and-other-16-to-18-results-2017-to-2018-revised table 1a.
49 16 to 18 attainment data: https://www.gov.uk/government/statistics/a-level-and-other-16-to-18-results-2017-to-2018-revised table 1e.
50 16 to 18 attainment data: https://www.gov.uk/government/statistics/a-level-and-other-16-to-18-results-2017-to-2018-revised table 1e.

MAT level attainment

In January 2019, DfE published MAT performance measures based on the 2017/18 school performance data. These are consistent with the school accountability system. For KS2 DfE published three separate current year progress measures at MAT level – one for each of reading, writing and Maths. At KS4 DfE published one measure at MAT level based on current year Progress 8. MAT performance measures also include measures for disadvantaged pupils, pupils with English as an additional language (EAL), pupils with special educational needs, and by varying levels of prior attainment.

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 progress that pupils at a school make on average 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, and 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. It should be noted that the bandings for MATs have been aligned this year to the methodology used to produce the school level progress bandings reported in the school performance tables and are therefore not comparable with bandings for MATs from previous years. When interpreting the data, it is important to note that the make-up of pupils within MATs in these measures may not reflect the national pupil population.

Figure 16: 2017/18 MAT performance at KS2, KS4 and 16-18 compared to national average[51]

Key Stage and measure	Well below average		Below average		Average		Above Average		Well above average	
	Number of MATs	% of MATs	Number of MATs	% of MATs	Number of MATs	% of MATs	Number of MATs	% of MATs	Number of MATs	% of MATs
KS2 Reading	5	2.1%	55	22.9%	119	49.6%	55	22.9%	6	2.5%
KS2 Writing	3	1.3%	41	17.1%	119	49.6%	63	26.3%	14	5.8%
KS2 Maths	2	0.8%	56	23.4%	109	45.6%	65	27.2%	7	2.9%
KS4 Progress 8	3	3.5%	23	27.1%	25	29.4%	28	32.9%	6	7.1%
KS5 Level 3 VA – Academic	1	2.0%	26	52.0%	20	40.0%	3	6.0%	0	0.0%
KS5 Level 3 VA – Applied general	0	0.0%	6	15.8%	28	73.7%	4	10.5%	0	0.0%

The headline results are shown in figure 16. 240 MATs satisfied the definition for inclusion in the KS2 MAT performance measures, representing 1,408 individual schools and 56,367 pupils, which is 9.3% of the mainstream state-funded KS2 cohort. 85 MATs satisfied the definition for inclusion in the KS4 MAT performance measures, representing 494 individual schools and 69,169 pupils, which is around 14% of the state-funded mainstream KS4 cohort.

51 https://www.gov.uk/government/statistics/key-stage-2-and-multi-academy-trust-performance-2018-revised (KS2)
https://www.gov.uk/government/statistics/key-stage-4-and-multi-academy-trust-performance-2018-revised (KS4).

50 MATs satisfied the definition for inclusion in the KS5 Academic performance measures, and 38 for Applied General. This corresponds to 16,236 students in the academic cohort (5.6% of all state-funded mainstream entries) and 5,942 entries in the Applied General cohort (11.0% of all state-funded mainstream entries).

At key stage 2, 53.1% of schools included in MAT performance measures were converter academies, 46.2% were sponsored academies, and 0.8% were free schools. In comparison, nationally pupils in converter academies made up 20.9% of pupils and pupils in sponsored academies made up 8.3% of the maintained mainstream cohort at key stage 2.

At key stage 4, 25.9% of schools included in MAT performance measures were converter academies, 65.4% were sponsored academies, and 8.7% were free schools, UTCs or Studio Schools. In comparison, nationally pupils in converter academies made up 50.7% of pupils and pupils in sponsored academies made up 17.7% of the maintained mainstream cohort in progress 8, with pupils in free schools, UTCs, and studio schools making up 1.9%.

At key stage 5, converter academies represented 37.3% of the entries in academic MAT performance measures, with 57.1% of entries from sponsored academies and 5.6% of entries from free schools. In comparison, nationally pupils in converter academies make up 64.4% of the academic cohort, with 10.3% in sponsored academies and 0.6% in free schools. In applied general MAT performance measures, converter academies accounted for 23.3% of entries, with 72.3% of entries in sponsored academies, and 4.4% in free schools. In comparison, nationally pupils in converter academies make up 43.8% of the academic cohort, with 20.1% in sponsored academies and 0.6% in free schools.

Key Stage 2 MAT Performance

In 2018, 25.4% of MATs performed above the national average in the reading progress measure by a statistically significant amount while 25.0% of MATs performed significantly below the national average: 2.5% of MATs were classified as well above average and 2.1% as well below average. The remaining 49.6% were not above or below the national average by a statistically significant amount.

In the writing progress measure, 32.1% of MATs performed above the national average by a statistically significant amount whilst 18.3% of MATs performed significantly below the national average – 5.8% of MATs were classified as well above average and 1.3% as well below average. The remaining 49.6% were not above or below the national average by a statistically significant amount.

In the Maths progress measure, 30.1% of MATs performed above the national average by a statistically significant amount while 24.3% of MATs performed significantly below the national average: 2.9% of MATs were classified as well above average and 0.8% as well below average. The remaining 45.6% were not above or below the national average by a statistically significant amount.

Disadvantaged pupils in MATs make more progress at KS2 on average in each measure than the national average for disadvantaged pupils. Similarly, EAL pupils in MATs make more progress in each measure than the national average for EAL pupils. However, SEN pupils, non SEN pupils, low prior attainment pupils, non-disadvantaged pupils and pupils with English as a first language in MATs make less progress in reading than their respective national averages.

The gap between disadvantaged and non-disadvantaged pupils is smaller in MATs than the national average. However, the gap between SEN and non SEN pupils, EAL pupils and pupils with English as a first language, and between low and high prior attainment pupils, is larger in MATs than the national average.

At KS2, it was national lead MATs that were most often above or well above average in KS2 performance measures (table J annex 3), with 45% of them above or well above average in reading, 82% in writing, and 82% in Maths.

MAT performance at KS2 (table K, annex 3), shows no clear relationship between the number of schools in a MAT and their performance in KS2 progress measures.

Key Stage 4 MAT Performance

In 2018, 27.1% of MATs had Progress 8 scores above the national average and 3.5% were well above average. 32.9% of MATs were below the national average and 7.1% well below average. The remaining 29.4% were not above or below the national average by a statistically significant amount.

The average Progress 8 score in sponsor led academies in MATs was below the national average for all mainstream schools, but above the national average for sponsor led academies. The average Progress 8 score in converter academies in MATs, and in free schools, UTCs or studio schools in MATs, was above the national average for all mainstream schools.

The national average in MATs for Progress 8 is mainly lower than the average for all mainstream schools because of different proportions of sponsor led and converter academies. In MATs, sponsor led academies made up 64% of pupils included in Progress 8 and converter academies 31%. In comparison, nationally pupils in sponsor led and converter academies made up 18% and 51% of pupils in Progress 8 respectively.

MATs with a national lead more commonly performed above or well above average in KS4 Progress 8 (table H, annex 3), with 5 out of 10 of these MATs above average. West Midlands and North had the highest proportions below or well 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.

16-19 MAT Performance

Academic cohort: In 2018, 6.0% of MATs had progress scores above the national average for the academic cohort and no MATs were well above. 52.0% of MATs were below the national average and 2.0% well below. The remaining 40.0% were not significantly different from the national average.

Applied General cohort: In 2018, 10.5% of MATs had progress scores above the national average for the applied general cohort and no MATs were well above. 15.8% of MATs were below the national average and no MATs were well below. The remaining 73.7% were not significantly different from the national average.

Disadvantaged pupils in MATs make slightly less progress than the national average for disadvantaged pupils in L3VA academic cohort. In the Applied General cohort there is no statistically significant difference between disadvantaged pupils in MATs and nationally. Information about the performance of disadvantaged pupils in individual MATs can be found in the Multi Academy Trust tables of the 16-18 performance data.[52]

Full information on the performance of MATs can be found in the MAT performance measures sections of the KS2 and KS4 performance data and a regional breakdown can be found in tables H to L of annex 3.

Jonathan Slater
Permanent Secretary
11 July 2019

52 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/785534/2018_MATs_1618_Tables.xlsx – tables MAT1 and MAT2

Accountability report

Corporate governance report

The purpose of the corporate governance report is to explain the composition and organisation of DfE'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;
- 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 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[53] (FReM)** and in particular to:

- observe the Accounts Direction issued by HM Treasury (annex 4), 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
- 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
- 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
- I take personal responsibility for the SARA and the judgments required for determining that it is fair, balanced and understandable.

53 FReM 2017-18: https://www.gov.uk/government/publications/government-financial-reporting-manual-2017-to-2018

Governance statement

Scope of responsibility

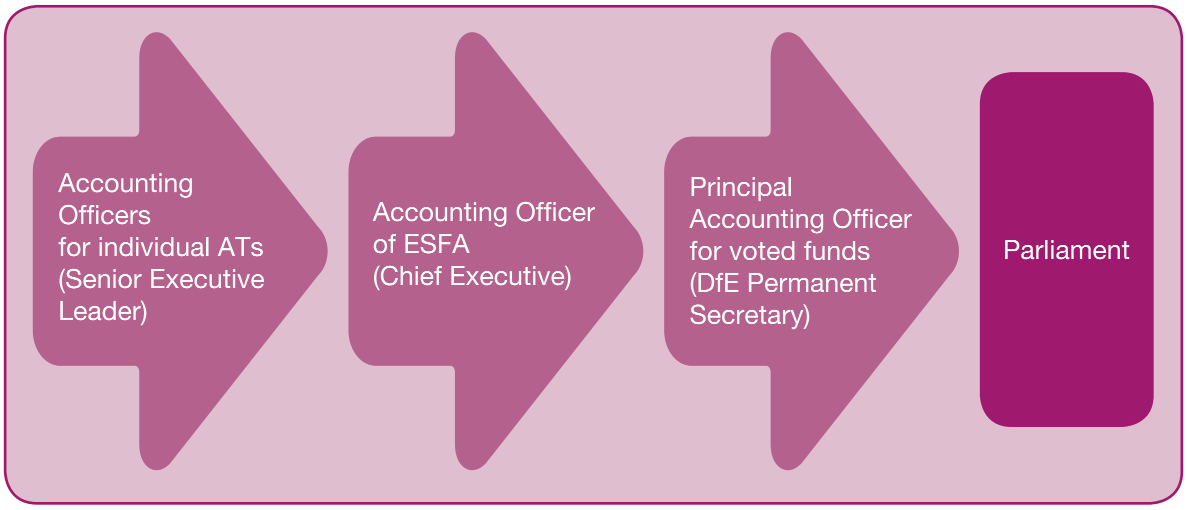
As the Permanent Secretary and Principal AO for DfE, I am responsible for ensuring there is an adequate framework in place to provide assurance that all resources are managed in an effective and proper manner, and that value for money is secured.

The sector operates under a strict system of accountability. The key features of this system are set out in DfE's system accountability statement.[54] ATs have statutory responsibilities under company and charity law, and are ultimately accountable – through me, and the ESFA AO – to Parliament.

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 2017 (AFH).**[55]

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.

Figure 17: System of accountability



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.

54 Department for Education Accountability System Statement: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/641079/Accounting_Officer_System_Statement_v2.pdf
55 Academies Financial Handbook 2017/18: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/811261/Academies_Financial_Handbook_2019.pdf

ATs are responsible for:

- ensuring the quality of educational provision
- challenging and monitoring the performance of their academies
- 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
- 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
- providing accurate data returns to DfE.

The AFH covers the financial accountability requirements for ATs. It sets out the areas of HM Treasury's **Managing Public Money**[56] that directly apply to ATs. In addition, the DfE's **Governance Handbook**[57] describes the elements of good governance to which trusts must give due regard. These two documents are updated annually to cover improvements to governance and financial management arrangements. The AFH is also reviewed annually and amended to reflect the monitoring and feedback applied to the sector.

Department Review Processes

All academies are required to submit an annual census return that records pupil numbers and provides the basis on which main revenue funding allocations are agreed. The ESFA, on a sample basis, carries out a programme of funding audits at academies, to ensure that grant funding paid to academies is based upon accurate and complete data, that is recorded in accordance with the funding policy and guidance provided by DfE.

During the programme of 2017/18 audits, the ESFA identified that error rates relating to census data returns remained low at less than 0.15%, which was a similar position to previous years.

Any new AT is required to complete a financial management and governance self-assessment (FMGS) return and submit it to DfE. Where the AT is setting up as a new entity, a full FMGS return is required within four months. Where the AT is joining an existing AT an alternative FMGS return is required within six weeks. The return provides a self-assessment on the implementation of the AFH requirements within the new trust and is approved by the trust's board of trustees before submission, to provide accountability for the quality of the return.

FMGS returns are subject to a validation, where they are reviewed and AT actions and implementation dates are assessed for reasonableness. Any outstanding returns are pursued by ESFA.

ESFA has arrangements to follow up recommendations made in FMGS reports to ensure trusts take appropriate actions in a timely manner.

During 2017/18, 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.

It is best practice for ATs to make an annual assessment of their governance and report it in their governance statements. The assessment should include 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**[58] identifies a range of training material to help AT boards do this.

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56 Managing Public Money: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742188/Managing_Public_Money__MPM__2018.pdf

57 Governance Handbook, March 2019: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/788234/governance_handbook_2019.pdf

58 Governance Handbook, March 2019: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/788234/governance_handbook_2019.pdf

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 economic, efficient and effective use of resources in their charge (value for money);
- public money is spent for the purposes intended by Parliament (regularity);
- 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 DfE 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**[59], Charities SORP and Academy Accounts Direction. 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 Accounting Officer, 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.

DfE 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**[60] as required by the Companies Act 2006.[61]

There were expected to be 2,986 accounts from ATs for the period ending 31 August 2018. At publication, 2,977 (99.7%) had been received, with nine outstanding. We are continuing to pursue all nine outstanding financial statements.[62]

59 Companies Act 2006: https://www.legislation.gov.uk/ukpga/2006/46/contents
60 Companies House website: https://www.gov.uk/government/organisations/companies-house
61 Companies Act 2006: http://www.legislation.gov.uk/ukpga/2006/46/contents
62 Late submission of financial returns can be found at: https://www.gov.uk/government/publications/academy-trusts-late-financial-returns-2017-to-2018/academy-trusts-late-financial-returns-2017-to-2018

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[63] and AFH and consistency with the ATs' financial records. A summary of audit opinions is presented below.

Figure 18: Summary of auditors' opinion

	2017/18		2016/17	
	Number	%	Number	%
Unqualified	2,719	91.1%	2,804	91.8%
Unqualified – Emphasis of matter other	5	0.2%	19	0.6%
Unqualified – Accounts produced on non-going concern basis (trust closing)	117	3.9%	82	2.7%
Unqualified – Material uncertainty to continue as a going concern (financial issues)	100	3.3%	93	3.0%
Qualified	35	1.2%	46	1.5%
Disclaimer of opinion	1	0.0%	3	0.1%
Adverse	–	–	–	–
Accounts not received	9	0.3%	7	0.2%
	2,986	**100.0%**	**3,054**	**100.0%**

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 2017/18, over 98% of AT accounts received unqualified opinions (2016/17: over 98% of AT accounts also received unqualified opinions).

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
- local government pension scheme actuarial valuation.

While the number of trusts reporting a material uncertainty relating to going concern due to financial weakness remained broadly similar, the number of trusts producing accounts on a basis other than going concern has increased. This resulted from the continuing trend of trusts closing following transfer and reflects the current changes within the sector.

Independent auditor's conclusions on regularity

AT accounts include an independent reporting accountant's assurance report on regularity, which 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 on the next page shows that, at the time of publication there were 177 instances where these assurance reports identified regularity exceptions.

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

63 Academies accounts direction 2017/18: https://www.gov.uk/guidance/academies-accounts-direction#academies-accounts-direction-2017-to-2018

Figure 19: Summary of auditors' opinions on regularity

	2017/18		2016/17	
	Number	%	Number	%
No regularity exception noted	2,800	93.8%	2,910	95.3%
Regularity exception noted	177	5.9%	137	4.5%
Accounts not received	9	0.3%	7	0.2%
	2,986	**100.0%**	**3,054**	**100.0%**

Auditors concluded that there were no regularity exceptions in trust accounts for just under 94% of trusts.

ESFA reviewed the exceptions raised for the remaining 6% 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 financial management or reporting
- procurement processes
- no independent checks of internal controls
- related party transactions or the 'at cost' policy relating to goods and services purchased from related parties (rules applying to related party transactions have now been strengthened, effective from April 2019).

The majority of the regularity exceptions reported related to the system of internal control primarily relating to financial management or reporting. 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 and accounting officer statements of regularity, propriety and compliance. Where the ESFA identifies issues of a material nature, proportionate action is taken within the trust to strengthen and improve their controls so that they comply with ESFA requirements. More details on the role of the ESFA in the control framework are provided below.

DfE's governance structures

The ESFA Audit and Risk Committee (ARC) and departmental Audit and Risk Committee 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 Market Oversight Directorate provides assurance to the ESFA and specifically its Accounting Officer over funds disbursed 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 DfE's other committees.

Figure 20: DfE's governance structures

Departmental Board

The departmental board provides strategic and operational oversight for the DfE and is supported by its sub committees. It is chaired by the Secretary of State and consists of the ministerial team, the Permanent Secretary, the directors general, the Chief Executive of the ESFA, and the non-executive board members.

Leadership team

The leadership team provides day to day executive leadership and management on behalf of the board and is supported by three sub-committees.

Performance, Risk and Resourcing Committee

The Performance, Risk and Resourcing Committee is a sub-committee of the leadership team and provides oversight of the breadth of DfE's performance and risks.

People Committee

The People Committee is a sub-committee of the leadership team and provides oversight of DfE's people and workforce strategy.

Digital, Data and Technology Committee

The Digital, Data and Technology Committee is a sub-committee of the leadership team and provides oversight of DfE's digital capacity and capability.

Implementation Committee

The Implementation Committee supports the board by scrutinising DfE's performance and delivery, both in the wider sense and in the context of particular projects and issues. It is chaired by the lead non-executive board member and consists of the Permanent Secretary, Directors General, the non-executive board members, the Chief Analyst and the Head of Delivery Unit.

Audit and Risk Committee

The Audit and Risk Committee supports the board by providing independent scrutiny and challenge of DfE's arrangements for governance, risk management and internal controls. It is chaired by a non-executive board member and its membership is independent from DfE.

Nominations Committee

The Nominations Committee supports the board by scrutinising and advising on the department's arrangements for senior talent management, pay and reward, succession planning and public appointments processes. It is chaired by the lead non-executive board member and consists of non-executive board members, the Permanent Secretary and the HR Director.

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 brought 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
- 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. It provides strategic leadership, direction, support and guidance to ensure the delivery of ESFA business plan objectives, organisational effectiveness and performance, and alignment with DfE's mission, strategy and purpose.

The ESFA communicates the financial control framework for ATs through the AFH. It also publishes an Academies Accounts Direction[64] to help trusts prepare their annual financial statements and to support auditors with the effective audit of AT accounts.

The ESFA actively engages with the sector to raise standards of financial management and governance. In 2017/18, it ran or participated in events and seminars for ATs and audit firms to promote understanding of the accountability framework and to feedback findings from its assurance programme.

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 financial management and governance self-assessment forms by new ATs. 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.

The ESFA operates an annual assurance programme which reviews a broad range of academy trust data and intelligence to identify risk, including audited accounts and a number of annual financial returns and takes action where appropriate.

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 include corresponding with the ATs working with it to reach a stronger position, developing a recovery plan or supporting with a School Resource Management Adviser visit – through to more formal actions.[65] 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 FA 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.

15 FNtIs (representing 0.5% of the total sector by number of ATs) were issued between 1 August 2017 and 31 July 2018, with 2 further notices issued during August 2018[66] (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).

Between 1 August 2017 and 31 July 2018, ESFA received 28 allegations relating to fraud and/or financial irregularity in academies from a variety of sources (compared with 36 for the year to 31 July 2017), including whistle-blowers. A further one allegation was received during August 2018.

64 Academies accounts direction 2017/18: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/712372/Academies_Accounts_Direction_2017_to_2018.pdf

65 Further details are available within ESFA's Annual Report and Accounts for the year ended 31 March 2018 (Page.30-31): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/727360/ESFA_ARA_2017-18_PRINT.pdf

66 Financial notices' to improve: https://www.gov.uk/government/collections/academies-financial-notices-to-improve

Following review and analysis, including triage of allegations where appropriate, ESFA undertook 15 visits between 1 August 2017 and 31 July 2018 (compared to 14 in 2016/17). This comprised:

- four fact-finding visits (compared to six in 2016/17)
- six financial management and governance reviews (compared to seven in 2016/17)
- five investigations (compared to one in 2016/17).

There were no visits in August 2018.

Between 1 August 2017 and 31 July 2018, ESFA published four financial management and governance reviews (compared to seven in 2016/17) and no investigation reports (compared to two in 2016/17). No reports were published during August 2018. Reports on the investigations are available online.[67] None of the concerns raised resulted in a material financial impact on the SARA.

In accordance with the AFH (s4.9) requirement and the need for ATs to notify ESFA of instances of fraud, theft and/or irregularity exceeding £5,000 individually, or £5,000 cumulatively in any academy financial year, ESFA received 49 notifications from ATs[68] between 1 August 2017 and 31 July 2018 (compared to 32 in 2016/17). A further two notifications were received during August 2018.

The value of reported fraud against ESFA as reported by trusts was £236,292 (compared to £0 in 2016/17). At the reporting date, the amount recovered by ESFA was £6,173 (compared to £0 in 2016/17).[69]

The value of reported fraud committed against ATs between 1 August 2017 and 31 July 2018 was £1,008,398[70] (compared to £778,894 in 2016/17). No further fraud values were reported in August 2018 (£8,351 was reported in August 2017). The amount recovered by ATs was £522,720[71] (compared to £429,681 in 2016/17). The value of fraud reported to DfE by local authorities relating to LA-controlled schools was £0.5 million for the 2017/18 academic year.[72]

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[73], alongside relevant fraud and irregularity guidance.[74]

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 DfE, this duty is discharged in this report.[75]

67 Academies investigation reports: https://www.gov.uk/government/collections/academies-investigation-reports
68 ATs may report frauds of a lower amount which are included in this number.
69 By November 2018 only £8,119 was still awaiting recovery.
70 This figure is likely to increase as more information is received for ongoing cases.
71 This figure is likely to increase as ATs continue to pursue recovery.
72 LA fraud runs on a different reporting cycle (different academic and financial reporting periods) therefore this fact is included for information but is not directly comparable to fraud reported by ATs. The LA reported fraud figure may include values that have occurred in a previous reporting period as this depends on when the LA identified the fraud.
73 Financial management and governance reviews: https://www.gov.uk/government/collections/academies-financial-management-and-governance-reviews
74 Fraud and irregularity guidance: https://www.gov.uk/guidance/academies-guide-to-reducing-any-risk-of-financial-irregularities
75 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 DfE: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/640051/Charity_Commisison_-_Department_for_Education_-_MOU.pdf

The memorandum of understanding between the Charity Commission and DfE sets out how they work together, both in co-ordinating regulatory operations and formulating policy. DfE has promoted compliance by ensuring information on the role of the PR, coupled with information about academy compliance and trustee responsibilities, is published on GOV.UK.[76]

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 been breached and in such cases shares information with the Charity Commission to facilitate effective investigation. In 2017/18, DfE and Charity Commission officials met regularly to share information relating to ATs and produce internal and external guidance. During this period, there were four instances 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 regional schools commissioners (RSCs) 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
- deciding on applications from LA maintained schools to convert to academy status
- improving underperforming maintained schools by matching them to 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 Funding Agreements with free school projects
- 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 existing academies. Up to four further members can be appointed or co-opted to fill particular skills or expertise gaps. HTB members are responsible for advising (and challenging) their RSC and contributing their local knowledge and professional expertise to aid the RSC's decision-making. Elected members of HTBs hold office for three years. Having been initially established in 2014 a second round of elections were held in September 2017 for the next cohort of elected HTB members, who assumed their positions in November 2017.

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 National Schools Commissioner and the minister.[77]

RSCs use a range of intervention strategies of escalating severity to address underperformance in academies (see figure 21). They carry out their functions within a published national framework.[78] 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.

76 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

77 A complete guide to HTB membership is available in the HTB terms of reference: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/803349/HTB_ToR_March_2019.pdf

78 RSC decision-making framework: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/577885/RSC_decision_making_framework_December_2016.pdf

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

Evaluation
• Evaluating underperformance through scrutinising performance data, Ofsted inspections and other relevant information.

Diagnosis
• Undertaking diagnosis of an academy trust, including discussions and meetings with the trust or sponsor to assess the level and cause of underperformance and to assess the quality of the improvement plan being delivered.

Support
• Brokering additional school-to-school support, which can help academies and sponsors take control of their own improvement.

Warning
• In serious cases of sustained poor academic performance, a formal pre-warning notice or warning notice can be issued, which sets out clearly the improvements that are required and by when.

Intervention
• If improvement does not follow, further action could lead to a stand alone school joining a Multi Academy Trust (MAT), a change of sponsor, changes to MAT arrangements, mergers between academies or ultimately closure.

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 those that have been judged to be inadequate following an Office for Standards in Education, Children's Services and Skills (Ofsted) inspection.

Between 1 August 2017 and 31 July 2018, 13 RSC notices were issued to sponsored academies, five to converter academies, and four to a free school.[79] (Between 1 August 2016 and 31 July 2017, 18 RSC notices were issued to sponsored academies, five to converter academies, two to ATs and one to a free school with no further RSC notices issued in August 2017).

In addition to the following warning notices, there are also minded to terminate letters, and termination warning notices.

79 One further RSC notice was issued during August 2018.

Figure 22: RSC notices issued between 1 August 2017 and 31 July 2018[80]

Pre-warning notices	Warning notices	Termination notices
• 3 to sponsored academies (compared to 2 in 2016/17) • 2 to converter academies (compared to 0 in 2016/17) • 1 to free schools (compared to 0 in 2016/17)	• 0 to sponsored academies (compared to 2 in 2016/17) • 0 to MATs (compared to 1 in 2016/17)	• 1 to a free school (compared to 0 in 2016/17)

DfE publishes letters to ATs about poor performance or weaknesses in safeguarding, governance or financial management online.[81]

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
- serious unresolved concerns with educational impact.

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

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 funding agreement 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, DfE and RSC ensures that this is completed as quickly as possible, with minimum disruption to pupils, so they can benefit from improved standards as soon as possible.

The RSC will only intervene in underperforming LA maintained schools where Ofsted has judged them to be inadequate, at which point RSCs will match these schools with an appropriate academy sponsor. During the year up until 31 July 2018, 148 such schools were identified and issued with an academy.

255 academies moved trusts in the financial year 2017-18. This increased from 196 in 2016-2017. Out of these 255 academies, 61 of these transfers were a result of intervention, 22 of these were a result of sponsor closures, and the remaining 172 transfers were initiated by the outgoing trust.

80 None were issued during August 2018.
81 Letters to ATs about poor performance: https://www.gov.uk/government/collections/letters-to-academies-about-poor-performance

An academy transfer is when an academy moves from its current trust ('the outgoing trust') to another trust ('the incoming trust'). A transfer can only happen with the agreement of the RSC acting on behalf of the Secretary of State for Education. There are a range of reasons for an academy transfer:

- Transfer initiated by the outgoing trust – most academies that transfer between trusts do so based on a decision by the outgoing trust. This might be to ensure stronger school-to-school support or economies of scale (e.g. a single academy trust joining a MAT). It might also be for strategic reasons (e.g. academies moving to MATs that are closer geographically).
- Intervention – a small number of academies transfer each year due to intervention following, for example, an Ofsted inadequate judgement. In such cases, or where there are financial, governance or safeguarding failures, RSCs and the ESFA have the power to terminate funding agreements and transfer the academy into a new trust.
- Sponsor or trust closure – in the rare event that a trust closes, academies in the closing trust must be transferred to a new trust as part of the closure. Academies within a closing trust must be transferred even if they themselves are not otherwise eligible for intervention.[82]

Working with the Education and Skills Funding Agency (ESFA)

RSCs and the ESFA work together to develop a coherent and joined up picture of a trust that considers:

- educational performance (led by RSCs)
- finance (led by ESFA)
- governance (RSCs and ESFA both contribute)

RSCs and ESFA work with members, trustees and leadership teams to:

- build school improvement capacity and financial expertise
- support better resource management
- strengthen governance oversight at leadership and board level

RSCs engage with trusts to ensure strong processes are in place to maintain and improve educational performance. They'll intervene where there is an inadequate Ofsted judgement.

ESFA takes a proportionate, risk-based approach and will intervene if the trust does not comply with the funding agreement and academies financial handbook.

In cases of failure both RSCs and ESFA may issue formal intervention notices. This may require the submission of a:

- trust school improvement plan
- financial recovery plan agreed between the trust and ESFA

RSCs and ESFA work together to build leadership and governance capability in trusts. This involves optional activities such as networks, conferences, and signposting to resources and external organisations.

82 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/726556/Academy_Transfers_and_Funding_2017_to_2018_Text.pdf

National Audit Office

The National Audit Office (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 defines 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.[83]

Since September 2017, the NAO has published the following value for money reports which have relevance for the academies sector:

- **Retaining and developing the teaching workforce**[84] (September 2017) examined the challenges schools face in retaining and developing their teachers.
- **Capital funding for schools**[85] (February 2017) examined DfE's strategy towards capital funding for schools. DfE identified that having enough safe, high quality schools in the right areas is a crucial part of the education system. To achieve this objective, DfE continues to work closely with local authorities and schools.
- **Delivering STEM**[86] (January 2018) examined government's efforts to improve the quality and take-up of science, technology, engineering and mathematics (STEM) skills.
- **Converting maintained schools to academies**[87] (February 2018) examined DfE's approach to conversions, the robustness of the conversion process and the availability of sponsors and MATs to support converting schools.
- **Ofsted's inspection of schools**[88] (May 2018) examined whether Ofsted's approach to inspecting schools is providing value for money.

Public Accounts Committee

Public Accounts Committee (PAC) evidence sessions took place in response to the NAO reports listed above.

Furthermore, during the year, the Permanent Secretary, on behalf of DfE, attended the following Public Accounts Committee (PAC) meetings directly relating to the Sector Annual Report and Accounts.

We have responded to these recommendations of the PAC hearings and are taking appropriate action.

PAC	Evidence session
Academy school sector consolidated accounts 2015/16 Inquiry	29 January 2018
Academy accounts and performance (covering 2016/17 academy school sector consolidated accounts)	21 November 2018

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 DfE.

83 NAO value for money: https://www.nao.org.uk/about-us/our-work/value-for-money-programme/
84 Retaining and developing the teaching workforce: https://www.nao.org.uk/report/supporting-and-improving-the-teaching-workforce/
85 Capital funding for schools: https://www.nao.org.uk/report/capital-funding-for-schools/
86 Delivering STEM: https://www.nao.org.uk/report/delivering-stem-science-technology-engineering-and-mathematics-skills-for-the-economy/
87 Converting maintained schools to academies: https://www.nao.org.uk/report/converting-maintained-schools-to-academies/
88 Ofsted's inspection of schools: https://www.nao.org.uk/report/ofsteds-inspection-of-schools/

The top risks for the academies programme in 2017/18 are:

Multi-Academy Trusts (MATs) and sponsor capacity 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 LA schools, and to take on underperforming academies that are transferred from their previous trusts. 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 high quality MATs has been supported through the MAT Development and Improvement Fund. This has been targeted particularly on building capacity to support underperforming schools and in disadvantaged areas. Regional Schools Commissioners (RSCs) have encouraged high-performing MATs and sponsors to work across and between regions, to help spread capacity.

Intervention and Performance risk: Our objective as we improve our oversight is to minimise the risks of future trust failure to the greatest possible extent. DfE continues to improve the way information and data is shared between operational teams. They work closely together to maintain a single departmental view of trusts of concern based on common information. This strengthens our forecasting and leads to consistently applied joint intervention where necessary. This applies to any failure of education, governance or finance. DfE will continue to make improvements to its scrutiny of trusts' adherence to the accountability framework.

School resource management risk: It is vital that school leaders 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 to help schools reduce costs.

Schools can access practical support for reducing non-staffing spend through collaborative procurement and other strategies such as the Risk Protection Arrangement and a range of recommended deals. Schools in the North West and South West can also receive direct hands–on procurement support through our pilot Buying Hubs.

For help with workforce costs, the Teaching Vacancies Service launched in November 2018 and has now reached national rollout. Free for schools, it aims to reduce, or even eliminate, the £75 million of spend on advertising vacancies. We have since launched a deal to reduce Agency Supply Costs. Participating suppliers have agreed to make their mark-ups transparent, have removed temp-to-perm fees after 12 weeks, and undertake rigorous safeguarding checks.

From January 2018, we have been deploying School Resource Management Advisers (SRMAs) to provide practical support to trusts, and LA-maintained schools. SRMAs are sector experts, and many are practicing school business leaders who are able to provide high quality, independent advice. The role of SRMAs is to help trusts and schools identify how they can improve their use of resources to deliver positive educational outcomes. 72 trusts were visited in the 2017/18 academic year as part of the initial rollout. 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.

In addition, our overall package includes advice on financial planning, and data to support self-assessment such as benchmarking. We are using user research to tailor our future activity to sector needs, and we are improving the impact of our communications by developing a community of sector champions. Further details can be found on page 20 of this report.

Academy Trusts are now expected to carry out three year financial planning and have to submit three year forecasts in their forecast returns to the DfE. These forecasts identify any forthcoming deficits and form the starting point for the ESFA's preventative strategy. The Academies Financial Handbook is kept under continuous review and updated each year.

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.[89]

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
11 July 2019

89 Companies House Website: https://beta.companieshouse.gov.uk/

Remuneration and staff report

Information in this section is reported to meet the requirements of the 2017-18 **Government Financial Reporting Manual (FReM)**[90] and relates to the academic year ending 31 August 2018. 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 2017/18 SARA Accounts Direction, within this report's annexes.

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. 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%. From September 2018 it was recommended that the main pay range and unqualified teachers pay range maxima and minima be increased by 3.5%, with other pay range minima and maxima increasing by between 1.5% and 2%.

DfE does not set the employment and remuneration policies of ATs. Accordingly, in a departure from FReM, DfE has not presented the employment and remuneration policies of the sector as this would imply a greater level of influence by DfE than is actually held. Additionally, there is no single, centralised set of employment and remuneration policies for the sector. To reflect the level of control operated by DfE in this area, DfE has restricted remuneration disclosures in the Accounts Return to bands of remuneration paid, 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[91]

The table overleaf presents a breakdown of the number of trustees who received remuneration and is reported on an actual basis rather than full time equivalent basis. 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 opposite includes salary, bonus payments, benefits-in-kind, and excludes employer pension costs.

90 FReM: https://www.gov.uk/government/publications/government-financial-reporting-manual-2017-to-2018

91 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.

Summary of trustee remuneration

Remuneration bands	2017/18 Number of trustees employed at academy trust	2016/17 Number of trustees employed at academy trust
£1–£60,000	4,326	5,195
£60,001–£70,000	482	654
£70,001–£80,000	400	507
£80,001–£90,000	406	456
£90,001–£100,000	348	373
£100,001–£110,000	310	332
£110,001–£120,000	182	199
£120,001–£130,000	127	123
£130,001–£140,000	69	82
£140,001–£150,000	57	56
£150,001–£160,000	38	31
£160,001–£170,000	21	25
£170,001–£180,000	13	12
£180,001–£190,000	11	13
£190,001–£200,000	9	6
£200,001+	18	16
	6,817	**8,080**

Trustees only receive remuneration for their work in the AT as an employee (such as head teacher, 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 15 to the accounts.

Compensation on early retirement or for loss of office: audited[92]

Staff exit packages : Audited

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

	2017/18			2016/17		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit pacakges agreed	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages agreed
< £10,000	2,078	1,679	**3,757**	1,910	1,755	**3,665**
£10,001 – £25,000	769	897	**1,666**	706	984	**1,690**
£25,001 – £50,000	201	249	**450**	185	323	**508**
£50,001 – £100,000	23	23	**46**	22	19	**41**
£100,001 – £150,000	–	1	**1**	–	2	**2**
Total number of cases	**3,071**	**2,849**	**5,920**	**2,823**	**3,083**	**5,906**
Total cost (£m)	**28**	**34**	**62**	**27**	**37**	**64**

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.

Loss of office payments : Audited

	2017/18			2016/17		
	Accounting Officer	Other Trustee	Total	Accounting Officer	Other Trustee	Total
	Number	Number	Number	Number	Number	Number
Serving at end of year	2	1	**3**	2	–	**2**
Left during year	8	4	**12**	8	5	**13**
Total number of cases	**10**	**5**	**15**	**10**	**5**	**15**

92 Sections of this report which are subject to audit are marked 'Audited'.

Payments to past directors

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

Fair pay disclosure

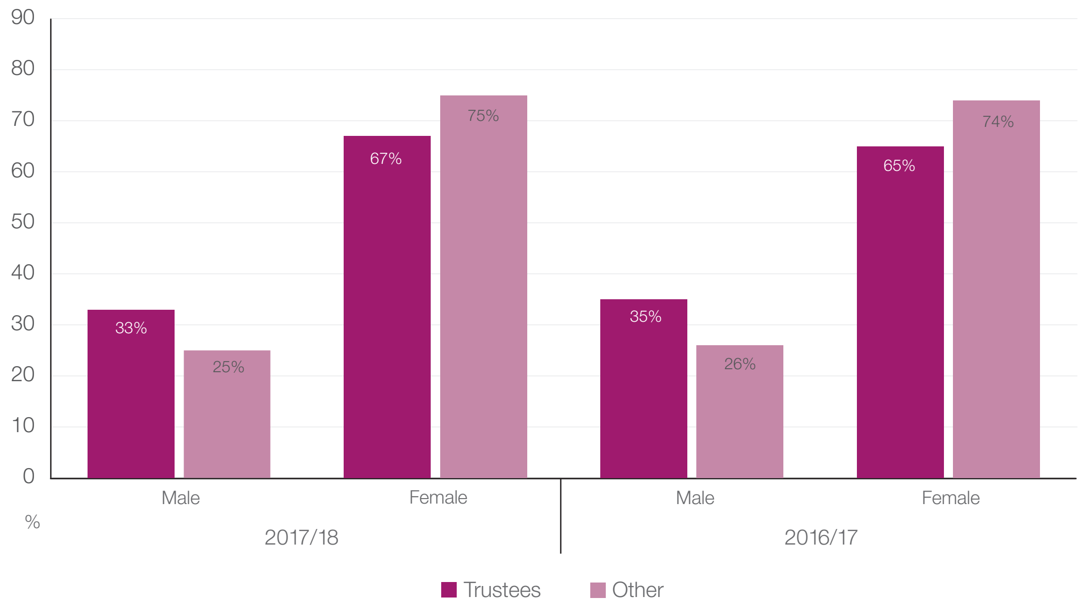
Pay multiples at sector level are not recorded in this document. This information is available at trust level in AT ARAs.

Staff report

Gender of permanent employees

The split of male and female permanent employees at 31 August 2018 is detailed in figure 23 below.

Figure 23: split of male and female employees by Trustees and other



	2017/18			2016/17		
	Male	Female	Total	Male	Female	Total
	Number	Number	Number	Number	Number	Number
Trustees	1,299	2,581	**3,880**	1,760	3,291	**5,051**
Other staff	111,261	329,792	**441,053**	106,962	309,939	**416,901**
	112,560	**332,373**	**444,933**	**108,721**	**313,230**	**421,951**

For 2017/18, the analysis above is directly comparable to the average staff numbers for permanent staff included in the table on page 59 and has been reported on a full time equivalent basis. However, for 2016/17, these figures are not directly comparable and represent permanent staff employed throughout the year to 31 August 2017. Details of the average number of staff employed are included in the table on page 59.

The number of days lost due to sickness absence was 3,147,771 (2016/17: 2,832,253) days. This represents an average of 7.1 days (2016/17: 6.9 days) per year based on permanent staff numbers.

Consultancy and off-payroll arrangements

During the year, the ATs incurred consultancy costs of £201 million (2016/17: £176 million) relating to advisory services.

	2017/18	2016/17
	£m	£m
Educational	166	154
Non-educational	35	23
	201	**176**

During the year, 68 ATs (2016/17: 144 ATs) had off-payroll arrangements, of these nine (2016/17: 10) had such arrangements with trustees. The arrangements with trustees were for interim executive head teacher or chief executive officer services. Details of these arrangements can be found in the individual AT accounts.

Staff costs: audited

			2017/18	2016/17
	Permanently employed staff	Temporary staff	Total	Total
	£m	£m	£m	£m
Salaries	13,076	–	13,076	11,785
Temporary staff costs	–	828	828	736
Social Security	1,233	27	1,260	1,121
Pension costs	2,959	57	3,016	2,588
Severance payments	68	–	68	74
	17,336	**912**	**18,248**	**16,304**
Less recoveries in respect of outward secondments	(1)	–	(1)	(2)
	17,335	**912**	**18,247**	**16,302**

The table above shows an increase of 11.9% in total staff costs, which is broadly consistent with the increase in the number of academies within the sector this year. Furthermore, information on staff pay rises can be found on page 54.

Average staff numbers

	2017/18			2016/17		
	Permanently employed staff	Temporary staff	Total	Permanently employed staff	Temporary staff	Total
	Number	Number	Number	Number	Number	Number
Teachers	208,763	10,767	**219,530**	195,063	10,358	**205,421**
Management	29,356	587	**29,943**	28,526	399	**28,925**
Admin and support	206,814	11,563	**218,377**	188,215	11,135	**199,350**
	444,933	**22,917**	**467,850**	**411,804**	**21,892**	**433,696**

For 2017/18 and 2016/17, ATs have recorded 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 DfE's supply estimate process, which operates on a financial year basis.

The below 'grant tracker' reconciles the grants paid out by DfE (over the 2017-18 and 2018-19 financial years to March), with the amount recognised as grant income in the accounts of the ATs for the 2017/18 academic year to August.

There are two elements to this:

- the revenue grant tracker that looks at the largely formula based funding for schools
- 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 and Sport grant)
- 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 25) includes all academy capital funding issued by DfE. 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)
- funds for structural changes to the academy sector (e.g. capital funding for the free schools programme).

Figure 24: Revenue grant tracker

April 2017 | September 2017 | April 2018 | September 2018 | April 2019

Financial year 2017-18		Financial year 2018-19	
The Departmental Group Grants paid April 2017 – March 2018 £18.82 billion		The Departmental Group Grants paid April 2018 – March 2019 £20.92 billion	
£7.59 billion	£11.23 billion	£8.33 billion	£12.59 billion

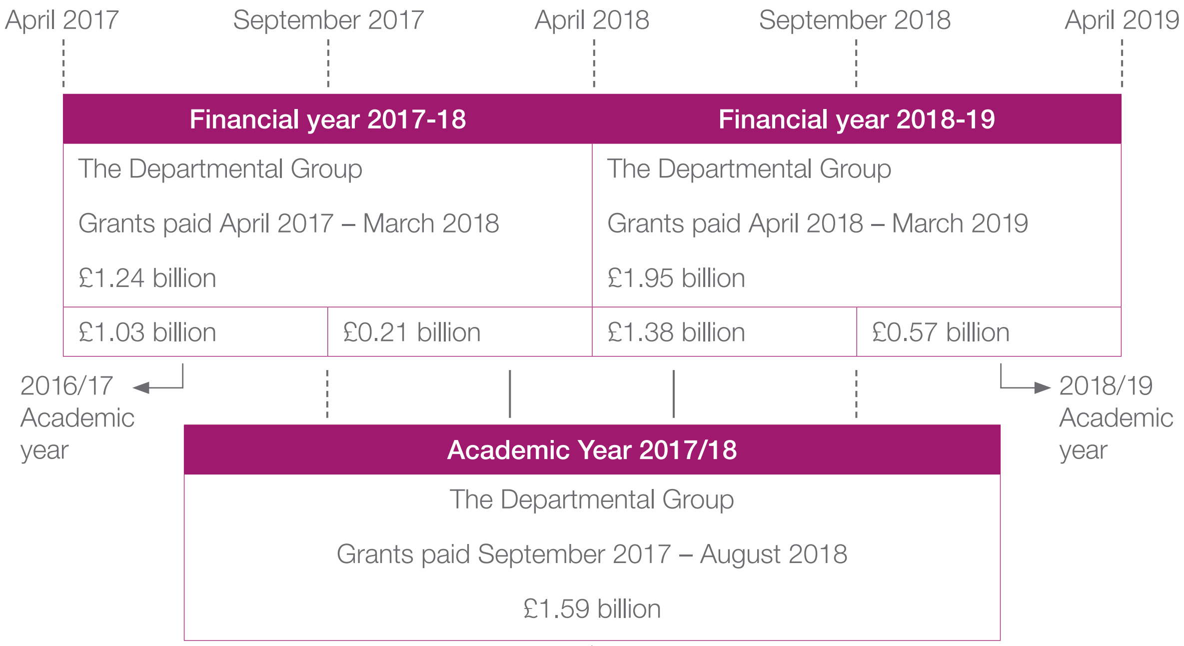
2016/17 Academic year

2018/19 Academic year

Academic Year 2017/18
The Departmental Group
Grants paid September 2017 – August 2018
£19.56 billion

Academic year 2017/18 Revenue Grant Reconciliation	
Grants paid from the Departmental Group to academies	£19.56 billion
Grant income from the Departmental Group reported in the Sector accounts	£19.71 billion
Variance	£0.15 billion
Explained variance	£0.09 billion
Residual (unexplained) variance	£0.06 billion

Figure 25: Capital grant tracker



Academic year 2017/18 Capital Grant Reconciliation	
Grants paid from the Departmental Group to academies	£1.59 billion
Grant income from the Departmental Group reported in the Sector accounts	£1.62 billion
Variance	£0.03 billion
Explained variance	£0.01 billion
Residual (unexplained) variance	£0.02 billion

Losses and special payments[93]: audited

Losses statement

	2017/18	2016/17
Total number of cases	**46**	**32**
	£m	**£m**
Fruitless payments and constructive losses	–	0.2
Claims waived or abandoned	–	0.3
Store losses	0.1	–
Total value	**0.1**	**0.5**

Special payments statement

	2017/18	2016/17
Total number of cases	**1,204**	**1,409**
	£m	**£m**
Ex-gratia	0.1	0.1
Compensation	0.2	0.3
Severance	23.4	24.9
Other	0.4	1.1
Total value	**24.1**	**26.4**

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

There were 22 gifts in 2017/18 with a value less than £0.1 million (2016/17: 14 instances with a value less than £0.1 million).

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
Permanent Secretary
11 July 2019

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

The Certificate of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

I have audited the financial statements of the Academy Schools Sector in England (the Sector) for the year ended 31 August 2018 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 in that report as having been audited.

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 Sector's affairs as at 31 August 2018 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 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 Sector 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 audit evidence available to me was limited because the Department, while able to support the 31 August 2017 and 31 August 2018 land and buildings balances, was unable to provide reliable valuation data at the start of the period, 1 September 2016. My predecessor qualified his opinion on the valuation of Land and Buildings in the 2015/16 accounts, and in the absence of further evidence on the valuation of the estate at that date I am required to qualify the comparatives of these corresponding figures and related movements reported in 2016/17.

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.

Conclusions relating to going concern

I am required to 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 Sector's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. 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. I have nothing to report in these respects.

Responsibilities of the accounting officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Board and the Accounting Officer are 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 Sector's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income 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, but does not include the parts of the Accountability 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. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury accounts directions;
- in the light of the knowledge and understanding of the group and its environment obtained in 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 the 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:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- 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 to be audited are not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Gareth Davies
19 July 2019
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Report of the Comptroller and Auditor General to the House of Commons

This is the third year in which the Department for Education (the Department) has produced Academy Sector Accounts (the SARA). Previously, the accounts of individual academy trusts were consolidated into the Department's own group accounts. This year's Academy Sector Accounts consolidates the individual accounts of the 2,986 academy trusts that were open during the year ended 31 August 2018.

In preparing the Academy Sector Accounts for 2017/18, the Department aimed to resolve the final issues that were giving rise to historic qualifications to the audit opinions on these accounts, leaving only residual qualifications of the comparatives of prior period figures. It has been successful in achieving this, by providing sufficient appropriate evidence that it is correctly calculating a revaluation reserve and restating this in the 1 September 2016 and 31 August 2017 Consolidated Statement of Financial Position balances. This has allowed me to remove the qualifications on the in-year Consolidated Statement of Comprehensive Net Expenditure and closing balance sheet for the first time since the creation of the Academy Sector Accounts.

My predecessor qualified his opinion on the Academy Sector 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 on 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 than those 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. 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. My predecessor also noted 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.

My predecessor then reduced the scope of the qualification of his audit opinion in 2016/17, in response to progress made by the Department. His concerns with the valuation and recognition of land and buildings were addressed during the 2016/17 audit, and corrections were made to the 2016/17 closing position for land and buildings. The Department was, however, unable to restate accurately the prior year (2015/16) figures, or the revaluation reserve. My predecessor was therefore able to reduce the scope of his audit qualification in 2016/17 so that it no longer extended to the recognition and valuation of land and buildings as at 31 August 2017 although he still qualified his opinion in respect of the revaluation reserve, prior year comparatives and the truth and fairness of associated movements.

The Department has provided further evidence over the recognition of land and buildings reported in 2015/16. The Department has reviewed its records and been able to demonstrate that recognition adjustments reported in the 2016/17 accounts of £8.4bn could be accurately backdated and applied to the 2016/17 opening balances. It has therefore restated the 2016/17 opening balance and removed the corresponding in-year recognition adjustment of £8.4bn. As a result, I am satisfied that the restated opening figures are now comparable in this regard with the 2017/18 accounts and the audit qualification on the comparatives at 1 September 2016 no longer extends to the recognition of land and buildings.

The Department has appropriately corrected the revaluation reserve. The Department has reviewed the reliability of historic valuation records, and recalculated and restated the revaluation reserve using these balances. The Department considers that it would not be practicable to create additional historic records to provide further reliable figures, and that it should restate the Academy Sector Accounts revaluation reserve using only reliable valuation data. I am content that this is a reasonable approach, and that there is sufficient appropriate evidence to support the restated revaluation reserve as at 1 September 2016 and 31 August 2017. Revaluations in 2017/18 have also been accurately processed. I have therefore removed the qualification from all years as far as it related to the revaluation reserve.

As planned, the Department has not provided further evidence in respect of the comparative valuation of land and buildings reported in 2015/16. The Department historically held land and buildings information at the academy trust level, rather than the level of individual academy schools. Mergers, conversions and closures of academy trusts since 2015/16 mean that the Department would need to carry out substantial additional work to establish whether, and how, it could adjust previously reported land and buildings balances to correct historical errors. In addition, my predecessor has previously reported concerns with the quality of the Department's valuations prior to creation of the Academy Sector Accounts. The Department did not plan to address these issues for the 2017/18 accounts and has taken the view that it should prioritise timely publication of the accounts, rather than delaying publication and investing additional public resources to undertake the further work that would be needed. In my view this prioritisation is appropriate, but it has required me to qualify my opinion in respect of the land and buildings valuation comparatives at 1 September 2016, and associated movements in 2016/17.

Work to date has been sufficient to remove residual qualifications of my audit opinion on the Academy Sector Accounts next year, but there remains further work for the Department to do. The 2018/19 Academy Sector Accounts will not include the 2016/17 figures which are the subject of my residual qualification of my audit opinion, meaning that no further work is required by the Department to remove this qualification. However, the Academy Sector Accounts are a significant component of the Whole of Government Accounts and further work will be required to remove the qualification of the account with respect to the year ends of the Whole of Government Accounts and Academy Sector Accounts not being coterminous. Further, 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. Further improving the timely publication 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 set out in the December 2016 National Audit Office report, Financial sustainability of schools.

Gareth Davies
19 July 2019
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Financial statements

Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 August 2018	Note	2017/18 £m	2016/17 Restated £m
Operating income			
Income	6	25,275	22,545
Operating expenditure			
Staff costs	7	(18,247)	(16,302)
Other operating expenditure	8	(7,459)	(7,329)
Net operating deficit		**(431)**	**(1,086)**
Net gain on conversion of non-local authority academies	5	154	342
Net gain on conversion of local authority academies	5	3,303	4,193
Surplus for the year		**3,026**	**3,449**
Accounting records adjustment	**2**	**–**	**163**
Adjusted surplus for the year		**3,026**	**3,612**
Other comprehensive expenditure			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property, plant and equipment	3	1,435	2,060
Actuarial gain on defined benefit pension scheme	15	1,829	1,820
Items that may be reclassified subsequently to profit or loss:			
Other recognised gains and losses		3	3
Total other comprehensive income		**3,267**	**3,883**
Total comprehensive income		**6,293**	**7,495**

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

Further details of the restatement can be found in note 2.

The notes on pages 76 to 105 form part of these Accounts.

Consolidated Statement of Financial Position

as at 31 August 2018	Note	2018 £m	2017 Restated £m	2016 Restated £m
Non-current assets				
Property, plant and equipment	3	52,508	46,747	39,840
Intangible assets		5	5	4
Investments	10	88	191	170
Receivables	11	14	22	11
		52,615	**46,965**	**40,025**
Current assets				
Inventories		9	9	10
Receivables	11	1,256	1,236	1,062
Cash and cash equivalents	12	3,889	3,543	3,224
		5,154	**4,788**	**4,296**
Total assets		**57,769**	**51,753**	**44,321**
Current liabilities				
Payables	13	(2,177)	(2,048)	(1,769)
Provisions		(2)	(1)	(2)
		(2,179)	**(2,049)**	**(1,771)**
Total assets less current liabilities		**55,590**	**49,704**	**42,550**
Non-current liabilities				
Payables	13	(158)	(139)	(101)
Provisions		(2)	(5)	(5)
Pension deficit	15	(6,556)	(6,979)	(7,358)
		(6,716)	**(7,123)**	**(7,464)**
Assets less liabilities		**48,874**	**42,581**	**35,086**
Taxpayers' equity				
Charitable Funds		44,935	40,077	34,642
Revaluation Reserve		3,939	2,504	444
		48,874	**42,581**	**35,086**

Jonathan Slater
Permanent Secretary
11 July 2019

Further details of the restatement can be found in note 2.

The notes on pages 76 to 105 form part of these Accounts.

Consolidated Statement of Cash Flows

for the year ended 31 August 2018	Note	2017/18 £m	2016/17 Restated £m
Cash flows from operating activities			
Net operating deficit		(431)	(1,086)
Depreciation and amortisation	3	1,201	1,006
Impairment	3	480	1,335
Increase in receivables	11	(12)	(185)
Increase in payables	13	148	317
Non-cash pension movements	15	1,691	1,413
Employer pension contributions	15	(818)	(696)
PPE donations	3	(797)	(242)
Other non-cash transactions		541	206
Net cash inflow from operating activities		**2,003**	**2,068**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(1,958)	(2,087)
Proceeds of disposal of PPE		92	140
Other movements		19	(7)
Net cash outflow from investing activities		**(1,847)**	**(1,954)**
Cash flows from financing activities			
Cash acquired on conversion of academies	5	157	176
Other movements		33	29
Net cash inflow from financing activities		**190**	**205**
Net increase in cash and cash equivalents in the year	**12**	**346**	**319**
Cash and cash equivalents at the beginning of the year net of overdrafts	**12**	**3,542**	**3,223**
Cash and cash equivalents at the end of the year net of overdrafts	**12**	**3,888**	**3,542**

Further details of the restatement can be found in note 2.

The notes on pages 76 to 105 form part of these Accounts.

Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 August 2018	Note	Revaluation Reserve £m	Charitable Funds £m	2018 Total £m
Balance at 1 September 2017		**2,504**	**40,077**	**42,581**
Surplus for the year		**–**	**3,026**	**3,026**
Other comprehensive income				
Net gain on revaluation of property, plant and equipment	3	1,435	–	1,435
Actuarial gain on defined benefit pension scheme	15	–	1,829	1,829
Fair value gain on investments		–	3	3
Total other comprehensive income		**1,435**	**1,832**	**3,267**
Total comprehensive income for the year		**1,435**	**4,858**	**6,293**
Balance at 31 August 2018		**3,939**	**44,935**	**48,874**

for the year ended 31 August 2017	Note	Revaluation Reserve Restated £m	Charitable Funds Restated £m	2017 Total Restated £m
Balance at 1 September 2016 before restatement		**1,248**	**42,205**	**43,453**
Restatement	**2**	**(804)**	**(7,563)**	**(8,367)**
Balance at 1 September 2016 after restatement		**444**	**34,642**	**35,086**
Surplus for the year		–	3,612	3,612
Other comprehensive income				
Net gain on revaluation of property, plant and equipment	3	2,060	–	2,060
Actuarial gain on defined benefit pension scheme	15	–	1,820	1,820
Fair value gain on investments		–	3	3
Total other comprehensive income		**2,060**	**1,823**	**3,883**
Total comprehensive income for the year		**2,060**	**5,435**	**7,495**
Balance at 31 August 2017		**2,504**	**40,077**	**42,581**

The Charitable Funds represent total assets less liabilities related to the Sector's schools, less unrealised revaluation adjustments to property, plant and equipment (see note 3).

Further details of the restatement can be found in note 2.

The notes on pages 76 to 105 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 this note relate to the overall basis and structure of these accounts.

Statement of compliance

These accounts have been prepared in accordance with the 2017-18 **Government Financial Reporting Manual** (FReM) issued by HM Treasury (HMT) and with the Accounts Direction issued by HMT (annex 4). 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 2017/18 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) based on UK generally accepted accounting policies.

DfE 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 for Education (DfE), 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, DfE 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, DfE has the power to re-broker struggling academies to stronger ATs to maintain provision.

Consequently, DfE 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 the 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.

DfE 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 'DfE' or 'Department' refers to the core Department whilst '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 DfE 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 on-going basis. DfE has specifically made such judgements on recognition of land and buildings, valuation of land and buildings, accounting for capital expenditure and assets under construction 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, DfE 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 Restatement

In 2016/17 DfE undertook significant efforts to address a historic qualification on the recognition, and subsequent valuation, of the land and building assets controlled by the sector.

Whilst the closing 2016/17 valuations of assets were materially accurate, given limitations in the historic accounting records, we were unable to support the closing revaluation reserve given the time available to us.

As a consequence, the NAO qualified their audit opinion with respect to the opening balance and revaluation reserve in the prior year.

We have conducted a review of our accounting records, and in line with **IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors)**, have restated our account to the extent that it is practicable to do so. Our consideration of practicability included:

- the impact of changes to the building standards which significantly altered the cost of replacing existing assets
- refinements to our valuation methodology, particularly with regard to sites which are only partially recognised
- changes to our valuation strategy, particularly with regard to phased completion of assets under construction on the estate.

We have concluded that the scale of these changes across the period since 2011/12 means that it is impracticable to restate the revaluation reserve back to this point. We consider that asset valuations procured since 31/3/15 are sufficiently reliable and consistent to enable us to calculate revaluation movements in line with **IAS 16 (Property, Plant and Equipment)**.

The principal impacts of this approach are:

- movements on assets valued before 31/3/15 are recognised in the SoCNE, and not the revaluation reserve
- future impairments to these assets are more likely to be taken to the SoCNE as the revaluation reserve will be lower
- future revaluation gains on impaired assets are more likely to be taken to a revaluation reserve, as the valuation adjustment is not considered an impairment.

In doing this DfE has balanced the relatively low risk of a sector wide impairment of assets, against the benefit of providing reliable and robust data going forward. Further details of the adjustment can be found in note 2 of the account.

1.6 Early adoption

The sector has not early adopted any accounting standards in 2017/18. Details on the date of adoption of IFRS 15 and IFRS 9 are provided in notes 6 and 9 respectively.

2. Restatement

Summary

The SARA accounts have made one restatement to comparative figures as detailed below. The tables that follow reconcile the affected primary statements from those statements published as part of the 2016/17 Sector Annual Report and Accounts to those included as comparatives in this Sector Annual Report and Accounts.

Adjustment: Restatement of Property, Plant and Equipment (PPE) and associated movements

From the 2011-12 classification decision on the Academy Sector, first the Departmental Group and then the Sector Annual Report and Accounts carried a qualification on the PPE assets specifically in relation to land and buildings. Since the SARA accounts were first published in 2015/16 significant amounts of work have been undertaken to address this qualification and improve the quality of the accounts including:

- establishing accounting policies to recognise assets given the complex nature of the sector estate
- developing a Land and Buildings Collection Tool (LBCT) to enable us to gather the documentary evidence to fully support our recognition of land and building assets
- enhancing and refining our valuation methodology and strategy to ensure the sector's assets are correctly valued in line with accounting standards

These improvements to our processes and policies culminated in a clean audit opinion for the first time on the closing 2016/17 assets valuation.

Whilst the closing valuation of assets was materially accurate, the limitations in the historic accounting records and the time available to us to investigate these in 2016/17, resulted in two significant accounting entries. Firstly, as we had not been able to attribute the period in which assets should first have been derecognised, in part or in full, we elected to post the adjustment of £8.3bn as a movement in 2016/17. Secondly, we were unable to support the allocation of valuation movements between the SoCNE and the revaluation reserve and consequently we reduced the revaluation reserve to nil. These adjustments resulted in a qualification over the opening balance along with the revaluation reserve and the associated valuation movements that contribute to the reserve's closing balance. At the time DfE committed to work with NAO to identify the extent to which it would be practicable to restate the opening balances to address this qualification.

We have now completed a review of accounting records, including the detail of valuations from 2011/12 onwards in order to ascertain whether they include sufficient detail to restate the asset valuation and the associated reserves consistently.

We have further considered the impact as a result of changes made during this period on the reliability of these records especially with respect to:

- the building standards which significantly altered the cost of replacing existing assets
- substantial enhancements to our valuation methodology, particularly with regards to sites which are only partially recognised and the introduction of component level calculations
- changes to our valuation strategy, particularly with regards to phased completion of assets under construction on the estate

We have concluded due to the scale of the changes required, that only more recent valuations conducted by our professional valuers from 31 March 2015 can been deemed to be reliable for the purposes of performing a restatement.

We considered whether it would be possible to commission retrospective valuations, or to otherwise recreate the valuation prior to this date. We have concluded that it is not possible to do so for a number of reasons. First, we would be unable to avoid using subsequent trends in pupil numbers to determine the service potential of the asset. This knowledge would directly bias the estimate of service potential affecting the revaluation reserve. Second, data around ownership, the condition of sites and the components making up a site was not gathered and so causes uncertainty over what assets were present in a location. Combined with the significant change in building standards referred to above, we feel that we cannot recreate the valuation we would have thought appropriate at the time, that is free from the bias of subsequent information.

The actions taken to restate the accounts are as follows:

- the de-recognition adjustment (£8.3 billion) is now accounted for at the opening balance in land and buildings in 2016/17 which we have demonstrated with time is materially accurate and reflected the nature of ownership for Academies at that point
- for assets valued before 31 March 2015, any adjustment to their value required by their first reliable valuation is taken to the SoCNE – this has been recognised in the accounting records adjustment line (£0.2 billion for 2016/17)
- for all other valuation adjustments occurring after 31 March 2015, these have been treated in line with IAS 16 and fully restated (per note 3)

Therefore, in line with IAS 16, any impairment to the asset is taken to the SoCNE and any revaluation gain is taken to before the revaluation reserve.

Had it been practicable to restate in full, we expect that the revaluation reserve would have been higher and therefore more of any subsequent impairments would have been taken against this reserve rather than the SoCNE. We are aware that by having a lower revaluation reserve there is the potential for greater volatility through the SoCNE. For factors which may affect this volatility please see valuation methodology included in note 3.

2016/17 Consolidated Statement of Comprehensive Net Expenditure	Note	Originally presented £m	Revaluation restatement adjustment £m	Restated £m
Operating income				
Income	6	22,545	–	22,545
Operating expenditure				
Staff costs	7	(16,302)	–	(16,302)
Other operating expenditure	8	(8,497)	1,168	(7,329)
Net operating deficit		**(2,254)**	**1,168**	**(1,086)**
Net gain on conversion of non-local authority academies	5	342	–	342
Net gain on conversion of local authority academies	5	4,193	–	4,193
Surplus for the year		**2,281**	**1,168**	**3,449**
De-recognition adjustment		**(8,367)**	**8,367**	**–**
Accounting records adjustment		**–**	**163**	**163**
Adjusted (deficit)/surplus for the year		**(6,086)**	**9,698**	**3,612**
Other comprehensive expenditure				
Items that will not be reclassified subsequently to profit or loss:				
Gain on revaluation of property, plant and equipment	3	3,391	(1,331)	2,060
Actuarial gain on defined benefit pension scheme	15	1,820	–	1,820
Items that may be reclassified subsequently to profit or loss:				
Other recognised gains and losses		3	–	3
Total other comprehensive income		**5,214**	**(1,331)**	**3,883**
Total comprehensive (expenditure)/income		**(872)**	**8,367**	**7,495**

2017 Consolidated Statement of Financial Position	Note	Originally presented £m	Revaluation restatement adjustment £m	Restated £m
Non-current assets				
Property, plant and equipment	3	46,747	–	46,747
Intangible assets		5	–	5
Investments	10	191	–	191
Receivables	11	22	–	22
		46,965	**–**	**46,965**
Current assets			**–**	
Inventories		9	–	9
Receivables	11	1,236	–	1,236
Cash and cash equivalents	12	3,543	–	3,543
		4,788	**–**	**4,788**
Total assets		**51,753**	**–**	**51,753**
Current liabilities			–	
Payables	13	(2,048)	–	(2,048)
Provisions		(1)	–	(1)
		(2,049)	**–**	**(2,049)**
Total assets less current liabilities		**49,704**	**–**	**49,704**
Non-current liabilities			**–**	
Payables	13	(139)	–	(139)
Provisions		(5)	–	(5)
Pension deficit	15	(6,979)	–	(6,979)
		(7,123)	**–**	**(7,123)**
Assets less liabilities		**42,581**	**–**	**42,581**
Taxpayers' equity			**–**	
Charitable Funds		42,581	(2,504)	40,077
Revaluation Reserve		–	2,504	2,504
		42,581	**–**	**42,581**

The 2016/17 opening PPE balance before restatement was £48,207 million and has been reduced by a £8,367 million restatement to £39,840 million. More detail on the restated PPE balances can be found in note 3.

The 2016/17 opening charitable funds balance before restatement was £42,205 million and has been reduced by a £7,563 million restatement to £34,642 million. The 2016/17 opening revaluation reserve balance before restatement was £1,248 million and has been reduced by a £804 million restatement to £444 million.

2016/17 Consolidated statement of cash flows	Note	Originally presented £m	Revaluation restatement adjustment £m	Restated £m
Cash flows from operating activities				
Net operating deficit		(2,254)	1,168	(1,086)
Depreciation and Amortisation	3	1,006	–	1,006
Impairment	3	2,503	(1,168)	1,335
Increase in receivables	11	(185)	–	(185)
Increase in payables	13	317	–	317
Non-cash pension movements	15	1,413	–	1,413
Employer pension contributions	15	(696)	–	(696)
PPE donations	3	(242)	–	(242)
Other non-cash transactions		206	–	206
Net cash inflow from operating activities		**2,068**	**–**	**2,068**
Cash flows from investing activities				
Purchase of property, plant and equipment	3	(2,087)	–	(2,087)
Proceeds of disposal of PPE		140	–	140
Other movements		(7)	–	(7)
Net cash outflow from investing activities		**(1,954)**	**–**	**(1,954)**
Cash flows from financing activities				
Cash acquired on conversion of academies	5	176	–	176
Other movements		29	–	29
Net cash inflow from financing activities		**205**	**–**	**205**
Net increase in cash and cash equivalents in the year	**12**	**319**	**–**	**319**
Cash and cash equivalents at the beginning of the year net of overdrafts	**12**	**3,223**	**–**	**3,223**
Cash and cash equivalents at the end of the year net of overdrafts	**12**	**3,542**	**–**	**3,542**

Consolidated Statement of Changes in Taxpayers' Equity for the year ended 31 August 2017

	Note	Originally presented: Revaluation Reserve £m	Revaluation restatement adjustment £m	Restated Revaluation Reserve £m	Originally presented: Charitable Funds £m	Revaluation restatement adjustment £m	Restated Charitable Funds £m	Restated Total Funds £m
Balance at 1 September 2016		1,248	(804)	444	42,205	(7,563)	34,642	35,086
(Deficit)/surplus for the year		–	–	–	(6,086)	9,698	3,612	3,612
Other comprehensive income								
Net gain on revaluation of property, plant and equipment	3	3,391	(1,331)	2,060	–	–	–	2,060
Actuarial gain on defined benefit pension scheme	15	–	–	–	1,820	–	1,820	1,820
Fair value gain on investments		–	–	–	3	–	3	3
Total other comprehensive income/(expenditure)		3,391	(1,331)	2,060	1,823	–	1,823	3,883
Total comprehensive income/(expenditure) for the year		3,391	(1,331)	2,060	(4,263)	9,698	5,435	7,495
Movements in reserves								
Other movements		–	–	–	–	–	–	–
Accounting records adjustment		(4,639)	4,639	–	4,639	(4,639)	–	–
Balance at 31 August 2017		–	2,504	2,504	42,581	(2,504)	40,077	42,581

3. Property, plant and equipment

2017/18	2018 Land and buildings £m	2018 Leasehold Improve'ts £m	2018 IT Equipment £m	2018 Plant and Machinery £m	2018 Furniture and Fittings £m	2018 Motor Vehicles £m	2018 AuC £m	2018 Total £m
Cost or valuation								
At 1 September 2017	44,213	431	1,213	184	1,270	38	1,452	48,801
Additions	566	82	134	12	178	4	982	1,958
Acquired on conversion[94]:								
LA	3,345	–	10	7	15	1	191	3,569
Non-LA	371	–	2	1	3	–	(94)	283
Donations	773	3	2	1	5	–	13	797
Disposals	(523)	–	(32)	(15)	(18)	(1)	(32)	(621)
Revaluations	754	–	–	–	–	–	–	754
Impairment charge	(473)	(6)	–	–	(1)	–	–	(480)
Reclassifications	1,303	16	4	1	9	–	(1,333)	–
Transferred to Departmental Group	-	–	–	–	–	–	(59)	(59)
At 31 August 2018	**50,329**	**526**	**1,333**	**191**	**1,461**	**42**	**1,120**	**55,002**
Depreciation								
At 1 September 2017	(183)	(84)	(937)	(92)	(734)	(24)	–	(2,054)
Charged in year	(820)	(29)	(159)	(16)	(170)	(5)	–	(1,199)
Disposals	23	10	29	3	12	1	–	78
Revaluations	681	–	–	–	–	–	–	681
Reclassifications	-	–	–	–	–	–	–	–
At 31 August 2018	**(299)**	**(103)**	**(1,067)**	**(105)**	**(892)**	**(28)**	**–**	**(2,494)**
Carrying value as at:								
1 September 2017	**44,030**	**347**	**276**	**92**	**536**	**14**	**1,452**	**46,747**
31 August 2018	**50,030**	**423**	**266**	**86**	**569**	**14**	**1,120**	**52,508**

94 For more detail please refer to note 5 – Transfer on conversion

2016/17	2017 Land and buildings Restated £m	2017 Leasehold Improve'ts Restated £m	2017 IT Equipment £m	2017 Plant and Machinery £m	2017 Furniture and Fittings £m	2017 Motor Vehicles £m	2017 AuC £m	2017 Total Restated £m
Cost or valuation								
At 1 September 2016	37,195	348	1,080	169	1,100	35	1,662	41,589
Additions	470	100	142	14	142	4	1,215	2,087
Acquired on conversion[95]								
LA	4,634	–	20	3	33	1	38	4,729
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	1,601	–	–	–	–	–	–	1,601
Impairment charge	(1,332)	–	(1)	–	(3)	–	1	(1,335)
Reclassifications	1,468	17	3	2	8	–	(1,498)	–
Transferred to ESFA	–	–	–	–	–	–	(87)	(87)
Accounting records adjustment	50	–	–	–	–	–	–	50
At 31 August 2017	**44,213**	**431**	**1,213**	**184**	**1,270**	**38**	**1,452**	**48,801**
Depreciation								
At 1 September 2016	(197)	(60)	(802)	(75)	(595)	(20)	–	(1,749)
Charged in year	(639)	(27)	(167)	(18)	(149)	(5)	–	(1,005)
Disposals	80	4	32	1	10	1	–	128
Revaluations	459	–	–	–	–	–	–	459
Reclassifications	1	(1)	–	–	–	–	–	–
Accounting records adjustment	113	–	–	–	–	–	–	113
At 31 August 2017	**(183)**	**(84)**	**(937)**	**(92)**	**(734)**	**(24)**	**–**	**(2,054)**
Carrying value as at:								
1 September 2016	**36,998**	**288**	**278**	**94**	**505**	**15**	**1,662**	**39,840**
31 August 2017	**44,030**	**347**	**276**	**92**	**536**	**14**	**1,452**	**46,747**

95 For more detail please refer to note 5 – 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 short-leasehold and the terms of the lease are such that It meets the **IAS 17: Leases** definition of a finance lease.
- 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

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. This adjustment did 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 DfE judges the economic benefit of occupation to flow to the sector.

The future impact of **IFRS 16 Leases** is considered further in note 14.

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. DfE used Montagu Evans LLP as their professional surveyors for 2017/18. For 2016/17 and 2015/16 DfE used Kier Services Ltd. Both firms conduct valuations in accordance with the Royal Institute of Chartered Surveyors' (RICS) Appraisal and Valuation Manual and DfE's Building Bulletin 103 and Building Bulletin 104.

Valuations are conducted when:

- a new academy is opened
- an asset under construction is completed and becomes operational
- an Academy Trust reports a significant addition or disposal
- where none of the above apply, sites are valued at least once every five years in accordance with **IAS 16, PPE** and **IFRS 13, Fair Value Measurement**.
- In accordance with the accounting policies selected by DfE, the sector re-values land and buildings at least every five years. Between quinquennial revaluations asset values are updated using indices.
- Buildings are indexed using the Office for National Statistics 'Interim construction output prices: new work'.
- Land values are indexed, using the HPI residential land index issued by LSL Acadata.

DfE 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.

In 2016/17 DfE significantly brought forward the valuation of land and buildings to address the historical qualifications and to reach a consistently applied policy for the 2016/17 closing balance sheet.

The result of this is that 65% of the sites making up the 2017/18 closing land and building assets balance have been valued in the last 2 years and 88% have been valued in the last 3 years.

In addition to this this has created higher impairment and revaluation movements than would otherwise occur and a non-recurring accounting records adjustment taken through the SoCNE.

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 current and forecasted pupils educated in the school
- the geographic location of the school
- the school phase (e.g. primary or secondary)
- 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 3. 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 in areas away from the main settlement (e.g. agricultural/industrial land). The feasibility of locating an equivalent asset away from the current site will be dependent on the stage of the school, which is linked to the size of the catchment area and the potential ability to relocate the school whilst serving the same population. Whilst no 'floor' price is applied, the use of a matrix of land values, based on historical market activity for both residential and commercial land within approximately 300 Local Authority areas results in the smoothing of land values meaning excessively low or high values do not occur
- 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
- 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

Physical obsolescence is primarily calculated through estimating the decade of construction of an academy. An obsolescence rate is 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 DfE'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 five years of an academy's operation.

At each year-end management consider if there are any indications that land and building assets have suffered an impairment loss. In 2017/18 this consideration identified no indications of significant impairment. The impairment charge of £473 million recognised against land and buildings in 2017/18 relates to the professional revaluation of AUC at the point of transfer to land and buildings.

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 6 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.

Donated assets

The material donations within the account represent school sites donated by Local Authorities to Academies, normally under 125 year lease terms. Where these have not previously been recognised by the SARA, e.g. through our assets under construction programme, they are recognised at the value of the asset recognised in the Academy account and then revalued in line with DfE's valuation policy.

Other asset classes

For other classes of assets, individual academy trusts 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 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

4. Related party transactions

Related parties for the sector include both DfE and the management of DfE, 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 DfE and the sector is considered in the Grant Trackers included in the accountability section of the annual report at page 61. The relationship between management of DfE and the sector have been disclosed in the ARA for DfE.[96]

The following tables shows 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
- trustees (or trustees' family members) providing services to the trust.

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

	2017/18	2017/18	2016/17	2016/17
	Number of related party transactions	Payments to related parties	Number of related party transactions	Payments to related parties
Payments to related parties	Number	£m	Number	£m
£1 to £50,000	2,036	22	2,009	22
£50,001 to £100,000	191	14	202	14
£100,001 to £200,000	94	14	103	14
£200,001 to £250,000	13	3	23	5
£250,001+	56	53	62	79
	2,390	**106**	**2,399**	**134**

	2017/18	2017/18	2016/17	2016/17
	Number of related party transactions	Payments from related parties	Number of related party transactions	Payments from related parties
Receipts from related parties	Number	£m	Number	£m
£1 to £50,000	786	9	775	9
£50,001 to £100,000	123	9	127	9
£100,001 to £200,000	82	12	76	12
£200,001 to £250,000	24	5	22	4
£250,001+	86	104	74	71
	1,101	**139**	**1,074**	**105**

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, academies investigation reports.[97]

96 https://www.gov.uk/government/publications/dfe-consolidated-annual-report-and-accounts-2016-to-2017
97 https://www.gov.uk/government/collections/academies-investigation-reports

5. Transfer on conversion

	2017/18 LA £m	2017/18 Non-LA £m	2017/18 Total £m	2016/17 LA £m	2016/17 Non-LA £m	2016/17 Total £m
Non-current assets						
Property, plant and equipment	3,569	283	3,852	4,729	358	5,087
Intangible assets	–	–	–	–	–	–
Investments	–	–	–	6	–	6
Other	1	1	2	1	–	1
	3,570	**284**	**3,854**	**4,736**	**358**	**5,094**
Current assets						
Inventories	–	–	–	–	–	–
Receivables	113	2	115	13	17	30
Cash and cash equivalents	130	27	157	165	11	176
	243	**29**	**272**	**178**	**28**	**206**
Current liabilities						
Payables	(11)	(106)	(117)	(15)	(1)	(16)
	(11)	**(106)**	**(117)**	**(15)**	**(1)**	**(16)**
Non-current liabilities						
Payables	(16)	(4)	(20)	(25)	–	(25)
Pension scheme deficit	(483)	(48)	(531)	(681)	(43)	(724)
Provisions	–	(1)	(1)	–	–	–
	(499)	**(53)**	**(552)**	**(706)**	**(43)**	**(749)**
Net assets transferred on conversion – Total	**3,303**	**154**	**3,457**	**4,193**	**342**	**4,535**

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, etc.) the assets and liabilities of the school will be transferred at carrying value 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.

6. Income

	2017/18	2016/17
	£m	£m
Grant income		
DfE Group revenue grants income:		
General annual grant	17,977	16,382
Pupil premium grant	1,011	896
Other DfE Group revenue grants	726	608
Other revenue grants:		
Local Authority Special Educational Needs grants	729	550
Other Local Authority revenue grants	532	446
Other grants	84	79
Revenue grant income:	**21,059**	**18,961**
DfE Group capital grants	1,619	1,773
Local Authority capital grants	145	140
Other capital grants	9	15
Capital grant income	**1,773**	**1,928**
Non-grant income		
Income from activities for generating funds	461	427
Catering income	329	180
Capital donations	782	179
Revenue donations	220	186
Rental income	140	124
Investment income	9	11
Miscellaneous income	502	549
Other income	**2,443**	**1,656**
	25,275	**22,545**

Accounting Policy: Income

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

Operating income is income which relates directly to the operating activities of the sector, and 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 DfE (and the ESFA) recorded by the sector and expenditure on the sector recorded by DfE and the ESFA. The Grant Tracker can be found on pages 61 and 62.

Future Developments in Financial Reporting

IFRS 15 – Revenue from Contracts with Customers, will become effective for accounting periods beginning on or after 1st January 2018. 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. Furthermore, 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.

7. Staff costs

	2017/18	2016/17
	£m	£m
Salaries	13,076	11,785
Temporary staff costs	828	736
Social security	1,260	1,121
Pension costs	3,016	2,588
Severance payments	68	74
	18,248	**16,304**
Less recoveries in respect of outward secondments	(1)	(2)
	18,247	**16,302**

Staff numbers and further disclosures relating to staff costs are included within the Staffing Report in the Accountability Section.

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.[98] 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.[99]

98 For further details, please see the Staffing Report.

99 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/811261/Academies_Financial_Handbook_2019.pdf, Page 33

8. Other operating expenditure

	2017/18 £m	2016/17 Restated £m
Educational supplies	656	619
Building maintenance and repair costs	583	527
Premises costs including rates and service charges	562	492
Catering costs	509	427
Consultancy and other professional fees	391	338
IT and telecommunications costs	314	269
Utilities	320	269
Exam fees	222	206
Staff related costs	195	197
Remuneration of academy auditors:		
Audit fees	34	33
Non-audit fees	3	10
Other expenditure	1,536	1,425
Non-cash items		
Depreciation and amortisation	1,201	1,006
Impairment	480	1,335
Loss on disposal	453	166
Other non-cash expenditure	–	10
	7,459	**7,329**

Included in the prior year within Impairment within Non-cash items was £1.3 billion of impairment resulting from a significant number of valuations commissioned across the sector in the prior year. DfE 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 combined with the lack of existing revaluation reserve to offset impairments against has caused volatility within the impairment balances presented in this note.

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 £490,000 (2016/17: £530,000) for the audit of this ARA. This is not reported in the values above.

9. Financial instruments

9.1 Financial assets by category

	2018	2018	2018	2018	2017
	Cash and cash equivalents	Loans and receivables held at amortised cost	Designated at fair value through SoCNE	Total	Total
	£m	£m	£m	£m	£m
Investments	–	–	88	88	191
Receivables	–	1,270	–	1,270	1,258
Cash	3,889	–	–	3,889	3,543
	3,889	**1,270**	**88**	**5,247**	**4,992**

9.2 Financial liabilities by category

	2018	2017
	£m	£m
Loans	142	108
Other payables, excluding accruals	1,284	1,419
	1,426	**1,527**

All financial liabilities are carried at amortised cost.

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 assets are classified as appropriate as loans and receivables; available-for-sale; 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.

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 become effective for accounting periods beginning on or after 1st January 2018. 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**.

DfE 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 relatively low risk of impairment. We therefore also expect the impact of changes to classification to have little impact.

10. Investments

	2018 Investments at cost £m	2018 Investments at fair value £m	2018 Total £m	2017 Total £m
1 September	**17**	**174**	**191**	**170**
Additions	4	42	46	46
Acquired on conversion:				
LA	–	–	–	6
Non-LA	–	–	–	–
Disposals	(9)	(51)	(60)	(31)
Other reclassifications and fair value adjustments	–	(89)	(89)	–
Balance at 31 August	**12**	**76**	**88**	**191**

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

Included in the other reclassifications and fair value adjustments is £87 million of cash deposits that have been reclassified to the cash and cash equivalents note.

11. Receivables

	2018 £m	2017 £m
Amounts falling due within one year:		
Trade receivables	107	99
VAT receivable	261	249
Accrued capital grants	187	222
Prepayments and other accrued income	594	524
Other receivables	107	142
Total receivables falling due within one year	**1,256**	**1,236**
Amounts falling due after more than one year:		
Receivables due after more than one year	14	22
Total receivables due after more than one year	**14**	**22**
Total receivables	**1,270**	**1,258**

12. Cash and cash equivalents

	2018 £m	2017 £m
Cash and cash equivalents in Statement of Financial Position		
Balance at 1 September	3,543	3,224
Acquired on conversion	157	176
Net change excluding conversions	189	143
Balance at 31 August	**3,889**	**3,543**
Cash and cash equivalents in Statement of Cash Flows		
Cash at bank and in hand	3,889	3,543
Overdrafts	(1)	(1)
Balance at 31 August	**3,888**	**3,542**

Included in the above is £59 million in relation to amounts held for third parties (31 August 2017: £115 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.

Net change excluding conversions also includes the reclassification of £87 million of cash deposits reclassified from investments.

13. Payables

	2018 £m	2017 £m
Amounts falling due within one year:		
Accruals and other deferred income	909	810
Trade payables	565	540
Tax and social security payables	300	268
Loans	26	27
Other payables	377	403
Total payables due within one year	**2,177**	**2,048**
Amounts falling due after more than one year:		
Loans	116	81
Accruals and other deferred income	–	19
Other payables	42	39
Total payables due after more than one year	**158**	**139**
Total payables	**2,335**	**2,187**

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

14. Capital and other commitments

14.1 Capital and other non-lease commitments

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

	2018 £m	2017 £m
Property, plant and equipment	344	407
Non-cancellable contracts	34	53
	378	**460**

14.2 Commitments under leases

Operating leases[100]

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

	2018 £m	2017 £m
Land and buildings		
Not later than one year	148	118
Later than one year and not later than five years	563	439
Later than five years	1,691	1,448
	2,402	**2,005**
Other		
Not later than one year	68	72
Later than one year and not later than five years	102	127
Later than five years	44	122
	214	**321**

Included in the table above is £2,021 million (2016/17: £898 million) in respect of service concession arrangements on PFI contracts. These obligations are primarily recharges owed to local authorities who are the legal parties to the relevant PFI deals.

Finance leases

Total commitments under finance leases have an aggregate liability of £5 million (2016/17: £15 million).

100 The operating lease commitments note now includes obligations relating to PFI service costs. These were previously presented separately. Management believe this presentation better reflects the substance of the transaction which is that these are lease agreements between an academy trust and a local authority with the local authority holding the PFI contract and being the legal party in the PFI transaction.

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, DfE has not yet quantified the full impact. DfE assesses the likely impact to be the following:

- we anticipate that the majority of leased assets reported in Note 14.2 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 2017/18 (as we do not consider these to be recognisable under IAS 16), as detailed in note 3
- as FRS 102 does not place an obligation on ATs to apply the recognition criteria used by IFRS 16, DfE will need to collate appropriate data and develop a suitable accounting treatment within SARA in order to comply with IFRS 16 for plant and equipment other than land and buildings, which are currently treated as operating leases.

15. Pension scheme disclosures

15.1 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 2016 and was published by DfE in April 2019. Subsequently, the employer contribution rate will be increased from 16.48% to 23.68% on 1 September 2019. These rates include a levy of 0.08% to cover administration expenses which was introduced from 1 September 2015.

The formal actuarial valuation report and supporting documentation can be found on the Teachers' Pension Scheme website.[101]

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.

101 https://www.teacherspensions.co.uk/news/employers/2019/04/teachers-pensions-valuation-report.aspx

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. Whilst 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 DfE. The guarantee came into force on 18 July 2013.

Employers' contributions for 2017/18 were £818 million (2016/17: £696 million). The agreed contribution for future years ranges from 13.0% to 30.2% 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.

15.2 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.

	2018	2017
	£m	£m
At 1 September	6,979	7,358
Net liabilities assumed on conversion	531	724
Current service cost	1,501	1,252
Employee contributions	–	–
Employer contributions	(818)	(696)
Benefits paid	–	–
Past service cost	6	6
Net finance cost	181	155
Settlements	–	(3)
Curtailments	3	3
Pension scheme administration costs	2	–
Actuarial gain	(1,829)	(1,820)
At 31 August	**6,556**	**6,979**

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
- employer contributions which decrease 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. The actual rate of employer contributions is determined as part of a funding valuation using different assumptions.

Employer contributions reflect amount paid in by academy trusts during the year. Employer contributions reduce the outstanding net pensions liability.

An analysis of the in-year movement in LGPS gross obligations and gross assets are provided in notes 15.3 and 15.4. 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
- 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.

15.3 Movements in the present value of LGPS gross liability

	2018	2017
	£m	£m
At 1 September	15,236	13,563
Liabilities assumed on conversion:		
Local Authority	966	1,139
Non-local Authority	115	69
Current service cost	1,501	1,252
Interest cost	409	310
Employee contributions	231	198
Past service cost	6	6
Actuarial gain	(1,567)	(1,187)
Benefits paid	(138)	(117)
Unfunded benefits paid	–	–
Losses on curtailments	3	3
At 31 August	**16,762**	**15,236**

15.4 Movements in the fair value of LGPS scheme assets

	2018 £m	2017 £m
At 1 September	8,257	6,205
Assets transferred on conversion:		
Local Authority	483	458
Non-local Authority	67	26
Employer contributions	818	696
Employee contributions	231	198
Actuarial gain	262	633
Benefits paid	(138)	(117)
Interest income	228	155
Assets transferred on scheme settlements	4	(2)
Pension scheme administration costs	(2)	–
Effect of non-routine settlements	(4)	5
At 31 August	**10,206**	**8,257**

15.5 Scheme assets

	2017/18 %	2016/17 %
Equities	64	65
Corporate bonds	9	10
Property	9	8
Gilts	8	6
Cash and other liquid assets	4	4
Other	6	7
	100	**100**

15.6 Analysis of non-interest costs charged to SoCNE

	2017/18 £m	2016/17 £m
Current service cost	1,501	1,252
Past service cost	6	6
Loss on curtailments and settlements	3	3
Loss on transfer of assets on scheme settlements	(4)	2
Pension scheme administrative costs	2	–
Net cost	**1,508**	**1,263**

15.7 Analysis of interest costs charged to SoCNE

	2017/18	2016/17
	£m	£m
Interest income	(228)	(155)
Interest on scheme liabilities	409	310
Net cost	**181**	**155**

15.8 Analysis of amounts in other comprehensive expenditure

	2017/18	2016/17
	£m	£m
Total actuarial gain	(1,829)	(1,820)
Net cost	**(1,829)**	**(1,820)**

15.9 Major financial assumptions

	2017/18	2016/17
Rate of Inflation	0.1% – 5.5%	0.4% – 4.2%
Rate of increase in salaries	0.2% – 5.1%	1.0% – 4.4%
Discount rate	1.7% – 5.9%	1.7% – 5.9%
Rate of increase of pensions in payment	0.0% – 3.8%	0.4% – 4.2%
Average future life expectancies:		
Current pensioners: males	21 – 26	20 – 27
Current pensioners: females	23 – 28	22 – 29
Future pensioners retiring in 20 years: males	22 – 29	21 – 28
Future pensioners retiring in 20 years: females	24 – 29	22 – 29

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.

15.10 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 considering the sensitivity for each AT and then aggregating these.

Assumption	Illustrative change in assumption	Illustrative change in assumption
Discount rate	+/- 0.1%	+/- £380m
CPI inflation (and associated pension increases and salary growth)	+/- 0.1%	+/- £380m
Salary growth	+/- 0.1%	+/- £140m
Life expectancy	+/- 1 year	+/- £500m

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 15.2.

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 compliant with **IAS 19 Employee Benefits**.

16. Contingent liabilities

Quantifiable

The sector held no material contingent liabilities as at 31 August 2018.

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 2018.

17. Events after the reporting period

ATs have continued to be incorporated and open new academy schools throughout the period from 31 August 2018 to the date that these accounts were authorised for issue.

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.

McCloud judgement on pensions

On 20 December 2018 the Court of Appeals ruled against the Government in relation to a legal challenge by members of the New Judicial Pension Scheme (NJPS) against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015.

The McCloud judgement held that changes made to pension schemes discriminated against certain groups of members on the grounds of age.

Whilst there are uncertainties still surrounding the application of the judgement this is expected to have an impact on other public sector pensions, including the LGPS, where similar changes were made to benefits.

By the date of the ruling the majority of ATs had submitted signed accounts. Whilst the amount involved is considered to be significant the ruling is considered to be a non-adjusting event after the reporting period.

Exiting the European Union

The expected date for the UK's departure from the EU was changed from 12 April 2019 to the end of October 2019 after the end of the reporting period. Significant uncertainty remains regarding the impact any exit scenario will have, and so we continue to monitor the issue accordingly.

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.