Department for Education

Academy Schools Sector in England

Consolidated Annual Report and Accounts

For the year ended 31 August 2020

HC 851

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Department
for Education

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For the year ended 31 August 2020

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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 academies Sector Annual Report and Accounts (SARA) is 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 SARA is structured as follows:

- *Financial performance report* – a summary of the financial position (page 15) 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 49); and
- *Financial statements* – the standard reporting requirement required by HM Treasury, including details of related party transactions in the sector (page 85).

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. This 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 entered 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 is my first report as Minister for the School System and is written at a time of unprecedented change and challenges as a result of working during the COVID-19 pandemic.

The COVID-19 pandemic has had a significant impact on the academies sector. The interventions and financial support implemented by the Department in response to COVID-19 occurred during the reporting period and as such the impact of this is included in the financial statements. Further information is included in note 6.

Despite the current challenges faced by the sector, the financial stability continues to improve. This is due to work being done to improve the financial structure in the sector as part of the support we continue to provide to ATs and actions we have taken to improve financial management. Furthermore, some ATs will have incurred lower costs during the reporting period as a result of closures during lockdown. All of these factors have contributed to fewer academies being in deficit at the end of 2019/20 compared to the previous year.

The sector has continued to grow, both in terms of the number of pupils it educates and the number of academies within it. Almost 80% of secondary schools are academies and a number of local authorities are close to full academisation. The trend of decreasing numbers of trusts over recent years is a result of more academies joining or coming together with other academies to form multi academy trusts. This reflects the direction of travel that both this government and I personally support, because we believe that schools are strongest together.

These accounts are illustrative of our commitment to financial transparency. The Department has continued to support trusts in deploying appropriate controls over their expenditure, encouraging increased transparency and accountability. We introduced measured controls over related party transactions in 2018/19, designed to ensure these transactions represented value for money and due propriety. Accordingly, I can report that both the number and value of related party transactions has decreased in 2019/20.

I am extremely grateful to staff, governors, volunteers and pupils for their continuing commitment in these challenging times, and for all their hard work and achievements in the 2019/20 academic year.

Baroness Barran
Parliamentary Under Secretary
of State for the School System

Permanent Secretary's Overview

I am pleased to introduce the fifth combined SARA – and my first as its accounting officer – which sets out the consolidated performance and financial results for all academy schools and trusts in England over the 2019/20 academic year.

2019/20 has been a year of completely unprecedented challenges for the country, and for the academies sector. The COVID-19 pandemic has dominated life since March 2020 to such a great extent that it is hard to look back at the period that preceded it, other than through its lens. I would like to pay tribute to all those who have worked tirelessly during this time – teachers, support staff, governors and volunteers at all levels – for the contributions they made during this time to keep academies open for vulnerable children and the children of key workers and to continue to provide education to all children, including through remote provision.

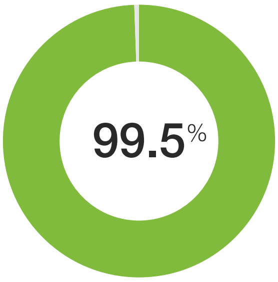
As a consequence of the pandemic, this year's annual report and accounts looks considerably different from prior years. Some data is unavailable and other data has been significantly impacted by the exceptional events of this year, as we have less educational performance data – including examination results – available for the reporting period. Notwithstanding these differences, the report presents the state of the sector accurately.

Whilst the sector continued to grow during 2019/20, albeit to a lesser extent than in previous years, the uncertainty brought by the pandemic disrupted plans to convert maintained schools into academies. However, free schools continued to open at a similar rate, with 63 new free schools opening in 2019/20. Overall, more than half of all pupils in state-funded education in England are educated in academies and free schools and this number continues to grow.

This report remains an important part of our accountability framework and I am extremely grateful to all academies for their support and co-operation in the preparation of this report during what continues to be a demanding time for academy schools.

Susan Acland-Hood
Permanent Secretary
1 December 2021

Key Data: The Academy Sector at a glance

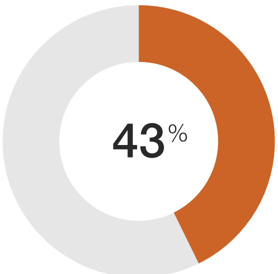


99.5% of ATs (excluding ATs who didn't return their accounts to DfE) received an unqualified audit opinion as at 31 August 2020 (2018/19: 99.3%).

The number of academies has increased during the year to 31 July 2020 to **9,200** (2018/19: 8,728).

The number of pupils educated at academies has increased by 2.9% during the year to **4.2 million** (2018/19: 4.1 million).

The net current assets as at August 2020 were **£3.9 billion** (compared to £3.3 billion as at 31 August 2019)

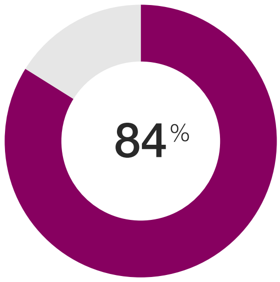


At 31 July 2020, **43%** of state-funded schools were operating as academies (compared to 40% as at 31 July 2019).

The number of ATs[3] has decreased during the year to 31 August to **2,743** (2018/19: 2,865).

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

Over half of all pupils are now educated in an academy setting.



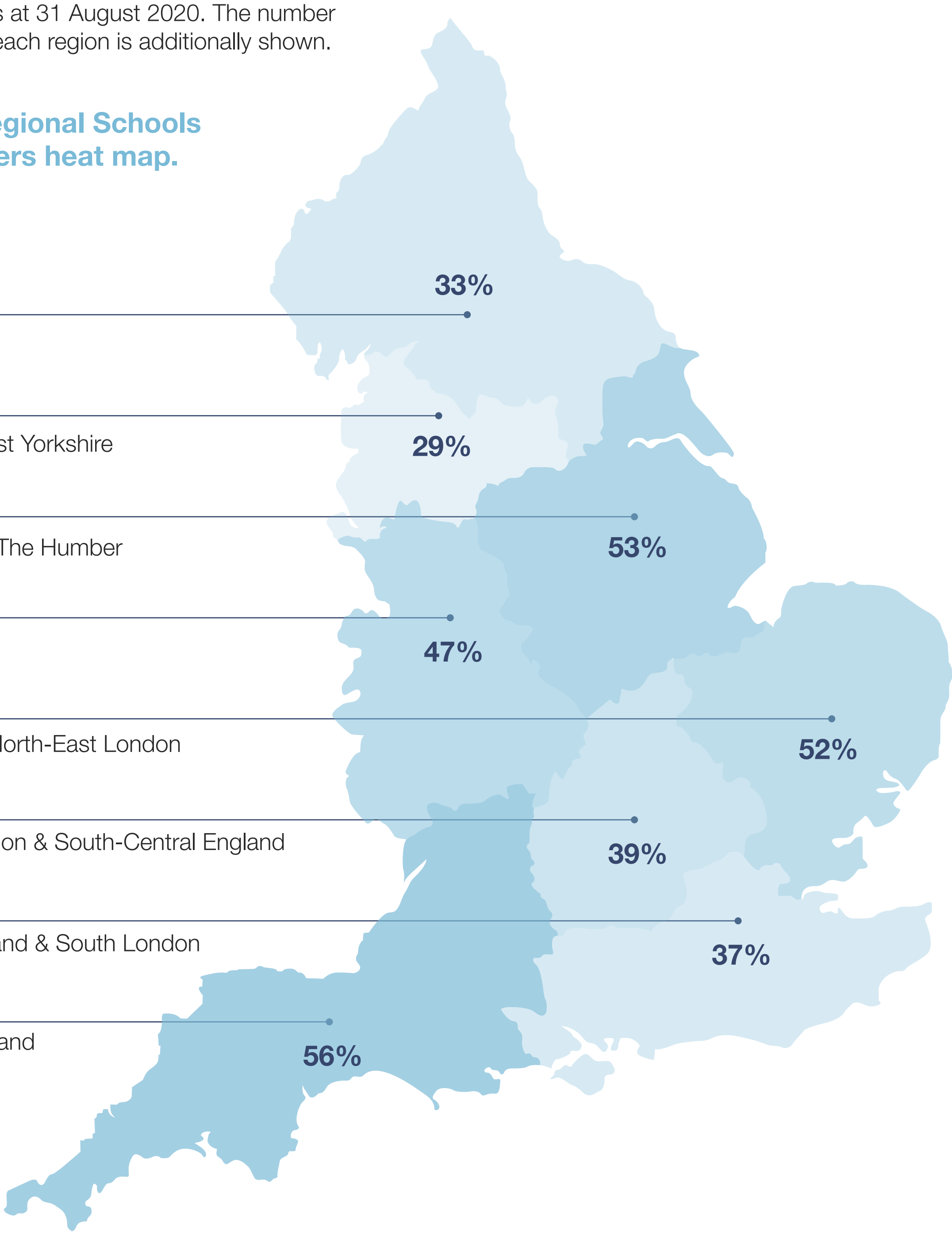
84% of all academies (7,730 academies) are in an AT with more than one academy (2018/19; 82%, 7,132 academies).

£70 million of income was provided to ATs during the period including £42 million of funding provided by DfE to cover exceptional costs incurred.

Geographical Analysis

The geographical representation below shows the percentage of state-funded schools which are academies by Regional Schools Commissioner (RSC) boundaries at 31 August 2020. The number of academies in each region is additionally shown.

Figure 1a: Regional Schools Commissioners heat map.



North of England
596

Lancashire & West Yorkshire
972

East Midlands & The Humber
1,419

West Midlands
1,252

East England & North-East London
1,243

North-West London & South-Central England
1,180

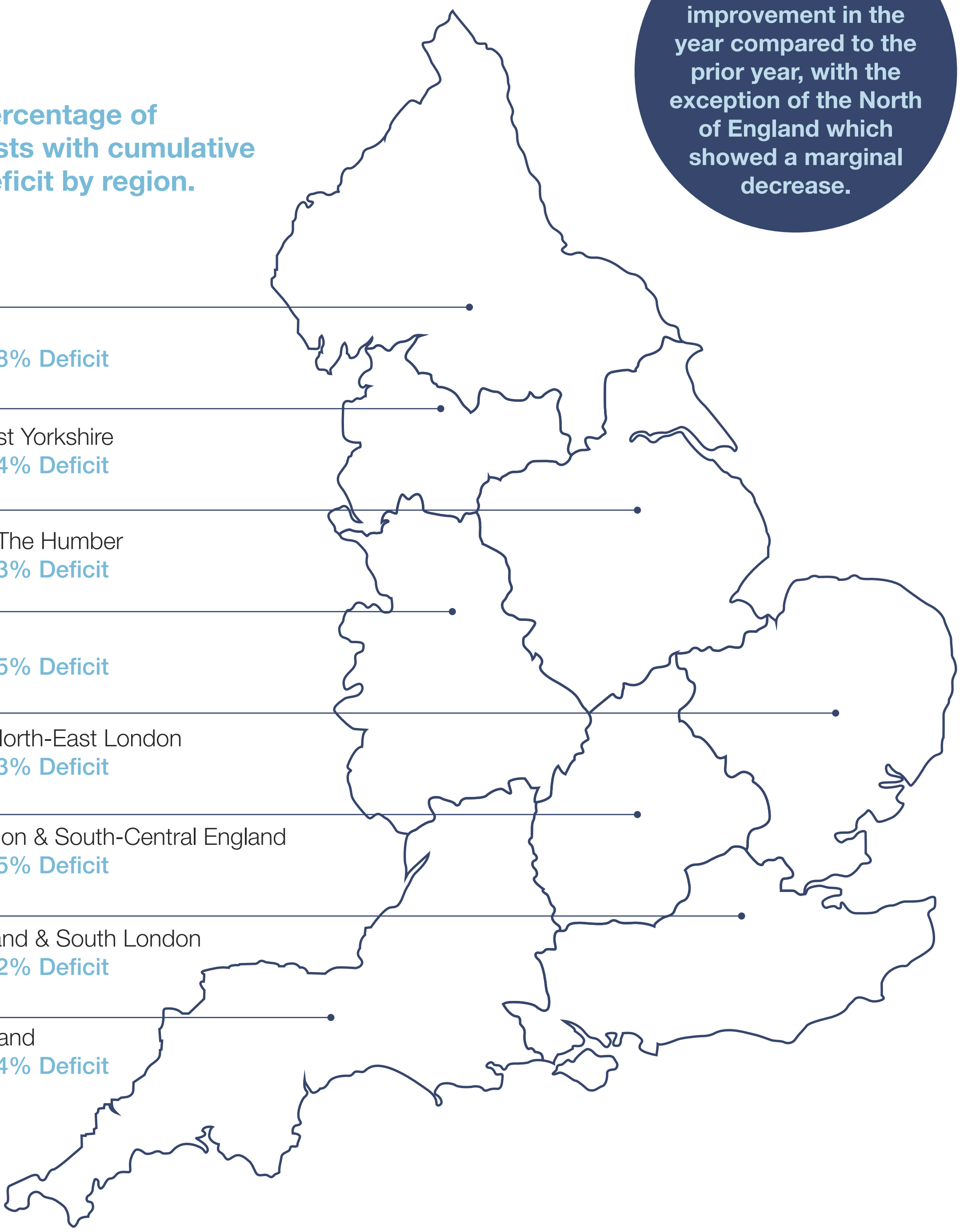
South-East England & South London
1,231

South-West England
1,311

The geographical analysis below shows the percentage of ATs with a cumulative surplus or deficit by region.

All regions have shown an improvement in the year compared to the prior year, with the exception of the North of England which showed a marginal decrease.

Figure 1b: Percentage of academy trusts with cumulative surplus or deficit by region.



North of England
92% Surplus 8% Deficit

Lancashire & West Yorkshire
96% Surplus 4% Deficit

East Midlands & The Humber
97% Surplus 3% Deficit

West Midlands
95% Surplus 5% Deficit

East England & North-East London
97% Surplus 3% Deficit

North-West London & South-Central England
95% Surplus 5% Deficit

South-East England & South London
98% Surplus 2% Deficit

South-West England
96% Surplus 4% Deficit

Financial Performance Report

Financial Performance

Financial Overview

Together with the preceding Introduction, Ministerial Overview, Permanent Secretary's Overview, Key data and geographical analysis, this overview is intended to provide a brief summary of the academy sector, its purpose and its performance during the year.

Figure 2a: Income and expenditure in 2019/20 – reconciliation of revenue reserves.

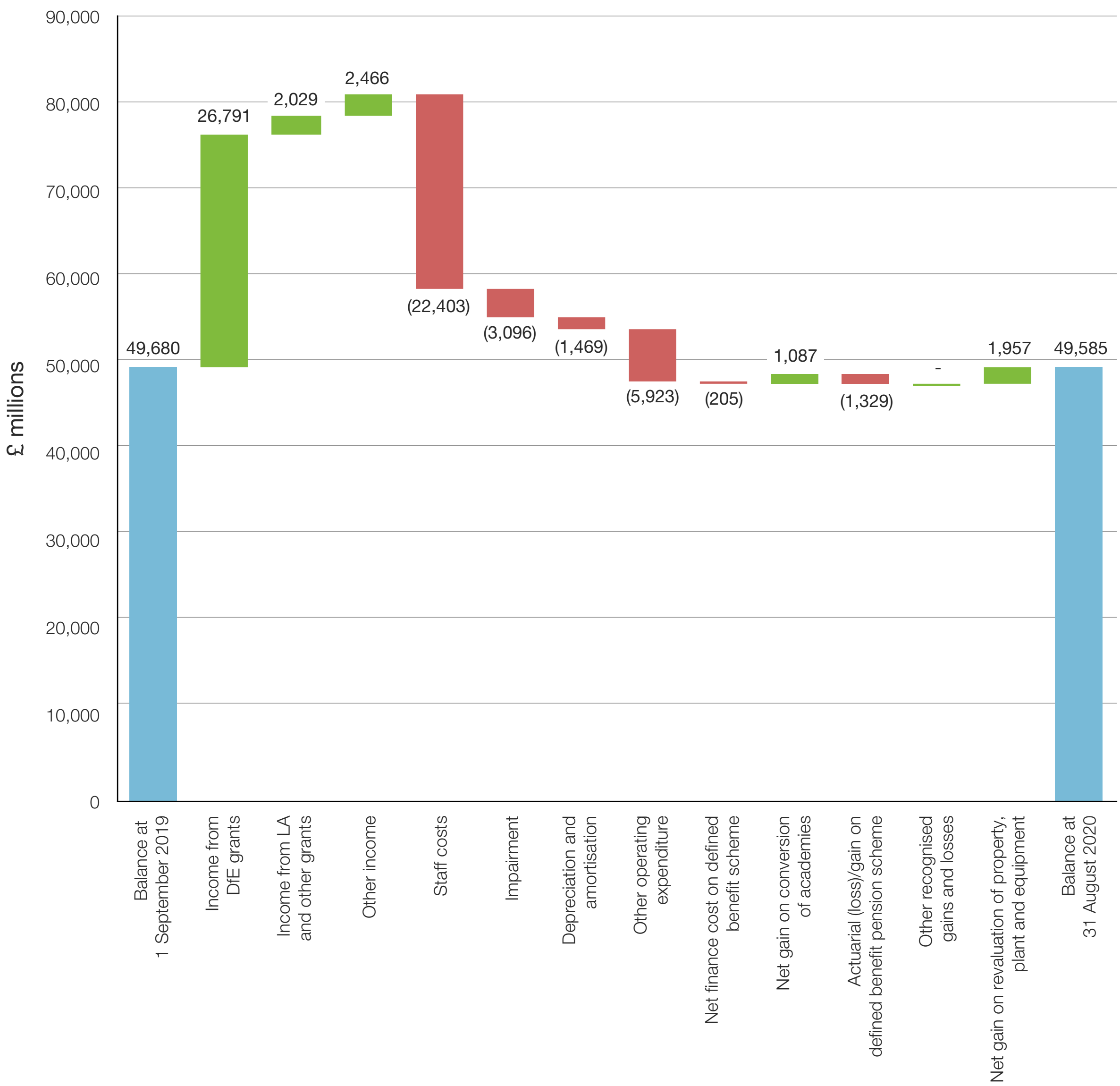
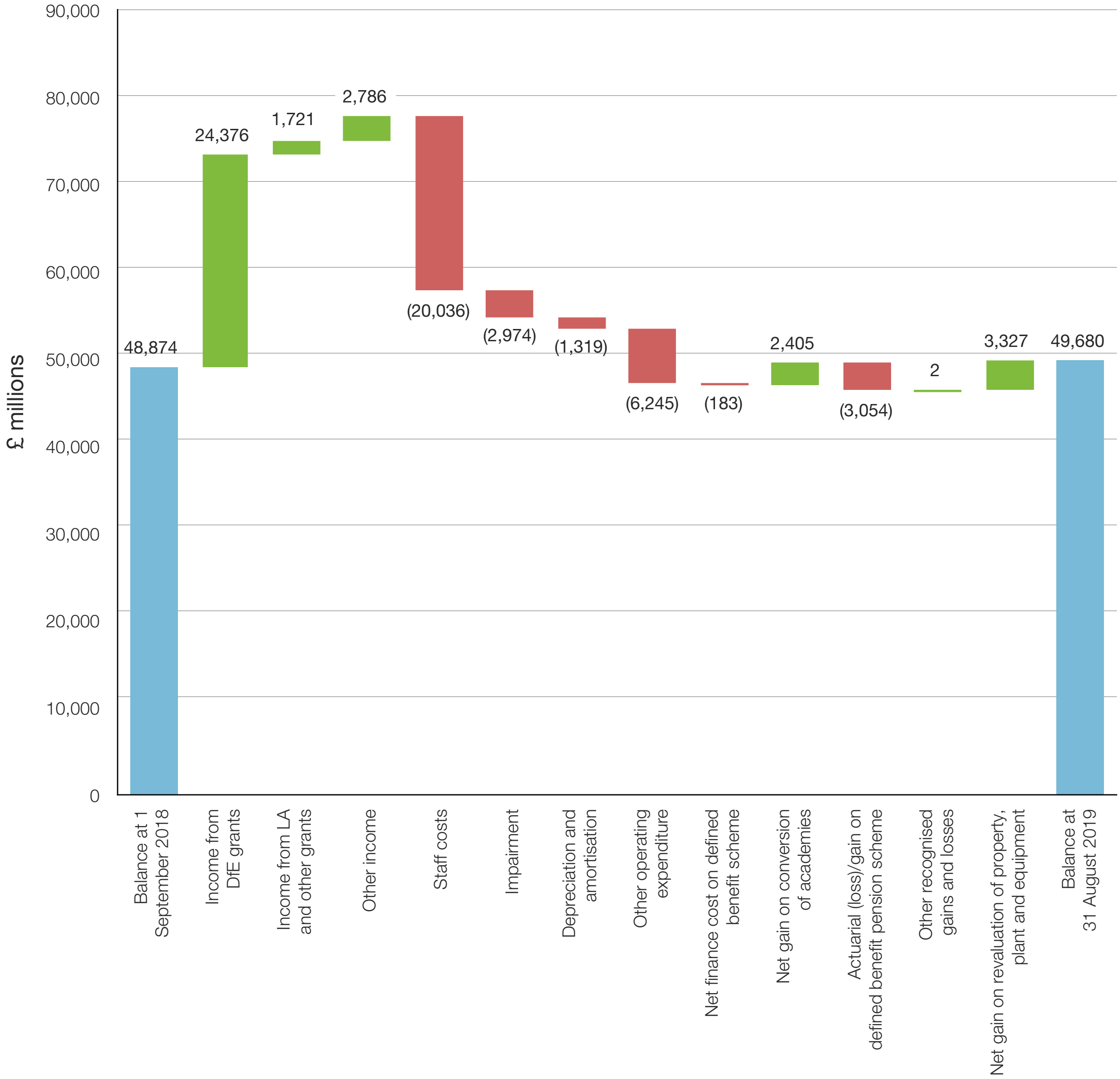


Figure 2b: Income and expenditure in 2018/19 – reconciliation of revenue reserves.

Figure 2b has been represented to separate the finance costs on defined benefit scheme from staff pension costs where these costs were previously classified.

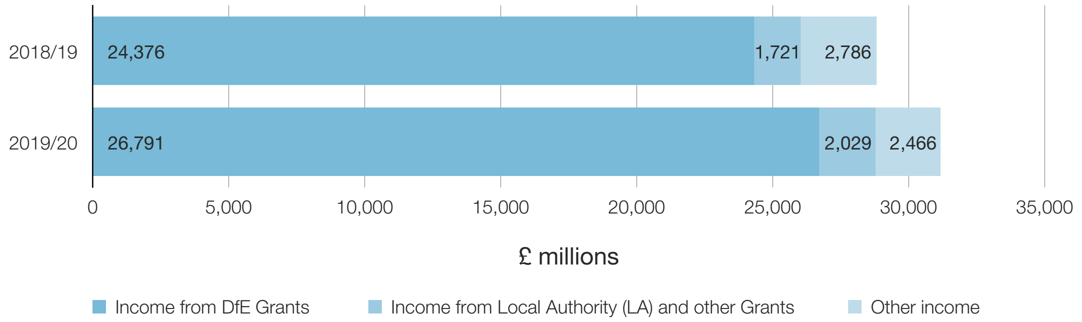


Figures 2a and 2b reconcile the opening and closing Charitable Funds and Revaluation Reserve position in the current and prior years respectively.

The Statement of Consolidated Net Expenditure has returned a deficit in the current year compared to the surplus in the prior year. As outlined below, this is largely driven by significant non-cash movements (including lower gains on conversion to the sector, lower revaluation gains on land and building assets and lower actuarial losses on the defined benefit pension scheme). This is discussed further on page 23. The nature of these losses is movement on the Statement of Financial Position driven by market conditions caused in part by COVID-19 rather than being an indication of any deterioration of financial management within the sector. The significant elements of the movement, significant either because they are large in value or are exceptional in nature, are discussed on the following pages.

Income

Figure 3: Income in 2019/20 and 2018/19

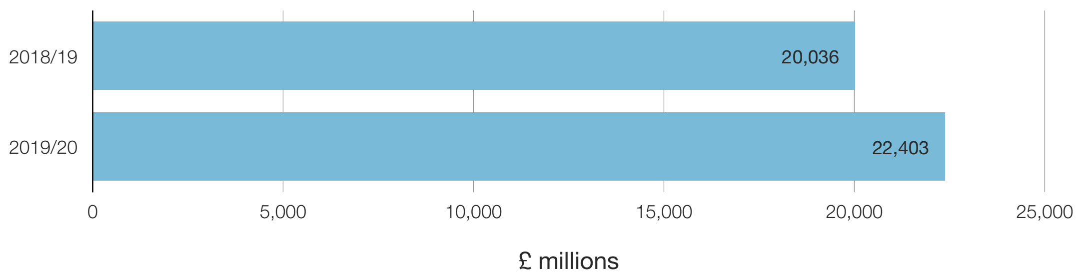


Income is largely comprised of grants, both from the Department and from other sources including local authorities (LAs). The largest element of grant income that ATs receive, the General Annual Grant (GAG), is linked to pupil numbers. As the academy sector continues to grow and LA maintained schools convert to academies, pupil numbers have increased by 2.9% over the year. The GAG income has increased by 7.5% which is a higher rate than the increase in pupil numbers in the year. The principal reason for this increase in GAG income is a result of an increase to the minimum funding per pupil and additional funding which has been included within the scope of this grant in the current year.

In addition, included within income in the current year is £70 million of COVID-19 support which is further discussed in note 6. The level of income disclosed relating to the academies sector will differ to that reported for the wider educational sector in the Department's Annual Report and Accounts, in part due to differing reporting periods. The reporting year end for the SARA is 31 August 2020 whereas the latest Department accounts year end is 31 March 2021. Any COVID-19 income received on or after 1 September 2021 will be reported in the 2020/21 SARA accounts. Furthermore, there are significant programs where ATs are critical to the delivery of the support, but ATs do not recognise the income in their financial statements and consequently this is not consolidated in the SARA accounts. The largest element of this type of support is the National Free School Meals Voucher Scheme.

Staff Costs

Figure 4: staff costs in 2019/20 and 2018/19 [4]



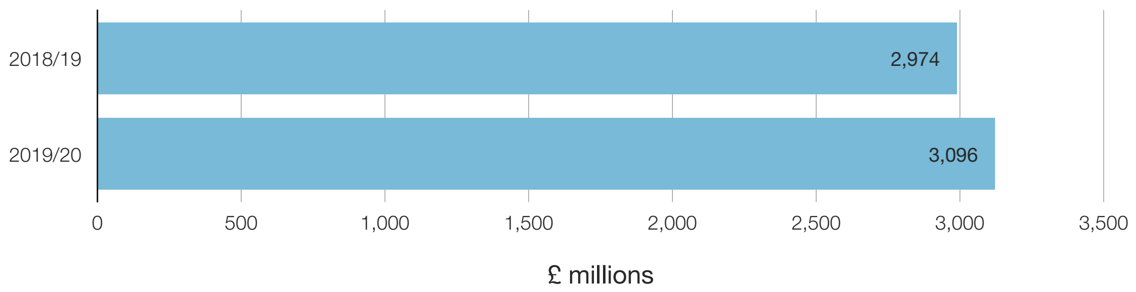
4 Staff costs for 2018/19 have been represented in the prior year to reclass the net finance cost on the defined benefit scheme as a separate category to staff costs. Net finance costs on defined benefit pensions schemes are now presented separately in the Statement of Consolidated Net Expenditure/Income.

Staff costs have increased by 11.8% which can be attributed to the increase in academies converting during the reporting period, the average pay rise and an increase in the employer contribution rate for the Teachers' Pension Scheme (TPS). The employer contribution rate in 2018/19 was 16.48%, compared to an increased rate in 2019/20 of 23.68% (see note 15).

A further breakdown of staff costs can be found in the Remuneration and Staff Report on page 70 and in note 7.

Impairment

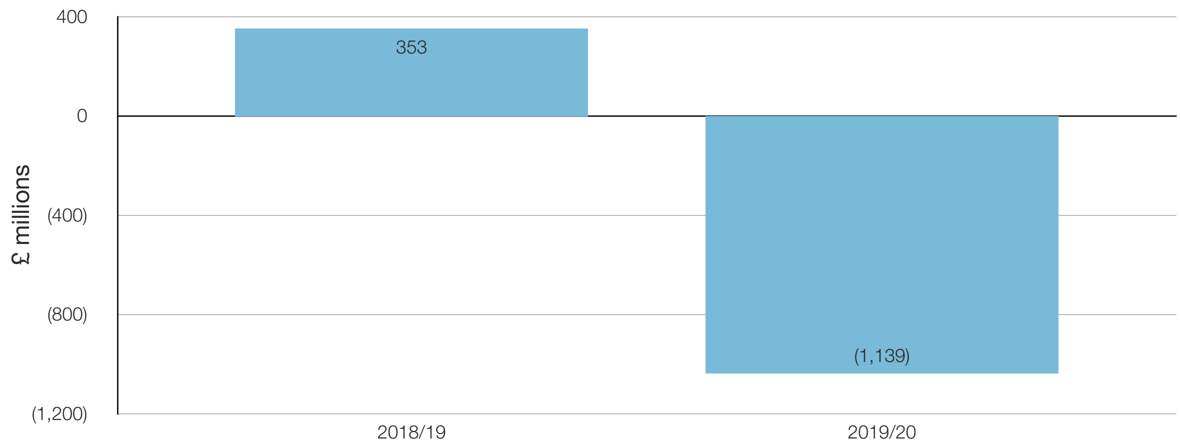
Figure 5: impairment in 2019/20 and 2018/19



The impairment charge in 2019/20 is broadly consistent with the charge in 2018/19. The small increase is attributable to the impact of COVID-19 on the property market. The level of impairment charge recognised across the estate does not represent a reduction in the underlying condition of academies' land and buildings assets, but rather a change in market prices - particularly for land - combined with an increase in the number of valuations conducted in 2019/20 and a refined revaluation methodology. More information on the property, plant and equipment valuation methodology can be found in note 2.

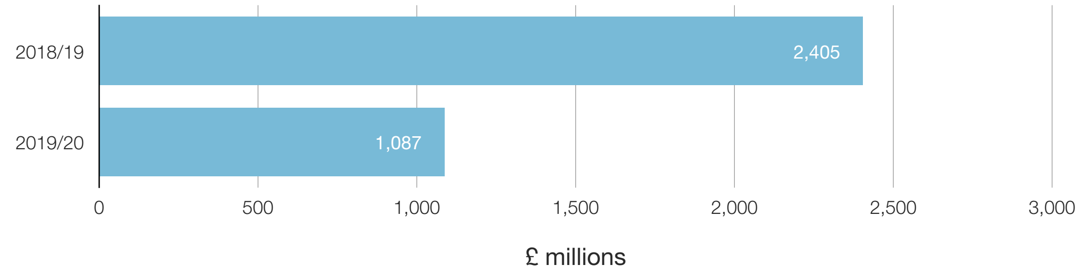
Figure 6 below shows the decrease in land and buildings values of £1.1 billion (compared to an increase in 2018/19 of £0.4 billion). The net reduction in land and buildings values year on year is driven by a lower revaluation gain (charged to the revaluation reserve) of £2.0 billion in 2019/20 compared to £3.3 billion in 2018/19. Whilst the level of impairment has remained broadly consistent and reflects changes in valuation methodology from the previous valuer, the level of revaluation gain fell significantly. The fall reflects market uncertainty as a result of COVID-19 which also resulted in a temporary reduction in the indices used to value the estate between valuations.

Figure 6: net revaluation movement in 2019/20 and 2018/19



Net gain on conversion to academies

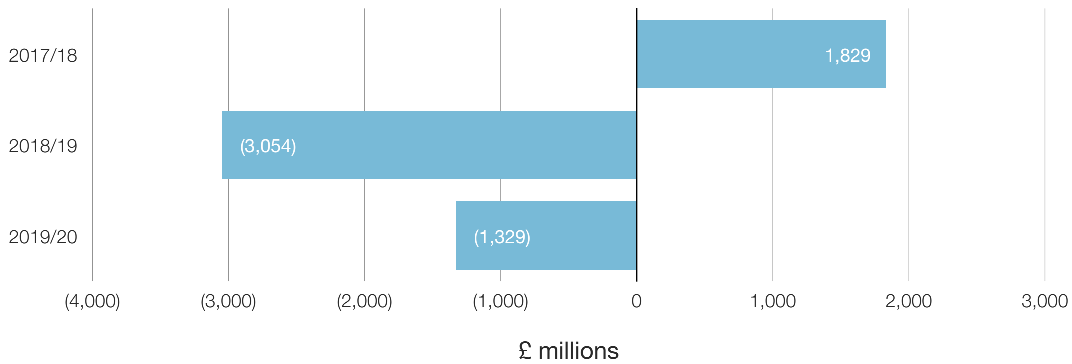
Figure 7: net gain on conversion to academies in 2019/20 and 2018/19



The net gain on conversion of academies has fallen as there has been a reduction in the number of schools converting to academies during 2019/20 as a result of COVID-19. This is due to the Department, along with trusts and schools, focussing on the safe re-opening of schools during the start of the pandemic. In 2019/20 474 schools converted to academy status, compared to 908 in 2018/19 (see figure 13 in annex 1).

Actuarial (Loss)/Gain on Defined Benefit Pension Schemes

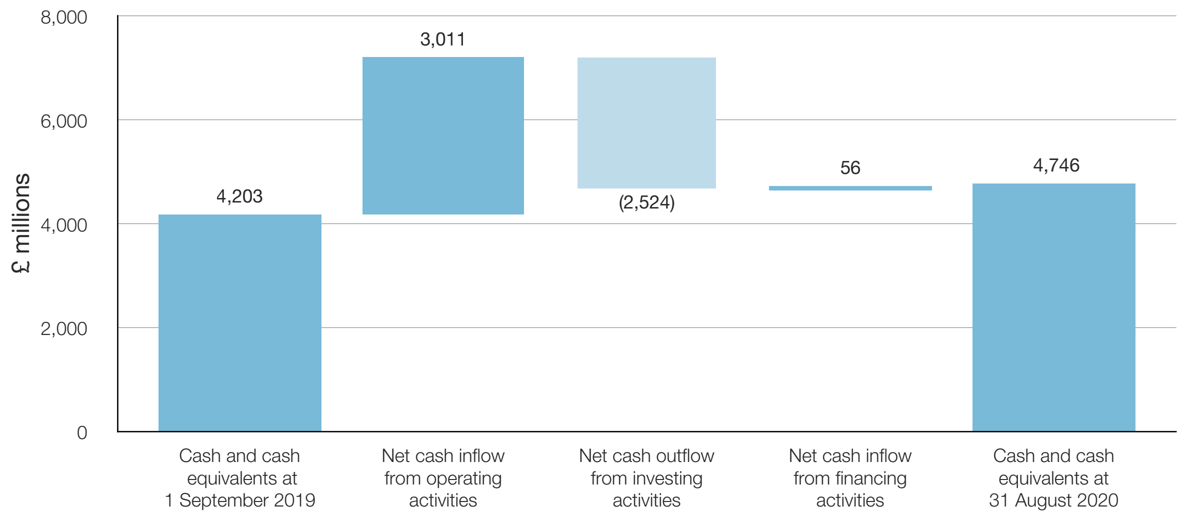
Figure 8: actuarial (loss)/gain on defined benefit pension schemes in 2019/20, 2018/19 and 2017/18



The actuarial loss in 2019/20 is predominantly driven by changes in actuarial assumptions, particularly a decrease in the discount rate. Discount rates are subject to fluctuation, which has been considerably more volatile as a result of COVID-19. Due to the nature of how actuarial losses are calculated, this decrease during 2019/20 may be reversed in future years. More information on the actuarial gain/loss on defined benefit pension schemes is provided in note 15.

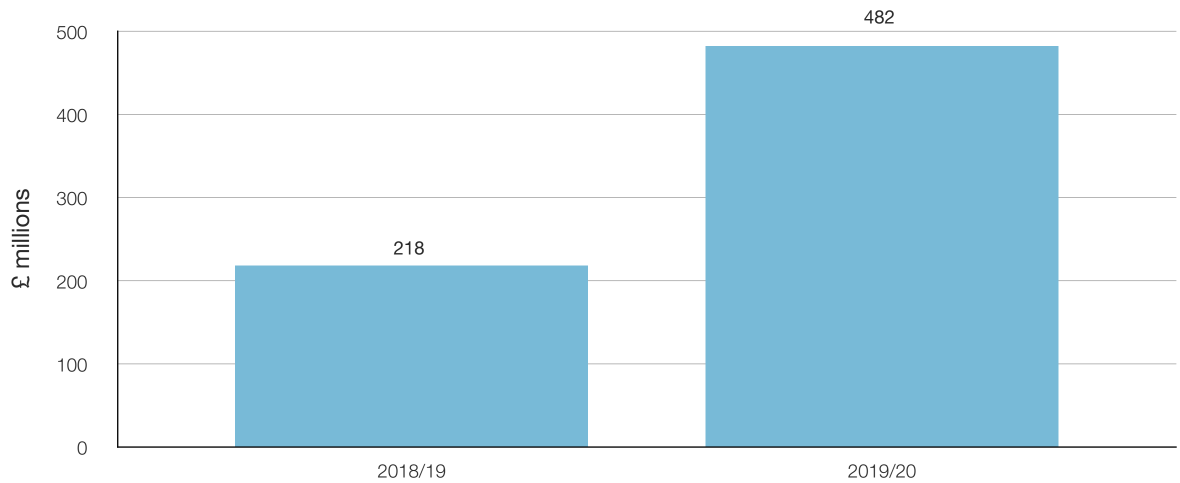
Cash and cash equivalents

Figure 9: movement in cash and cash equivalents (net of overdraft)



During the year, the value of cash and cash equivalents held by the sector has increased by £543 million. £61 million of this increase is attributable to cash brought into the sector on conversion of schools to academies during the year; this is contained within "Net cash inflow from financing activities" in the graph above. The majority of the increase in cash is generated by ATs as part of their day-to-day operations. Although the sector has returned an operating deficit during 2019/20, much of this is attributable to non-cash expenditure. After non-cash operating expenditure is added back, the sector has had a net inflow of cash from its usual operating activities. Much of this cash was used to fund the purchase of property, plant and equipment, leaving an increase after operating and financing activities of £487 million. £5 million of cash was further spent by the sector through other financing activities resulting in a net £482 million increase in cash before considering cash on conversion. This is shown in figure 10 below.

Figure 10: Increase in cash and cash equivalents excluding cash on conversion in 2019/20 and 2018/19.



Statement of Financial Position:

The net assets of the sector recognised in these accounts have remained consistent at £49.6 billion as at 31 August 2020 (compared to £49.7 billion as at 31 August 2019). This is due to an increase in the land and buildings asset value and an offsetting increase in the pension deficit.

When excluding property, plant and equipment and pension liabilities, which are less directly impacted by day-to-day management decisions, the sector's net assets have increased to £3.8 billion compared to the prior year (2018/19 £3.2 billion), an increase of £0.6 billion. This increase is mainly attributable to cash held within the sector.

Distribution of assets and liabilities by category:

Assets	2019/20 £billion	2019/20 %	2018/19 £billion	2018/19 %
Land and buildings	56.3	85.2%	54.6	86.3%
Other property, plant and equipment	3.4	5.1%	3.0	4.7%
Cash and cash equivalents	4.7	7.1%	4.2	6.6%
Receivables	1.6	2.4%	1.4	2.2%
Other	0.1	0.2%	0.1	0.2%
Total [5]	**66.1**	**100%**	**63.3**	**100%**

Liabilities	2019/20 £billion	2019/20 %	2018/19 £billion	2018/19 %
Pension deficit	(13.9)	83.6%	(11.1)	80.9%
Payables	(2.7)	16.3%	(2.6)	19.0%
Other	<(0.1)	0.1%	<(0.1)	0.1%
Total	**(16.6)**	**100%**	**(13.7)**	**100%**

The land and buildings value has increased as a result of new academies joining the sector during the year. However, this increase is reduced compared to the prior year as there has been a decrease in the number of schools converting to academies during 2019/20 and valuation gains were depressed as a result of COVID-19. Further details on land and building movements are provided in note 2.

The pensions deficit has increased as a result of lower returns on LGPS pension assets and also as a result of COVID-19 and changes in actuarial assumptions, in particular a reduction in the discount rate, as outlined in the actuarial gain/loss on the defined benefit scheme section above. The discount rate at the start of the year drives the estimated current service cost and therefore the previous year's increase in discount rate has also resulted in a significant increase in the current service cost in the current year compared to prior year. This increase in the pension deficit does not alter the amount of cash ultimately required to settle these liabilities and thus has no bearing on the financial sustainability of the sector in the near future.

5 The total assets of £66.1 billion shown in this table is £0.1 billion different to the total shown in the Statement of Financial Position of £66.2 billion due to rounding as a result of formatting this table in billions.

Statement of Consolidated Net Expenditure/Income

The net statement of consolidated expenditure/income for the current year has moved into a net deficit where this had previously been a net surplus in the prior year, as a result of:

- a significant reduction in gains on conversion driven by lower numbers of conversions into the sector during the year which is discussed in more detail above;
- other non-cash items contributing to the net deficit in the current year, including the actuarial loss on the defined pension scheme, which in turn is dependent on the discount rate which has reduced in the year; and
- the revaluation gain on land and buildings is reduced in the current year compared to the prior year, which is partly due to lower indexation gains recognised on these assets due to market uncertainty being reflected in lower indexation rates in the year.

Income and expenditure by category:

	2019/20	2019/20	2018/19	2018/19
Income	**£billion**	**%**	**£billion**	**%**
Revenue grant income	26.1	83.4%	23.4	81.0%
Capital grant income	2.7	8.6%	2.7	9.3%
Other income	2.5	8.0%	2.8	9.7%
Total	**31.3**	**100%**	**28.9**	**100%**

	2019/20	2019/20	2018/19	2018/19
Expenditure	**£billion**	**%**	**£billion**	**%**
Staff costs	22.4	68.1%	20.0	65.5%
Other operating costs	10.5	31.9%	10.5	34.5%
Total	**32.9**	**100%**	**30.5**	**100%**

During the period to 31 August 2020, the number of academies within the sector has increased by 5% with over 8,000 academies opening over the last ten years. This has driven the increase in pupil numbers in the sector with over half of all pupils now educated in an academy setting. This is one of the main drivers for the year-on-year increase in income of £2.4 billion from £28.9 billion to £31.3 billion. In addition, there has been an increase in the General Annual Grant (GAG) income in the current year which is linked to pupil numbers but has additionally seen an increase due to the funding per pupil increasing in the current year. This is discussed in more detail on page 18.

Expenditure has increased by £2.4 billion from £30.5 billion to £32.9 billion. However, when excluding non-cash costs in both years, the underlying increase in expenditure is 7.9% 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 11.8% in the year. Average staff numbers within the sector have increased by 3.6%, indicating that staff costs per employee are slightly higher than in 2018/19. These increases are consistent with the increased number of academies in the sector this year, pay rises and increased pension contribution rates, which are further discussed below in the emoluments section.

Emoluments paid in the sector

ATs have reported staff emoluments including salary, employer pension contributions and other benefits received during the year.

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

	2019/20: Number of ATs paying at least one individual above this [6]	Proportion of ATs in sector	Restated: 2018/19: Number of ATs paying at least one individual above this [6]	Restated: Proportion of ATs in sector
Emoluments of £150k or more	473	17.0%	340	11.6%
Emoluments of between £100k – £150k	1,772	63.5%	1,535	52.5%

The 2019/20 and comparative data above includes salary, employer pension contributions and other benefits. There has been an increase in individuals paid between £100,000 and £150,000 and paid more than £150,000 which is due to salary increases. There has additionally been an increase in contribution rates into the employer pension schemes during the year. These salary and employer pension contribution rate increases are further outlined in the Remuneration and Staff Report on page 70.

In 2018/19 employer's pension contributions were included in staff emoluments for the first time. Following this change in reporting requirements, the Department conducted a significant review of the emoluments data provided by ATs back to the individual AT financial statements, and where required made amendments to the data submitted. Furthermore, a second collection of the prior year data was undertaken in the current year and has resulted in identification of errors in the prior year data. As a result, the prior year comparative data has been restated to correct these errors.

An illustrative example is included below to show the impact of changes in reporting of emoluments since 2017/18 alongside the impact of salary and pension increases each year. This demonstrates that an individual being paid £74,000 in 2017/18 when accounting for standard pay rise and pension contribution increases would move from being recognised in the £70,000-£80,000 in 2017/18 [7] emoluments band to being recognised in £100,000-£110,000 in 2019/20. This supports the increase in numbers of trusts paying at least one individual greater than £100,000 and greater than £150,000 in the current year.

6 The figures in the above table 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 In 2017/18 the emoluments data did not require inclusion of employer pensions contributions when considering the total emoluments being paid to an individual. This was changed in 2018/19 and now emoluments include salary, employer pensions contributions and other benefits.

	2017/18	2018/19	2019/20
Salary	**75,000**	**77,000**	**80,000**
Average Pay increase	**2.0%**	**3.5%**	**2.75%**
Net salary	77,000	80,000	82,000
Employer's pension %	[Pension excluded]	16.48%	23.48%
Employer's pension contribution	-	13,000	19,000
Total	**77,000**	**93,000**	**101,000**
Emoluments Banding	**70,000-80,000**	**90,000-100,000**	**100,000-110,000**

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

- publication of guidance for ATs on setting executive salaries [8];
- publication of ATs paying a member of staff or trustee £150,000 or more;
- ATs in the defined Excessive Executive Pay (EEP) category faced bespoke funding conditions on Condition Improvement Fund (CIF) bids in 2019/20;
- a requirement for ATs to reproduce on the AT's website the high pay disclosure provided in their financial statements. The AT must publish on its website in a readily accessible form the number of employees whose benefits exceeded £100,000, in £10,000 bandings;
- seeking assurance from ATs on compliance with requirements in setting executive pay [9] where reported emoluments are being assessed as being an outlier.

Whilst the challenge to academy leader excessive pay was carried out during 2017/18, 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. A review of executive pay based on 2018/19 data was impacted by both COVID-19 and errors in the underlying data, noted above. An approach based on 2019/20 data is currently under review, to identify outlier levels of leadership pay across similar ATs.

All LA maintained schools, unlike academies and free schools, are legally required to follow the provisions of the School Teacher Pay and Conditions Document (STPCD) [10] when setting the salaries of teachers and school leaders. This document provides a transparent and consistent set of rules which all LA schools must follow in the setting of teacher and headteacher pay.

8 https://www.gov.uk/government/publications/setting-executive-salaries-guidance-for-academy-trusts
9 Section 2.30 and 2.31 of the Academies Financial Handbook: https://www.gov.uk/guidance/academies-financial-handbook
10 https://explore-education-statistics.service.gov.uk/find-statistics/school-workforce-in-england

Cumulative AT Revenue Deficits [11]

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. There were 227 ATs with a surplus greater than £3 million, which represents 8.5% of ATs with a surplus/deficit reported in the year. The total aggregate cumulative deficit for 2019/20 has reduced from 2018/19, as has the number of ATs in cumulative deficit. There were 110 ATs with a cumulative deficit (see figures 11a-11c below), which represents 4.1% of ATs with a surplus/deficit reported in the year.

Any AT reporting a cumulative deficit must agree a recovery plan with ESFA to put the AT back on a financially sustainable path [12]. Where an AT is reporting a cumulative deficit, it may require financial support, as part of that recovery plan.

Decisions on financial support are made on a case-by-case basis and will only be approved in the most serious circumstances, taking into account the financial, educational and governance aspects of the AT, and after the AT have explored all other options. If approved, financial support will be repayable to ESFA within an agreed timeframe – non-repayable funding will only be agreed where there is no other means to protect pupils' interests [13]. A listing of ATs that received additional financial support in 2019/20 is provided in annex 9. ESFA applies appropriate conditions to any funding approved to ensure the receiving AT delivers improvements in financial management, compliance and governance. In the most serious cases ESFA may seek a Qualified Floating Charge (QFC) to protect public funds – during 2019/20 one QFC was issued.

Figure 11a: Number of ATs with cumulative revenue surplus/(deficit)

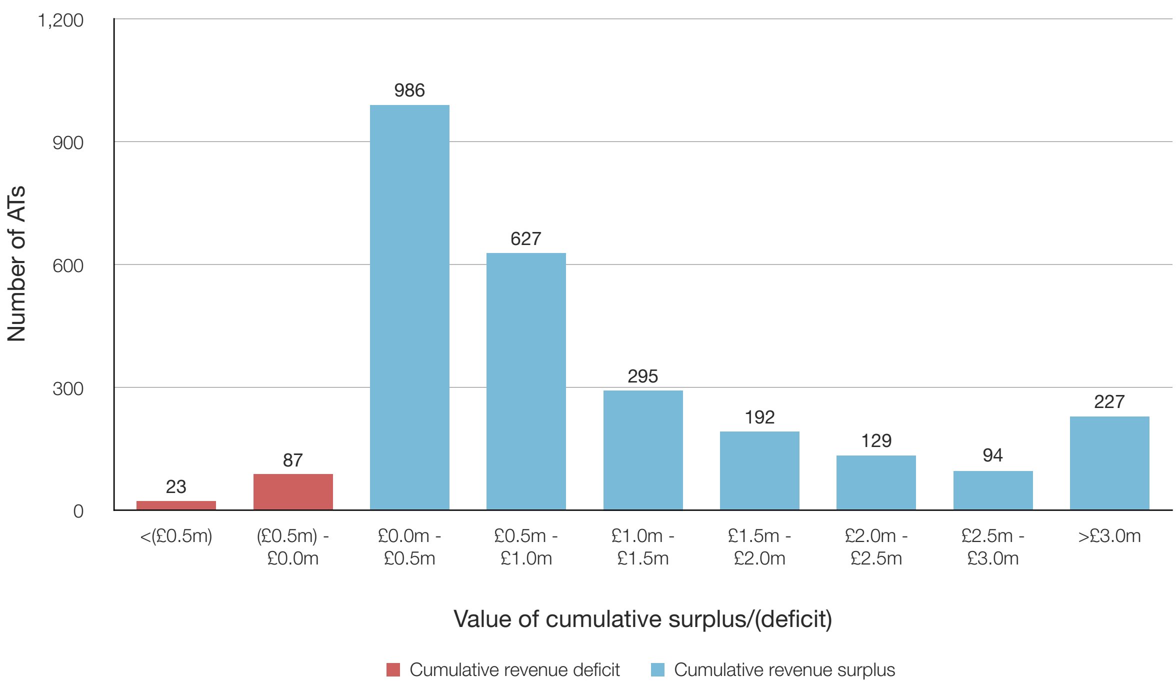


Figure 11a shows the total number of ATs by size of cumulative revenue surplus/(deficit). This outlines that the majority of ATs have a cumulative revenue surplus.

11 Throughout this section "surplus" refers to positive cumulative revenue reserves and "deficit" refers to negative cumulative revenue reserves reported by an AT. Revenue reserves excludes capital income/expenditure and pension deficits.

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

13 https://www.gov.uk/government/publications/financial-support-for-academy-trusts-in-financial-difficulty

Figure 11b: Analysis of ATs with cumulative revenue surplus/(deficit) by size of AT

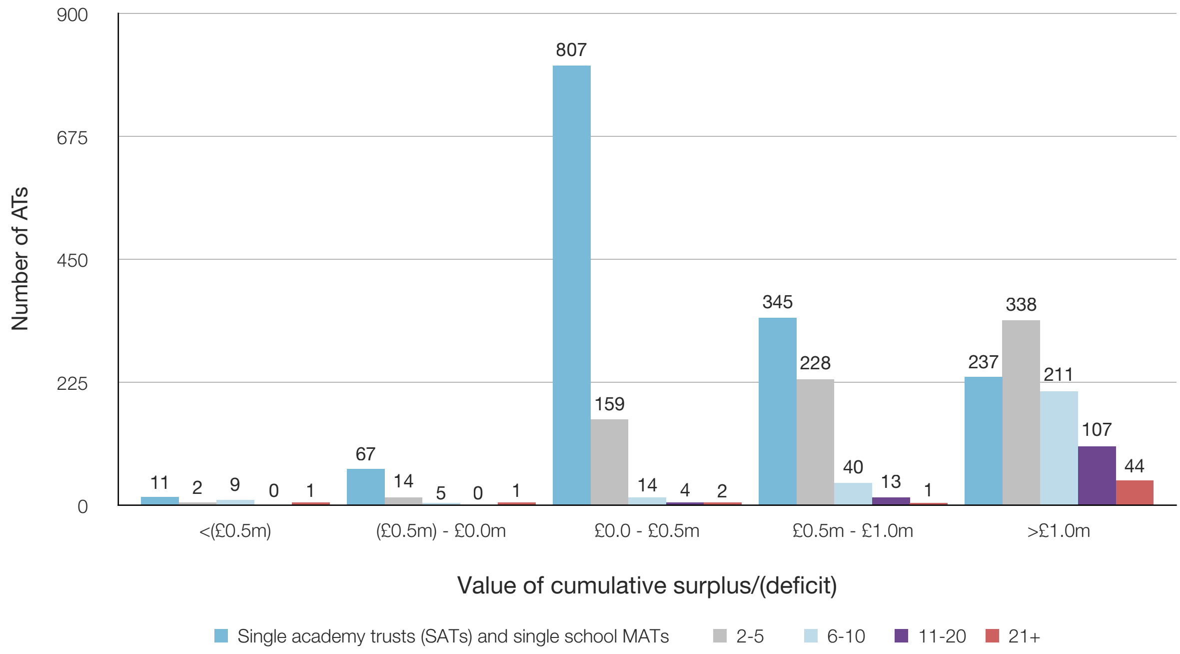


Figure 11b shows that the majority of ATs have a cumulative revenue surplus. This is consistent throughout all sizes of AT.

Figure 11c: Analysis of ATs with cumulative deficits by size of AT

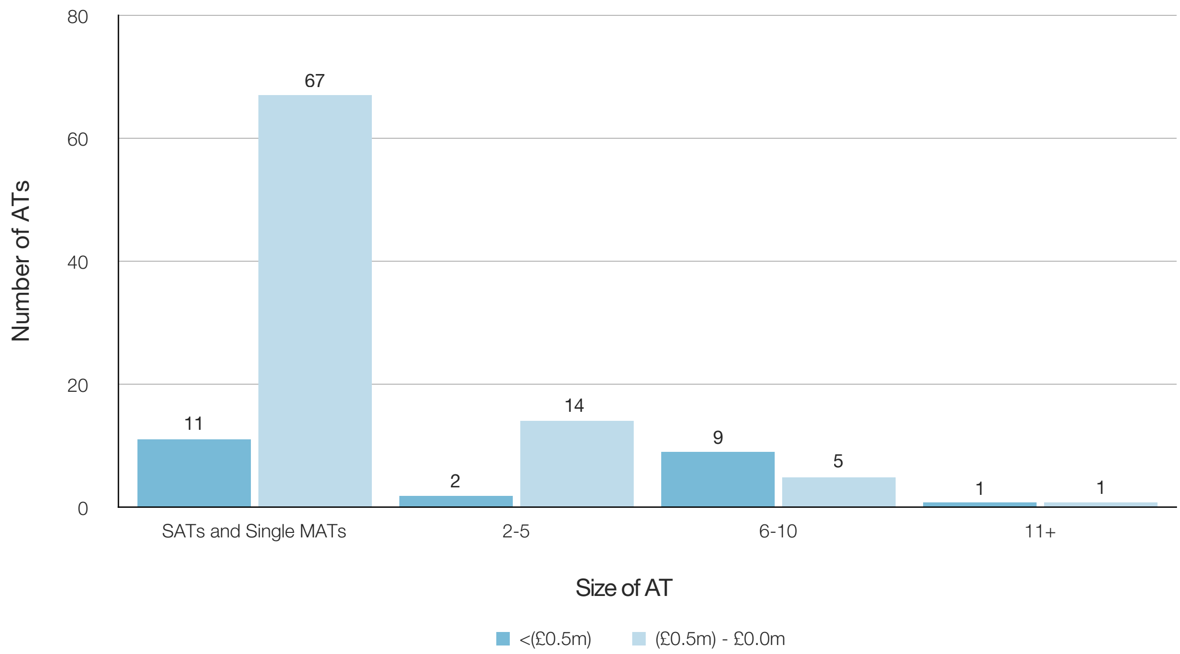


Figure 11c shows only ATs with a cumulative revenue deficit by size of AT. This shows that the majority of ATs with a cumulative revenue deficit are ATs with only one academy.

Number of ATs in cumulative deficit at 31/08/2020	Proportion of ATs in cumulative deficit at 31/08/2020	Number of ATs in cumulative deficit at 31/08/2019	Proportion of ATs in cumulative deficit at 31/08/2019
110	4.1%	168	6.1%

The above table and figure 11a present the proportion of those ATs with a cumulative deficit as a percentage of all ATs with a cumulative deficit or surplus reported within the SARA in 2019/20 and 2018/19 respectively. This differs slightly from the data published on the schools financial benchmarking website which is based on the raw data as submitted by ATs [14]. Figure 11b presents the cumulative deficit and surplus by size of ATs and figure 11c presents those ATs with a cumulative deficit in 2019/20 by size of AT. Annex 10 additionally details those trusts reporting a cumulative deficit in 2019/20.

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 2019/20 was £42 million (£64 million for 2018/19), compared to total cumulative aggregate surplus of £3.2 billion (£2.8 billion for 2018/19). Included within the current year number of ATs with a cumulative deficit figure are 88 ATs that also reported a cumulative deficit in the prior year. ESFA are working with these ATs to support them back to a financially sustainable position.

Cash balances

	2019/20 £m	2018/19 £m	% change
Total cash balances	4,747	4,204	12.9%
Average balance per academy	0.5	0.5	0.0%

The total value of cash held by the sector has increased by £0.5 billion from £4.2 billion to £4.7 billion (12.9%). The percentage of cash held to operational expenditure has improved at 14.4% in 2019/20 compared to 13.8% in 2018/19 (which represents approximately two month's cash expenditure). The sector is encouraged to manage its cash position carefully and avoid becoming overdrawn. The total value of overdrafts held by the sector is stable at £1 million. The total number of ATs with an overdraft at the reporting date was ten which represents 0.4% of all ATs at year end (2018/19: twelve ATs representing 0.4% of all ATs at year end).

14 https://schools-financial-benchmarking.service.gov.uk/Help/DataSources

Related party transactions

	2019/20 number of transactions	2018/19 number of transactions	% change	2019/20 value of transactions £m	2018/19 value of transactions £m	% change
Paid	1,807	2,209	(18.2%)	87	93	(6.5%)
Received	921	1,061	(13.2%)	72	77	(6.5%)

Related party transactions can offer the best option for an AT. Both the number and value of payments received from related parties and payments made to related parties have decreased. Given the nature of these transactions, it is important that we deliver oversight to ensure ATs are even-handed in their relationship with a related party. This includes a requirement for open and transparent procurement, conflicts of interest to be adequately and appropriately managed, and for goods and services exceeding £2,500 to be provided at cost without profit. The Department is actively managing governance risks around related parties. In April 2019, new reporting arrangements were introduced [15], 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 ESFA before they agree any related party transaction exceeding £20,000 with the supplier – whether as a single contract, or cumulative value with the same supplier. This reporting requirement relates to new or renewing 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. Details of types of related party transactions can be found in note 3.

Within the LA sector, in response to a consultation on financial transparency, changes have been implemented requiring schools to append a list of related party transactions to their response to the question in the Schools Financial Value Standard (SFVS) about their arrangements for managing related party transactions. Furthermore, additional columns have been inserted into the CFO Assurance Statement to allow the number and value of each transaction to be disclosed. This data will be collected for the financial year from 2021-22 onwards.

15 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 2019/20, with an increase in the number of academies of 5% between 31 July 2019 and 31 July 2020. Figure 12 shows the growth in the number of academies over recent years.

Whilst the figures in this section show a similar trend to previous years, the number of conversions and the time they took will have been affected by the COVID-19 pandemic. This is due to the Department, along with trusts and schools, focussing on the safe re-opening of schools during the start of the pandemic. Consequently, the number of schools converting to academy status after April 2020 decreased and the average time for the conversion process to conclude increased during 2019/20.

Figure 12: Net total of academies and free schools [16] opened (by academy type) [17, 18] (source: https://get-information-schools.service.gov.uk/)

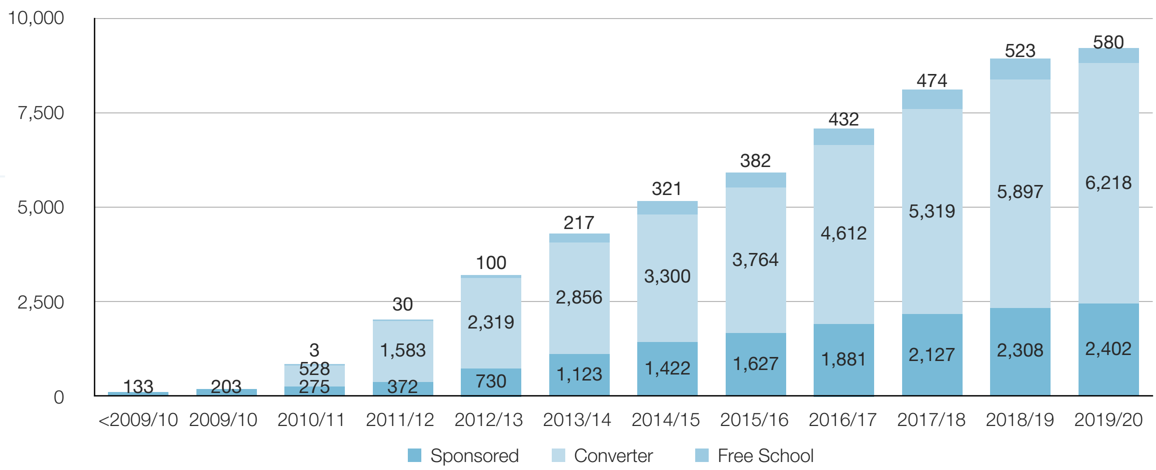


Figure 12 shows the number of academies that were open at 31 July 2020, broken down by different types of provision.

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16 Free School Figures include studio schools and University Technical Colleges (UTCs), but exclude City Technology Colleges (CTCs)

17 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 2019 and 31 July 2020, 64 academies closed. These are listed in annex 1. During August 2020, a further 14 academies closed. The academies that closed during August 2020 are also listed in annex 1.

18 Free schools are a type of academy. They are brand new state-funded schools. Suitable sponsors – which can include local parents, teacher groups and academy trusts – can apply to the Secretary of State for Education to open a free school through the regular wave application rounds. Further information on the most recent free school application wave is available here: https://www.gov.uk/government/publications/free-school-application-guide;
Converter academies are usually strongly performing schools, or schools on an upward performance trajectory, prior to converting to academy status;
Sponsored academies are usually underperforming 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.

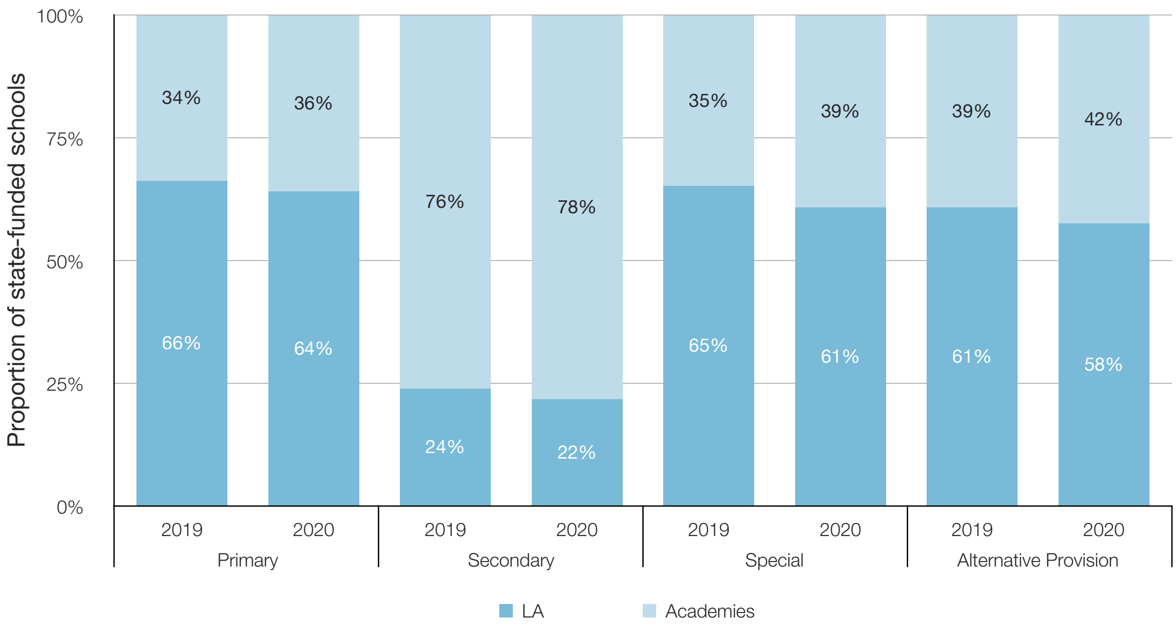
Figure 13: Number of academies and free schools[19] by type and provision open at 31 July 2020, including the number opened during the year to 31 July[20, 21] (source: https://get-information-schools.service.gov.uk/)

	Provision type					
	Academy type	**Primary**	**Secondary**	**Special**	**Alternative provision**	**Total**
Total open at 31 July 2020	Sponsored	1,555	752	68	27	2,402
	Converter	4,239	1,635	272	72	6,218
	Free school	198	291	44	47	580
	Total	**5,992**	**2,678**	**384**	**146**	**9,200**
Number opened in year to 31 July 2020	Sponsored	75	15	5	4	99
	Converter	275	33	21	4	333
	Free school	28	23	10	2	63
	Total	**378**	**71**	**36**	**10**	**495**

At 31 July 2020, 43% of state-funded schools were operating as academies, although this proportion varied by type of provision, as shown in figure 14. While academies accounted for 78% of all secondary provision, they accounted for between 36% and 42% 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.

19 Free school figures include studio schools and UTCs but exclude CTCs.
20 Restated for 31 August 2020 in annex 1.
21 Sponsored academies are established and managed by sponsors from a wide range of backgrounds, including high performing schools and colleges, universities, individual philanthropists, businesses, the voluntary sector, and the faith communities. Converter academies are former schools which have chosen to convert to academy status.

Figure 14: Proportion of state-funded schools operating as academies by provision type at 31 July 2020 [22, 23] (source: https://get-information-schools.service.gov.uk)



Academies as a proportion of state-funded provision continued to vary by Local Authority (LA). Of the 151 LAs with state-funded schools in England, 150 offered state-funded primary provision. 42 LAs had at least 50% of their state-funded primary provision operating as academies. All LAs that had some state-funded primary schools had some that were academies, showing that academies are prevalent throughout England. Three LAs had over 90% primary academy provision, with four having less than 5% primary academy provision.

State-funded secondary level provision was provided by 150 LAs. All LAs that provided secondary state-funded provision had secondary academies, with nearly four out of five state-funded secondary schools being an academy. There were 15 LAs where all secondary provision was through academies, and a further 117 where 50% or more were academies. All LAs had at least 10% of their secondary provision being academies.

State-funded special provision was offered by 149 LAs. 28 of these LAs had no academy special provision and 13 LAs had 100% academy provision.

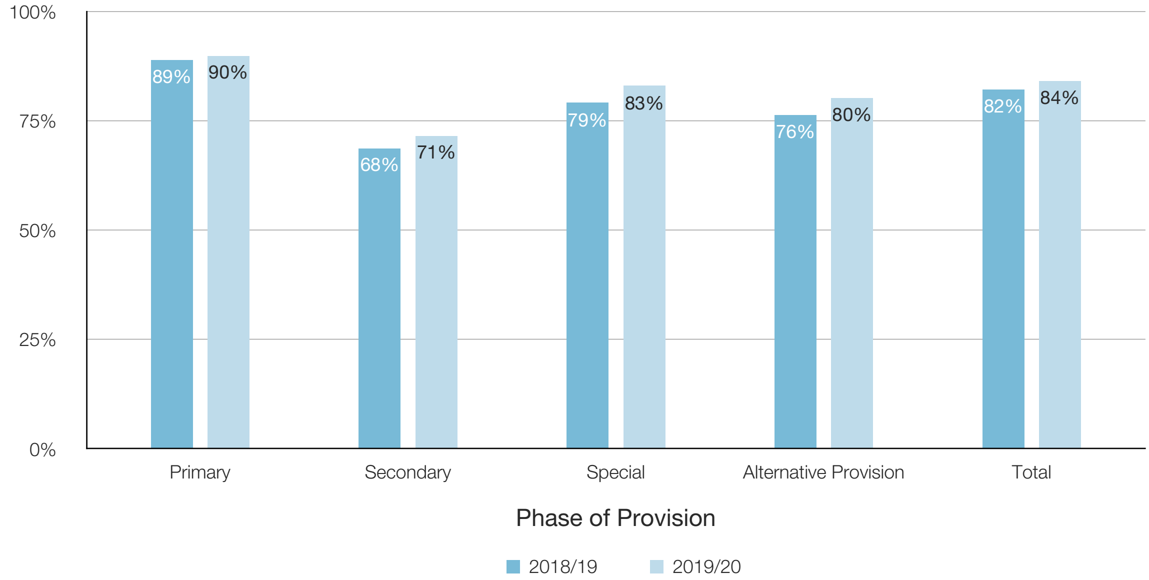
There were 141 LAs with state-funded alternative provision, of which 61 LAs had no academy alternative provision. There were 61 LAs with 50% or more – including 35 with 100% academy alternative provision.

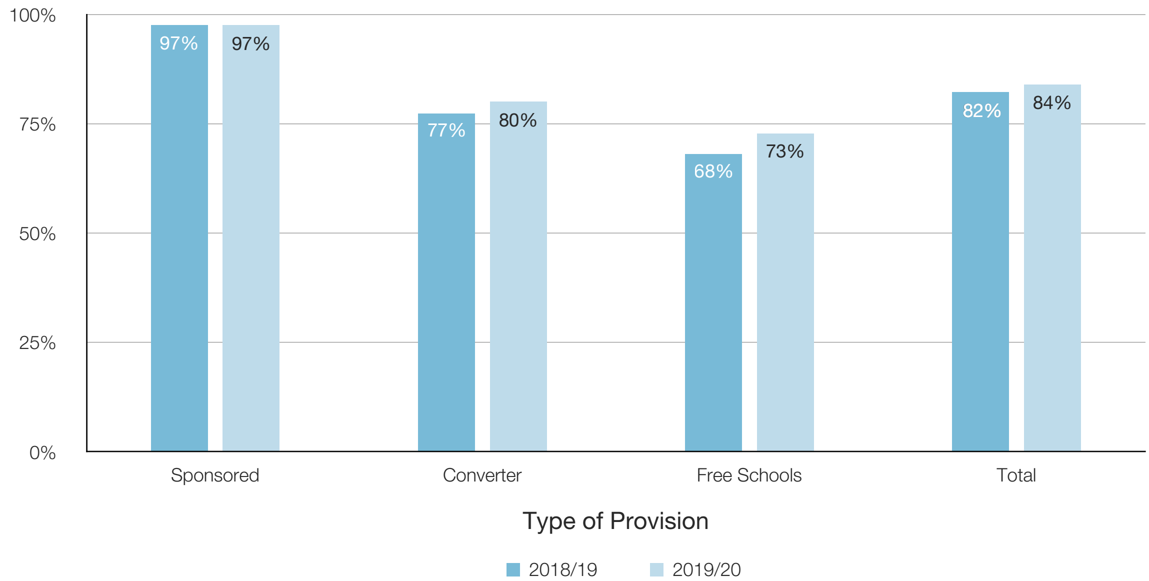
22 As at 31 August 2020, 43% of schools were operating as academies.
23 Further detail can be found in annex 2.

Multi Academy Trusts

At 31 July 2020, there were 7,730 (84%) academies (including free schools, studio schools and UTCs) in trusts with more than one academy, forming 1,192 multi academy trusts, (compared to 7,132 academies in 1,186 multi academy trusts with more than one academy at 31 July 2019). There were 1,470 academies, free schools, studio schools and UTCs in a single academy trust, or in a multi academy trust with only one academy. Figures 15a & 15b show the number of multi academy trusts broken down by phase and type of academy.

Figures 15a and 15b: Percentage of academies in a trust with more than one academy as at 31 July 2020 by phase and type[24, 25].





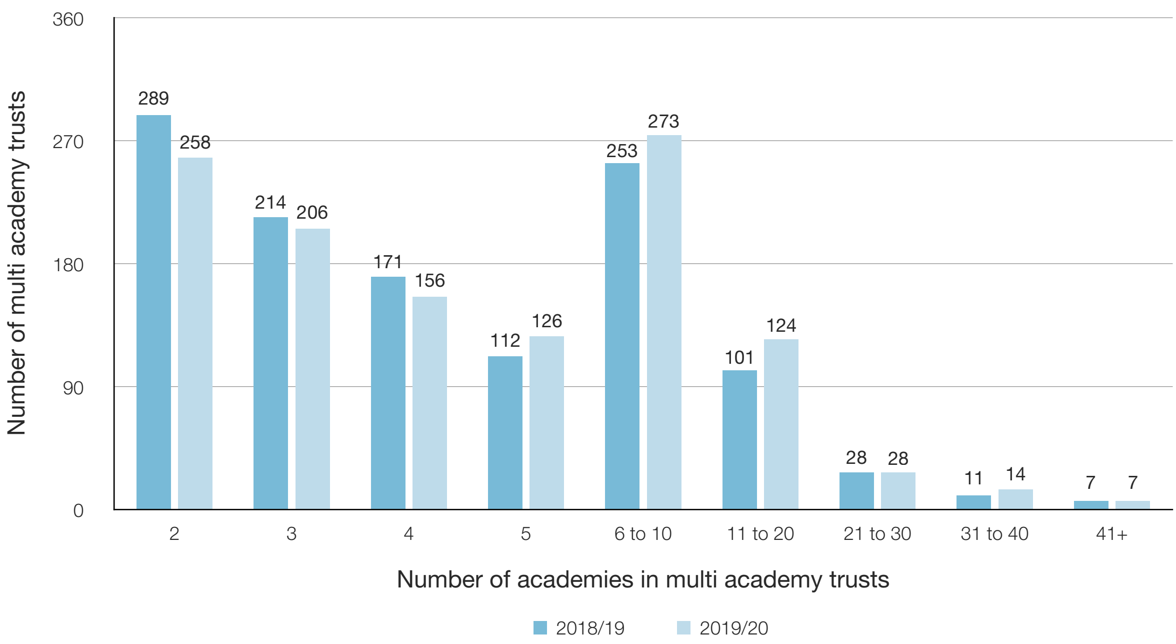
24 Restated for 31 August 2020 in annex 1. Available at: https://get-information-schools.service.gov.uk/

25 Sponsored academies are established and managed by sponsors from a wide range of backgrounds, including high performing schools and colleges, universities, individual philanthropists, businesses, the voluntary sector, and the faith communities. Converter academies are former schools which have chosen to convert to academy status.

As of July 2020, sponsored academies were more likely to be part of a multi academy trust than other types of academies as the majority of sponsoring trusts were academy converters. More information on academy sponsorship is provided in the following section.

The mean number of academies in multi academy trusts with more than one academy was six. The smallest had two academies (although some ATs with one academy were technically constituted as multi academy trusts), while the largest had 72. Figure 16 shows the variation in the number of academies per multi academy trusts.

Figure 16: Number of academies in multi academy trusts as at 31 July 2020 [26] **(source: https://get-information-schools.service.gov.uk/)**



Academy Sponsorship

Underperforming schools should be supported by a sponsoring AT. Sponsoring trusts support their academy schools to improve standards. The AT is ultimately responsible for the academy's educational performance, governance and financial management. [27]

Sponsoring trusts can be established from different backgrounds including universities, independent schools, businesses, charities, faith organisations, as well as existing multi and single academy trusts. In order to be approved as a sponsoring trust the organisation needs to demonstrate it has the capacity and capability, through the AT, to drive up standards and provide effective school improvement. The relevant Regional Schools Commissioners (RSCs), advised by their Head Teacher Board (HTB) for the region, take decisions on sponsor applications.

26 Restated for 31 August 2020 in annex 1.
27 Further information on a trust's responsibility can be found in the Academy Trust Handbook: https://www.gov.uk/guidance/academy-trust-handbook

Strengthening Trusts' Boards

The Department funds the Academy Ambassadors programme [28]. Academy Ambassadors provide a free, bespoke recruitment service matching high-calibre business professionals with MATs looking to strengthen their boards. For the period 1 August 2019 to 31 July 2020, funded by the Department, the programme resulted in 351 [29] experienced leaders providing support to MATs by joining trust boards as non-executive directors (388 leaders joined boards between 1 August 2018 and 31 July 2019 [30]).

How Academies Support School Improvements As 'System Leaders'

In Summer 2018, the Department carried out an internal review of system leadership programmes, including Teaching Schools, National Leaders of Education (NLEs) and National Leaders of Governance (NLGs). At this point, the Department paused any further system leadership designations.

In its Recruitment and Retention Strategy (January 2019), the Department committed to carrying out a wholesale review of system leadership designations, to ensure that the support offered to underperforming schools is as strong as possible.

In May 2019, as part of the Department's review of system leadership, Ministers asked Ian Bauckham CBE, CEO of Tenax Schools Trust to chair an advisory group, made up of headteachers, executive headteachers and MAT CEOs from across the country, to provide advice on improvements to the NLE programme.

The Department accepted the NLE advisory group's report of recommendations [31] including investing, for the first time, in the best professional development for NLEs and widening the scope of top school leaders who will be eligible to be designated.

From Spring 2022, we will be beginning the process of designating a new cadre of NLEs who will have a specific remit to support school improvement.

The Department confirmed in February 2021 that 87 schools have been selected as teaching school hubs (TSH) [32], forming centres of excellence for teacher and leadership training and development, focusing mainly on the Department's 'golden thread' of Initial Teacher Training (ITT), the Early Career Framework (ECF) and National Professional Qualifications (NPQs). The Teaching School programme will end as of September 2021.

The Department published NLG advisory group recommendations on NLG Reform [33] in September 2020. The Department accepted the recommendations, and the reformed NLG programme will be delivered from Academic Year 2021/22.

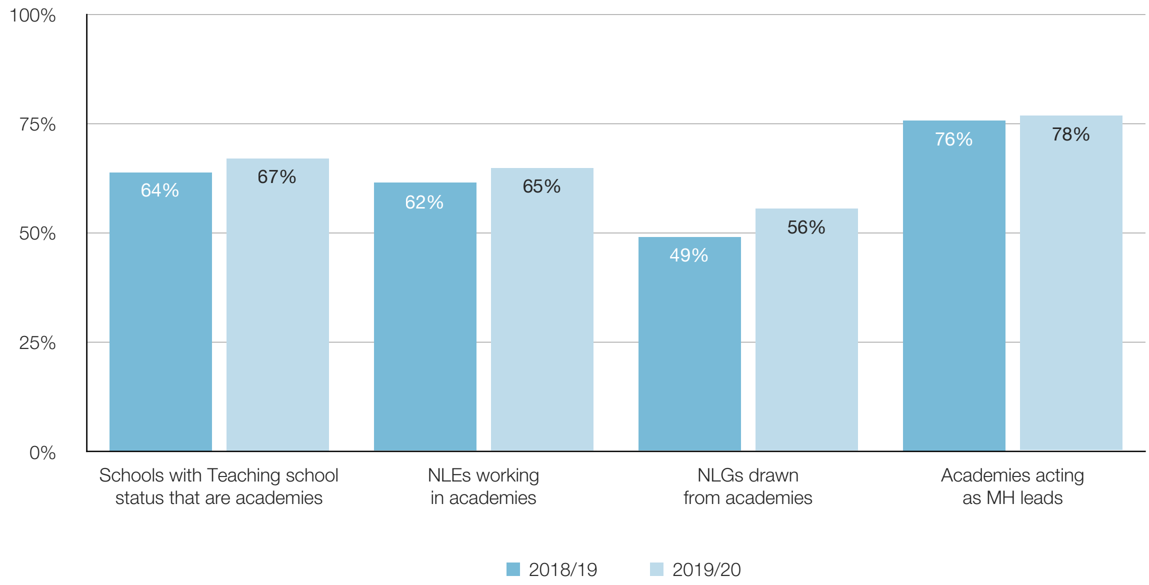
28 Academy Ambassadors programme: http://www.newschoolsnetwork.org/AAP
29 A further 18 appointments were made in August 2020.
30 A further 2 appointments were made in August 2019.
31 https://www.gov.uk/government/publications/review-of-the-national-leaders-of-education-nle-programme
32 https://www.gov.uk/government/news/new-teaching-school-hubs-to-be-rolled-out-across-the-country
33 https://www.gov.uk/government/publications/nlg-advisory-group-reform-recommendations

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 August 2020, there were 745 TSs, of which 502 were Academies with TS status (compared to 778 TSs, of which 499 were Academies with TS status as at 31 July 2019). The Teaching School programme will end in August 2021.
- **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 August 2020, there were 1,018 NLEs, of which 664 were NLEs drawn from Academies (compared to 1,182 NLEs, of which 730 were within Academies as at 31 July 2019). Between May 2020 and July 2021 NLEs support focused on supporting those schools and trusts most vulnerable as a result of the pandemic.
- **Maths hubs (MHs):** Maths hubs are responsible for delivering the Teaching for Mastery programme, which promotes a pedagogical method of teaching based on approaches seen in top performing international jurisdictions. There are 40 Maths hubs (2018/19: 37 Maths hubs) across the country which act as a national network of schools that harnesses local maths leadership and expertise through a school-led model of school-to-school support to encourage the development and reach of excellence in the teaching of mathematics.
- **Computing hubs:** The National Centre for Computing Education (NCCE) is responsible for coordinating a national network of school-based computing hubs. There are currently 34 hubs (2018/19: 34 hubs) which provide an effective network of support to ensure that computing teachers in primary and secondary schools and further education (FE) colleges have access to a wide range of high quality continuous professional development (CPD); draw in local expertise to provide a range of CPD opportunities for all teachers; and build local expertise and capacity for school-to-school support, including work plans to improve poor performing schools.
- **English hubs:** English hubs are a network of 34 schools (2018/19: 34 schools) with excellent early language and reading teaching, backed by £43.3 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. The three main aims of the English hubs programme are: excellent phonics teaching, early language development and reading for pleasure.
- **National Leaders of Governance (NLGs):** NLGs are highly effective chairs of governors who support chairs of governors in other schools. As at 31 August 2020, there were 338 NLGs, of which 189 were NLGs working within Academies (compared to 383 NLGs, of which 189 were within Academies as at 31 July 2019).

Figure 17: Academies designated and funded to take part in school improvement programmes

Academies Providing School Improvement Support



Supporting Schools to maximise value from resources

The Department is committed to helping schools to get the best value for money from all of their resources. Our School Resource Management Programme[34] helps schools improve educational outcomes for pupils by making every pound count. The programme provides hands-on support from School Resource Management Advisers[35] and a range of opportunities through the schools buying programme to save on regular purchases and reduce non-teaching costs. It also provides extensive guidance and a range of tools including the schools financial benchmarking service[36], the self-assessment tool[37] and training for school leaders. We are continuing to expand the programme to help more schools in the future.

We have continued to develop and roll out our School Resource Management offer to help schools get the best out of their budgets. This has included:

- Further developing the schools financial benchmarking service and the View My Financial Insights tool, by improving the functionality of these tools which allow schools and trusts to compare their spending with similar schools and trusts to identify if, where and how changes to their spending could improve educational outcomes for pupils.
- Scaling up our offer of School Resource Management Advisers (SRMAs) to provide expert, hands-on support to schools on using their resources effectively.[38] During 2019/20, advisers also provided bespoke SRMA "resilience deployments", providing emergency business and planning support to schools, trusts and LAs facing challenges due to the COVID-19 pandemic.

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34 School resource management hub: https://www.gov.uk/government/collections/schools-financial-health-and-efficiency
35 School resource management adviser (SRMA) pilot evaluation https://www.gov.uk/government/publications/school-resource-management-adviser-srma-pilot-evaluation
36 https://schools-financial-benchmarking.service.gov.uk/
37 https://www.gov.uk/government/publications/school-resource-management-self-assessment-tool
38 https://www.gov.uk/guidance/preventing-financial-failure-in-schools-and-academies#deploying-school-resource-management-advisers-srmas

- Achieving over 70% of schools being signed up to Teaching Vacancies, the government's free, national online service for searching and listing teaching roles. The aim is to save schools money and time when recruiting teachers, instead of relying on paid-for job boards.
- Providing training for school leaders to support better resource management through Integrated Curriculum and Financial Planning (ICFP). [39]
- Helping schools get the best value when purchasing, including through a range of national buying deals [40], frameworks [41] and pilot Buying Hubs, saving schools money on regular purchases such as furniture, cleaning services, and ICT.
- Further developing the Risk Protection Arrangement (RPA) for schools, helping schools to reduce their insurance costs and manage risks proactively. [42] Over 71% of Academies were members of the scheme by August 2020 and RPA for LA maintained schools was launched in March 2020 with over 400 schools joining on launch.

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 2020 results, to be congruent with the reporting period.

Gender

The gender split in primary academies is broadly in line with the national average. Boys represent 50.5% of the pupils in primary free schools, 50.9% in primary converter academies and 51.1% in primary sponsored academies, compared with 50.9% across all state-funded primary schools. 45% of pupils at secondary free schools and 50.5 % of pupils at secondary converter academies are girls, compared with 49.9% across all state-funded secondary schools (see figure 18). At secondary sponsored academies 51.3% of pupils are boys, and 48.7% girls.

Ethnicity

Free schools and 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 2020, across all state-funded primary schools, 33.9% of pupils were from a minority ethnic group. In primary free schools and sponsored academies, the percentage of pupils from a minority ethnic group was 60.1% and 37.7% respectively and in primary converter academies it was 30.3%. In 2020 across all state-funded secondary schools, 32.2% of pupils were from a minority ethnic group. In secondary free schools the percentage was 52.8%, it was 33.9% in secondary sponsored academies and in secondary converter academies it was 28.6% (see figure 18). [43]

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39 https://www.gov.uk/guidance/integrated-curriculum-and-financial-planning-icfp
40 https://www.gov.uk/guidance/buying-for-schools
41 https://www.gov.uk/guidance/find-a-dfe-approved-framework-for-your-school
42 https://www.gov.uk/guidance/the-risk-protection-arrangement-rpa-for-schools
43 Schools, Pupils and their Characteristics: January 2020, underlying data https://explore-education-statistics.service.gov.uk/find-statistics/school-pupils-and-their-characteristics

Figure 18: Distribution of gender and ethnicity of pupils split by type and phase of academy as at January 2020 (source: School Census January 2020)

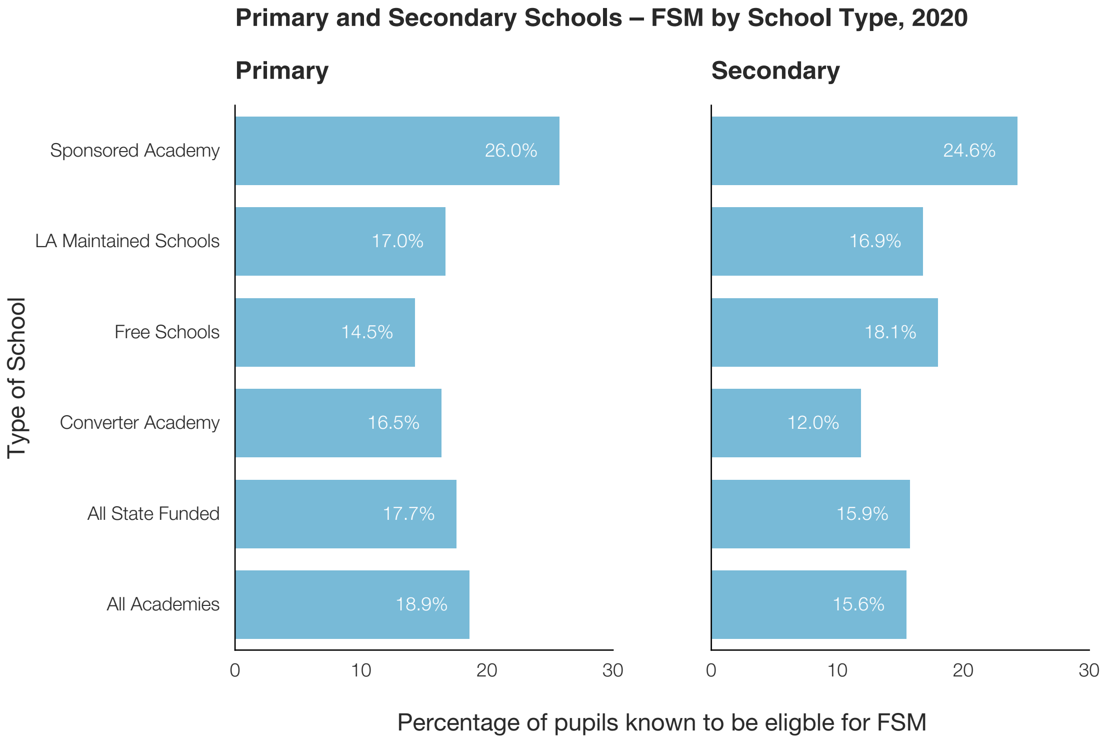
	Sponsored	Converter	Free Schools [44]	LA Maintained	All state-funded
Mainstream Primary Schools					
Gender					
Boys	51.1%	50.9%	50.5%	51.0%	50.9%
Girls	48.9%	49.1%	49.5%	49.0%	49.1%
Ethnicity					
White	71.3%	76.0%	49.0%	72.5%	73.1%
Mixed	6.7%	6.0%	11.3%	6.6%	6.5%
Asian	11.4%	10.1%	24.0%	11.6%	11.3%
Black	6.5%	4.6%	8.6%	5.6%	5.4%
Chinese	0.3%	0.5%	0.8%	0.5%	0.5%
Any other ethnic group	2.4%	1.6%	3.6%	2.2%	2.1%
Unclassified	1.4%	1.2%	2.7%	1.0%	1.1%
Total [45]	**100%**	**100%**	**100%**	**100%**	**100%**
Minority ethnic pupils [46]	37.7%	30.3%	60.1%	34.4%	33.9%
Mainstream Secondary Schools					
Gender					
Boys	51.3%	49.5%	55.0%	49.8%	50.1%
Girls	48.7%	50.5%	45.0%	50.2%	49.9%
Ethnicity					
White	71.5%	75.6%	51.4%	69.8%	72.5%
Mixed	6.0%	5.4%	8.2%	5.9%	5.7%
Asian	10.2%	10.8%	21.7%	12.8%	11.6%
Black	7.4%	4.6%	10.4%	7.4%	6.0%
Chinese	0.3%	0.5%	0.4%	0.4%	0.4%
Any other ethnic group	2.5%	1.6%	3.3%	2.1%	2.0%
Unclassified	2.1%	1.6%	4.6%	1.6%	1.8%
Total [45]	**100%**	**100%**	**100%**	**100%**	**100%**
Minority ethnic pupils [46]	33.9%	28.6%	52.8%	35.7%	32.2%

44 Including studio schools and UTCs.
45 Numbers may not sum due to rounding.
46 Includes all pupils classified as belonging to an ethnic group other than White British (excludes unclassified).

Pupils eligible for free school meals

Overall, the percentage of pupils known to be eligible for free school meals (FSM) in primary academies is higher than the national average across all state-funded primary schools. In January 2020, 18.9% of primary academy pupils were known to be eligible for FSM [47], compared with 17.7% across all state-funded primary schools (see figure 19). Conversely, the percentage of FSM pupils in all secondary academies is slightly lower than the average across all state-funded schools. In secondary academies, 15.6% of pupils were known to be eligible for FSM compared with 15.9% across all state-funded secondary schools. [48]

Figure 19 [49]: Percentage of pupils known to be eligible for FSM by type and phase of academy as at January 2020



Free Schools in figure 19 above includes UTC and studio schools at Secondary.

In primary and secondary sponsored academies, there is a higher percentage of pupils known to be eligible for FSM than the national average. At primary level, 26.0% of pupils in sponsored academies are known to be eligible for FSM compared with 17.7% across all state-funded primary schools. Sponsored academies typically replaced underperforming schools, which tend to be in areas with higher levels of deprivation, which in turn leads to a higher proportion of pupils eligible for free school meals. In primary free schools, 14.5% of pupils are known to be eligible for FSM, below the average for all state-funded primary schools. In secondary sponsored academies, 24.6% of pupils are known to be eligible, compared with 15.9% in all state-funded secondary schools. In secondary free schools, 18.1% of pupils are known to be eligible for FSM.

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47 Based on all full-time pupils aged 15 and under, and part-time pupils aged 5 to 15.
48 Schools, Pupils and their Characteristics: January 2020: https://explore-education-statistics.service.gov.uk/find-statistics/school-pupils-and-their-characteristics
49 Details in table A in annex 3.

Special educational needs

The law and statutory guidance on special educational needs (SEN)[50] and exclusions[51] 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, whilst converter academies and primary free schools are below the national average.[52]

In January 2020, across all state-funded primary schools, 14.6% 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 16.2% and in primary converter academies it was 13.9%. In primary free schools, 11.9% of pupils were identified as having SEN.

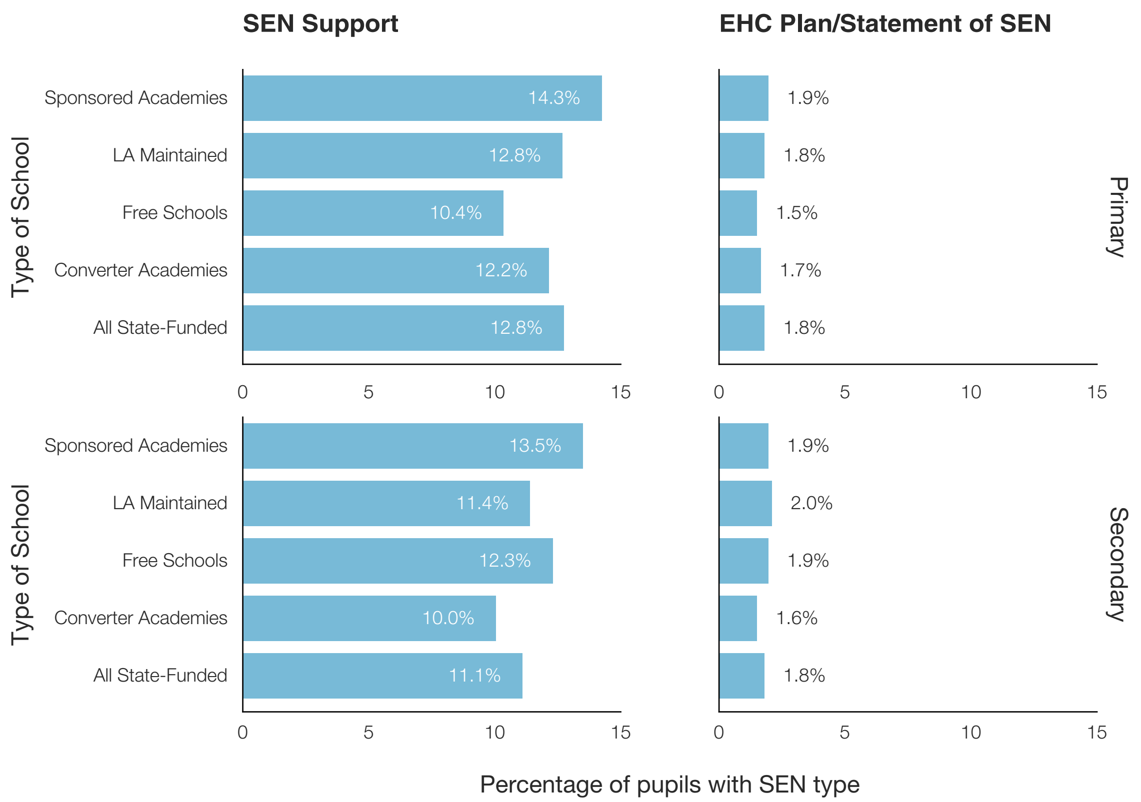
Across all state-funded secondary schools, 12.9% of pupils were identified as having SEN. In secondary sponsored academies, the percentage was 15.3% and in secondary converter academies it was 11.6%. In secondary free schools, UTCs and studio schools, 14.1% of pupils were identified as having SEN (see figure 20 and Table B in annex 3).

50 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

51 Statutory guidance on school-exclusion: https://www.gov.uk/government/publications/school-exclusion

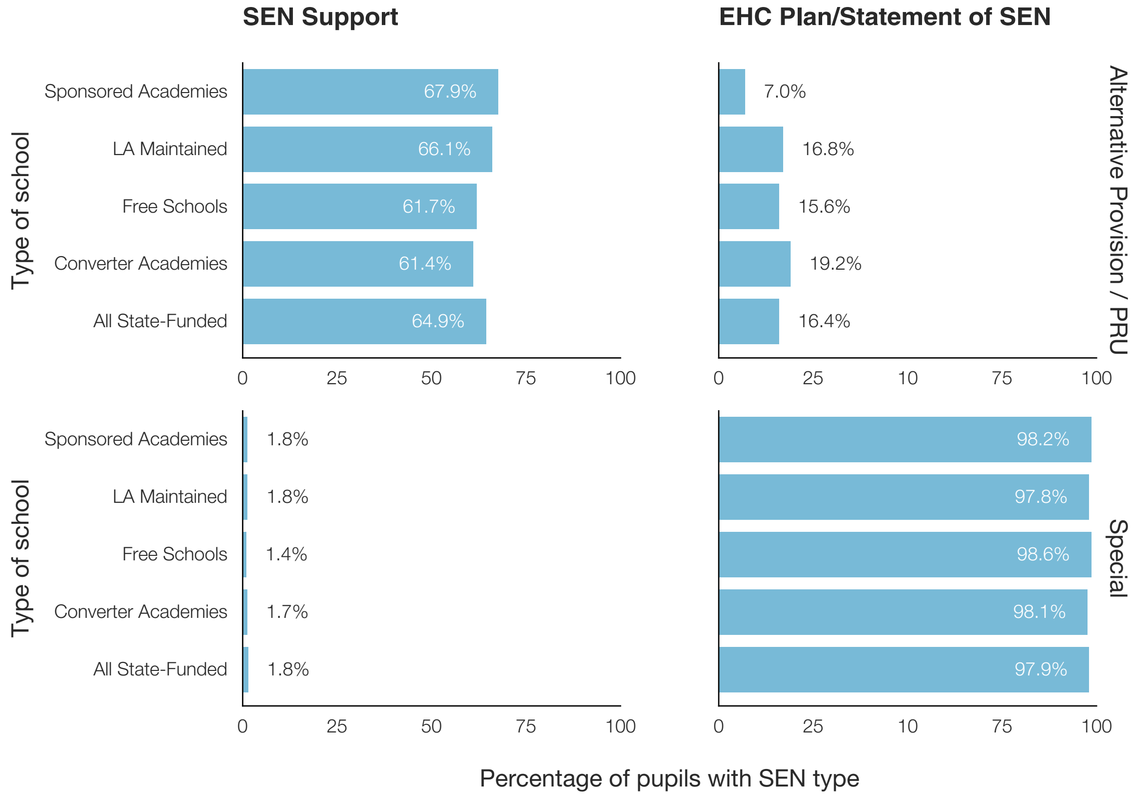
52 Special Educational needs in England: January 2020, https://explore-education-statistics.service.gov.uk/find-statistics/special-educational-needs-in-england

Figure 20 [53]: Special educational needs split by type and phase of academy as at January 2020 Primary and Secondary schools – SEN by school type, 2020



53 Details in table B in annex 3.

Alternative provision and special schools – SEN by school type, 2020



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 – see Table B, annex 3. Proportions of EHC plan / SEN statements and support across all types of state-funded special schools are similar.

Although offering a different type of provision, over three-quarters of pupils in alternative provision (AP) in 2020 had SEN requirements, but with a smaller proportion having a statement of SEN or EHC plan than in special academies. Converter AP academies had 80.6% of pupils identified as SEN in 2020, while sponsored AP academies had 74.9%, both slightly lower than LA provision. AP free schools had 77.3% of pupils identified as SEN.

Educational Performance

The Government announced [54] in March 2020 that, due to the COVID-19 pandemic, all exams due to take place in schools and colleges in England in summer 2020 would be cancelled, and that it would not publish any school or college level educational performance data based on tests, assessments or exams for 2020.

Pupils scheduled to sit GCSE and A/AS level exams in 2020 were awarded either a centre assessment grade (based on the school or college's assessment of the grade the student would have most likely achieved had exams gone ahead) or their calculated grade using a model developed by Ofqual – whichever was the higher of the two.

The Department has published national KS4 and 16-18 attainment statistics for 2020 [55], reflecting grades awarded to students in August 2020. Some of these are set out below. It should be noted that the cancellation of summer 2020 exams and the different method of awarding grades led to a set of pupil attainment statistics that are unlike previous years. This means that year on year changes in the statistics reported below likely reflect the different process for awarding grades in 2020 rather than changes in the underlying performance of students or particular school types.

Primary tests and assessments were cancelled for 2020 and no alternative data exists.

Performance at primary academies

The KS1 and KS2 assessments scheduled between April and July 2020 were cancelled due to the COVID-19 pandemic and the resulting school closures. Further disruption caused by the move to restricted attendance in schools in the 2020/21 academic year meant cancellation of assessments planned for summer 2021.

Most schools continue to use assessment to inform teaching, to enable them to give information to parents on their child's attainment in their statutory annual report and to support transition to secondary school. The latest official information available is the analysis of the 2019 KS2 assessments available in the previous year's report.

Performance at secondary academies

Given the unprecedented change in the way GCSE results were awarded in 2020 and the resulting significant change to the distribution of the grades received, pupil level attainment in 2019/20 and 2018/19 is not comparable for the purposes of measuring changes in pupil performance. The increases seen in the headline likely reflect the changed method for awarding grades rather than demonstrating a step change improvement in standards.

Attainment in 2020 in English and Maths by school type can be found in figure 23. Other headline measures of attainment can be found in the KS4 performance data publication [56].

As in 2019, converter academies continue to have, on average, higher attainment than state-funded mainstream schools. Conversely, sponsored academies and studio schools continue to perform below the state-funded average.

54 https://questions-statements.parliament.uk/written-statements/detail/2020-03-23/HCWS176
55 KS4: https://www.gov.uk/government/statistics/key-stage-4-performance-2020
16-18: https://explore-education-statistics.service.gov.uk/find-statistics/a-level-and-other-16-to-18-results/2019-20
56 Key stage 4 performance: https://www.gov.uk/government/statistics/key-stage-4-performance-2020

Figure 23a and 23b: Percentage of pupils achieving grade 4 or above in English and Maths by year and academy type in 2020 and 2019[57]

Figure 23a – 2020 percentage of pupils:

Academy Type	Percentage of pupils who achieved a 9-4 pass in English and Maths in 2020
Sponsored academies	63.4%
Converter academies	77.0%
Free schools	74.6%
University technical colleges	67.2%
Studio schools	60.2%
LA maintained mainstream schools	72.0%
All state-funded mainstream schools	**72.6%**

Figure 23b – 2019 percentage of pupils:

Academy Type	Percentage of pupils who achieved a 9-4 pass in English and Maths in 2019
Sponsored academies	55.1%
Converter academies	71.1%
Free schools	67.3%
University technical colleges	51.7%
Studio schools	45.5%
LA maintained mainstream schools	64.6%
All state-funded mainstream schools	**65.9%**

In 2020, Progress 8 measures for schools were not published (as a consequence of the changed method of awarding GCSE exam grades to pupils). Attainment 8[58] scores were calculated, and the following table shows the variation by school type for both 2019 and 2020. Again, year-on-year comparisons are not valid for estimating school improvements though do provide context to the trends seen within the data between school types. For example, the 2019/20 figures do show that (as in 2019), converter academies continue to have on average higher Attainment 8 rates than other academy school types and state-funded mainstream schools.

57 Key Stage 4 performance: https://explore-education-statistics.service.gov.uk/find-statistics/key-stage-4-performance-revised/2019-20

58 Information on Attainment 8 and how it is calculated can be found at Secondary accountability measures (including Progress 8 and Attainment 8) – https://www.gov.uk/government/publications/progress-8-school-performance-measure

Figure 24a and 24b: Average Attainment 8 scores by school type in 2020 and 2019

Figure 24a – 2020 Attainment 8 scores:

Academy Type	Average Attainment 8 score in 2020
Sponsored academies	46.1
Converter academies	53.7
Free Schools	52.0
University technical colleges	44.4
Studio Schools	41.4
LA maintained mainstream schools	50.5
All state-funded mainstream schools	**51.1**

Figure 24b – 2019 Attainment 8 scores:

Academy Type	Average Attainment 8 score in 2019
Sponsored academies	42.0
Converter academies	50.4
Free Schools	48.3
University technical colleges	38.2
Studio Schools	36.5
LA maintained mainstream schools	46.7
All state-funded mainstream schools	**47.6**

Performance at academies with post-16 provision

Students scheduled to sit GCSE and A/AS level exams in 2020 were awarded either a centre assessment grade (based on what the school or college believed the student would most likely have achieved had exams gone ahead) or their calculated grade using a model developed by Ofqual – whichever was the higher of the two.

For vocational and technical qualifications (VTQs), where centre assessment was used, it was a different process to that for A/AS levels. Centre assessment grades were often available at unit level, and many awarding organisations were able to use evidence of work already completed during the course and use this as a basis for calculating the results they issued. For some qualifications adapted assessment meant calculation was not needed.

The cancellation of both the exam assessment and checking exercise as outlined above means the 2019/20 data should not be directly compared to attainment data from previous years for the purposes of measuring change in student performance; in other words, year on year changes might be caused by the different process for awarding qualifications in 2020 rather than reflecting a change in underlying performance.

The headline attainment measures highlighted in this report are based on results that students achieved by the end of their 16 to 18 study. Whilst students typically enter most exams in their final year of study, the attainment measures labelled as 2020 will include some results from previous years. The full set of attainment and retention statistics for 2019/20 are published in the statistical release [59] 'A level and other 16 to 18 results: 2019/20'.

In 2020, with the alternative process to award grades, all types of state-funded schools had higher attainment as measured by average point score (APS) per entry across academic, applied general, and tech level exam cohorts when compared to 2019. Across all state-funded schools the increase of circa six points for the academic cohort equates to an increase of about 6/10ths of an A level grade compared to 2019.

In 2020 converter academies had a higher APS per entry for academic and tech level exams than sponsored academies. However, sponsored academies had a higher APS per entry for applied general qualifications. The same pattern was observed in 2019 when all awards were based on students sitting exams.

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.

Converter academies and independent schools have the largest number of students that entered A/AS level qualifications (45.2% and 12.8% of the total number of A level students respectively). Similarly, 38.2% of students that enter approved applied general qualifications programmes are in converter academies, but the second largest number of students are in other FE sector colleges (23.3%). In contrast, almost two-thirds (60.7%) of students entered for tech level qualifications are in other FE sector colleges. For technical certificate qualifications at level 2, 93.2% of students are in other FE sector colleges.

Performance in retention measures is based on recording by schools and colleges whether the student "completed the learning activities leading to the learning aim".

For students due to complete their learning aim in 2019/20, that may or may not have happened before schools and colleges closed at the end of 20 March 2020 (except for the children of key workers and vulnerable young people). Some students may have been recorded as completing their learning aim when they may not have finished their course had it continued to the end of the academic year.

Whilst broadly headline retention rates increased slightly in 2019/20 – following falls in 2018/19 – this increase may reflect a knock-on impact of COVID-19 on reporting rather than a change in behaviour.

A level programmes at converter academies had the highest retention rate (94.3%). Sponsored academies had a retention rate of 92.2%. Meanwhile, UTCs had the lowest retention rate (76.4%). Studio schools had a retention rate in 2020 of 80.4%.

Susan Acland-Hood
Permanent Secretary
1 December 2021

59 16-18 attainment data: https://explore-education-statistics.service.gov.uk/find-statistics/a-level-and-other-16-to-18-results

Accountability Report

Corporate Governance Report

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

Statement of accounting officer's responsibilities

As the Principal Accounting Officer (AO) for the Department, 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*[60] *(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; and
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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 judgements required for determining that it is fair, balanced and understandable.

60 FReM 2019-20: https://www.gov.uk/government/collections/government-financial-reporting-manual-frem

Governance Statement

Scope of responsibility

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

The sector operates under a strict system of accountability. The key features of this system are set out in the Department's system accountability statement. [61] ATs have statutory responsibilities under company and charity law, and are ultimately accountable – through me, and the ESFA AO – to Parliament.

Figure 27: System of accountability

Within this system, my officials have designed and implemented a robust governance framework. I have delegated specific responsibilities to both the Chief Executive of ESFA and to ATs. These responsibilities are articulated within the *Academies Financial Handbook 2020 (AFH).* [62]

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.

61 DfE Accountability System Statement: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/641079/Accounting_Officer_System_Statement_v2.pdf

62 Academies Financial Handbook 2020: https://www.gov.uk/guidance/academies-financial-handbook/academies-financial-handbook-2020-to-print. A new version of the Academies Financial Handbook was published on 16 June 2021 and took effect on 01 September 2021. The name of the handbook was amended to the "Academy Trust Handbook": https://www.gov.uk/guidance/academies-financial-handbook/academy-trust-handbook-2021.

SARA consolidation process and internal controls:

The SARA is a consolidation of all AT financial statements in the sector during the reporting period.

The production of the SARA consolidation accounts has the following processes to ensure these accounts provide a 'true and fair' view:

- providing guidance to ATs through the Academies Accounts Direction [63]
- relying on the external auditors appointed by each AT's trustees who report on whether the accounts present a true and fair view of the AT's financial performance and position;
- ATs are required to complete an annual accounts return to the Department [64] which is based on their financial statements for the reporting period. This return must be approved by an external auditor before submission to the Department;
- The FReM requires valuations to be completed on a depreciated replacement cost basis. As a result, the Department appoints independent professional valuers to prepare a RICs compliant methodology to value the land and buildings estate. This methodology is reviewed annually and a proportion of the individual valuations received each year are subject to validation and further challenge by management. This significantly changes the value of land and buildings reported by the sector which are reflected in the SARA accounts. Further details of valuation of land and buildings in the academy sector are outlined in note 2;
- Given the significance of the LGPS pension scheme values linked to judgement applied when applying pension assumptions, an independent expert is commissioned by management to review and consider the total disclosure aggregated from individual trust returns. The independent expert reviews the values reported and the range of assumptions applied across the sector to ensure the aggregate value is appropriate. This is outlined in more detail in note 15;
- management review of the Accounts Return submissions from individual ATs is completed including a number of outlier tests and checks to ensure the information is accurate and fit for purpose;
- consideration by management and by the Audit and Risk Committee of the SARA consolidated accounts and the production process; and
- appointing the Comptroller and Audit General to audit these consolidated SARA accounts.

Each AT's financial statement includes a Governance Statement for the year ended 31 August 2020. This statement includes a section on the purpose of internal control and confirmation that an internal control system has been in place for the reporting period up to approval of the financial statements.

63 https://www.gov.uk/guidance/academies-accounts-direction
64 The accounts return: a return based on academy trusts' annual accounts, required for the sector annual report and accounts, and for collecting benchmarking data. See: https://www.gov.uk/guidance/academies-accounts-return

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 with the Secretary of State that sets out the conditions on which the trust receives funding, its responsibilities and the Secretary of State's intervention powers.

ATs are responsible for:

- ensuring the quality of educational provision;
- challenging and monitoring the performance of their 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 funding agreement and the AFH, including ensuring that their financial statements are reviewed by external auditors to provide an audit opinion and conclusion on their regularity;
- providing accurate data returns to the Department.

The AFH covers the financial accountability requirements for ATs. It sets out the areas of HM Treasury's **Managing Public Money**[65] that directly apply to ATs. In addition, the Department's **Governance Handbook**[66] describes the elements of good governance to which trusts must give due regard. The AFH is updated annually to cover improvements to governance and financial management arrangements, reflecting 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. 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 the Department. This year, due to the impact of the pandemic, all assurance reviews were desk-based.

During the programme of 2019 to 2020 audits, ESFA identified that error rates relating to census data returns were similar to previous years at 0.11% (0.05% in 2018 to 2019).

Any new AT is required to complete a financial management and governance self-assessment (FMGS) return and submit it to ESFA within three months of opening their first academy.

The FMGS return provides a self-assessment on the implementation of the AFH requirements within the new trust and is approved by the AT's board of trustees before submission, to provide accountability for the quality of the return.

An action plan is created for any areas where the trust is not compliant. This asks ATs to confirm the remedial action they intend to take to achieve compliance together with a timescale for implementation. All action plans are reviewed for completeness. Any outstanding returns are pursued by ESFA.

A sample of FMGS returns are also selected for review.

In July 2019, ESFA introduced a mandatory requirement for all ATs open on 31 August 2019, to complete a School Resources Management Self-Assessment Tool (SRMSAT) and submit it to ESFA by 14 November 2019. During 2020 it was agreed to change the timing of this return to the spring, to better align with trusts' budgetary cycles. The latest return was April 2021.

Any outstanding returns are pursued by ESFA.

65 Managing Public Money: https://www.gov.uk/government/publications/managing-public-money
66 Governance Handbook, October 2020: https://www.gov.uk/government/publications/governance-handbook

The SRMSAT provides a self-assessment on how the AT adheres to the academy accountability framework. High level analysis is carried out on all returns, and this is used to assess risk. A sample of the SRMSAT returns are reviewed and where we identify concerns, recommendations to achieve compliance are made to the AT.

During 2019/20, ESFA did not identify serious concerns in the FMGS review process. There were no identified major control weaknesses in financial management or governance but where weaknesses were identified, they were followed up with appropriate intervention.

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**[67] identifies a range of training material to help AT boards do this.

Each AT is required to appoint its own AO, which should be the senior executive leader of the AT. Their role is to be accountable to Parliament, through me and the ESFA Chief Executive, for the resources under the trust's control. They are required to provide assurance on the management of public funds, particularly that:

- there is 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 the Department as part of the AT's audited financial statements.

ATs' funding agreements require ATs to prepare and publish their own annual report and accounts in accordance with the Companies Act 2006, Charities SORP and Academies Accounts Direction. ATs are required to appoint an independent auditor who reports on whether the financial statements present a true and fair view of the AT's financial performance and position. The auditor is also required to give a conclusion, addressed jointly to the AT and ESFA, on whether any matters of irregularity have come to their attention and include this conclusion within the audited financial statements.

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

The Department requires each AT to submit their audited financial statements to the Department by 31 December each year, covering the period ending 31 August. However, for this year, the deadline for trusts to submit their financial statements was extended by 1 month to the 31 January 2021. ATs are required to publish their financial statements on their website to assist financial transparency. Copies of an AT's audited financial statements are also available from **Companies House website**[68] as required by the **Companies Act 2006**.[69]

There were expected to be 2,743 financial statements from ATs for the period ending 31 August 2019. At publication, 2,741 (99.9%) had been received, with 2 outstanding.

67 Governance Handbook, October 2020: https://www.gov.uk/government/publications/governance-handbook
68 Companies House website: https://www.gov.uk/government/organisations/companies-house
69 Companies Act 2006: http://www.legislation.gov.uk/ukpga/2006/46/contents

Independent auditors' opinions on the academy trust financial statements

Independent auditors undertake audits of AT financial statements and provide independent opinions on whether they show a 'true and fair' view and comply with the published **Accounts Direction**[70]. A summary of audit opinions is presented below.

Figure 28: Summary of auditors' opinion

	2019/20		2018/19	
	Number	%	Number	%
Unqualified	2,560	93.4%	2,618	91.4%
Unqualified – Emphasis of matter other	12	0.4%	5	0.2%
Unqualified – Financial statements produced on non-going concern basis (trust closing)	99	3.6%	119	4.2%
Unqualified – Material uncertainty to continue as a going concern (financial issues)	56	2.0%	84	2.9%
Qualified	14	0.5%	21	0.7%
Disclaimer of opinion	-	-	-	-
Adverse	-	-	-	-
Financial statements not received	2	0.1%	18	0.6%
	2,743	**100.0%**	**2,865**	**100.0%**

An unqualified opinion means that the auditor was able to conclude the financial statements are materially correct with no significant matters to bring to the reader's attention. In 2019/20, over 99% of AT financial statements received unqualified opinions (2018/19: over 98% of AT financial statements also received unqualified opinions).

The audit opinions that were 'qualified' remained low at 0.5%. The main reasons for the qualifications were predominantly issues in the following areas:

- accounting treatment for the recognition of land and buildings;
- inadequate accounting records provided by academy trusts during the course of the audit to the external auditors;
- Local Government Pension Scheme (LGPS) actuarial valuations.

The number of ATs reporting a material uncertainty relating to going concern due to financial weakness has decreased slightly from the previous year. This indicates an improvement in AT's financial management especially in light of the COVID-19 pandemic. The number of ATs producing financial statements on a non-going concern basis due to the trust closing has also decreased from the previous year. This is attributable to a continuing trend of ATs closing following transfer to other MATs.

70 Academies accounts direction 2019/20: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/922611/Academies_Accounts_Direction_2019-2020.pdf

Independent auditor’s conclusions on regularity

AT financial statements 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 funding agreement and AFH.

The table below shows that, at the time of publication, there were 234 instances where these assurance reports identified regularity exceptions.

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

Figure 29: Summary of auditors’ opinions on regularity

	2019/20		2018/19	
	Number	%	Number	%
No regularity exception noted	2,507	91.4%	2,645	92.3%
Regularity exception noted	234	8.5%	202	7.1%
Accounts not received	2	0.1%	18	0.6%
	2,743	**100.0%**	**2,865**	**100.0%**

Independent reporting accountants concluded that there were no regularity exceptions in trust financial statements for just over 91% of trusts. There has been an increase in the number of modified regularity opinions since the previous year.

ESFA reviewed the exceptions raised for the remaining 9% of ATs. The areas where the independent reporting accountants identified failure of ATs to comply fully with AFH requirements included:

- Internal Financial Reporting;
- no independent checks of internal controls;
- related party transactions or the ‘at cost’ policy relating to goods and services purchased from related parties or pre-approval not sought for those transactions greater than £20,000 post 1 April 2019.

The impact of COVID-19 was the cause of just under 14% of the reasons for a regularity exception. This is a contributable factor for the increase in the number of regularity exceptions noted. One of the main causes of this was down to no internal scrutiny having been carried out.

The majority of the regularity exceptions related to internal reporting, including concerns with the timeliness or quality of management accounts, and process issues relating to financial management, for instance bank reconciliations and lack of approval controls. 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.

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

The Department's governance structures

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

Figure 30 shows how the ARC reports into the Departmental board, alongside the role of the Department's other committees.

Figure 30: The Department's governance structures

Departmental Board

The Departmental board provides strategic and operational oversight for DfE and is supported by its sub-committees. The board is chaired by the Secretary of State and membership is comprised of the Minister of the Board, the Permanent Secretary, two Directors General, the Strategic Finance Director and the non-executive board members. All junior ministers have a standing invitation to attend the board meetings.

Leadership team

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

Performance and Risk Committee

The Performance and Risk Committee provides oversight of the breadth of the Department's performance and risk.

People Committee

The People Committee provides oversight of the Department's people and workforce strategy.

Investment Committee

The Investment Committee is responsible for approval of financially significant or contentious business cases.

Digital, Data and Technology Committee

The Digital, Data and Technology Committee provides oversight of the Department's digital capacity, capability and prioritisation.

COVID Board

The Covid Board provides oversight of the Department COVID related Programmes. Membership comprises of Director Generals and Directors as appropriate.

Talent and Remuneration Committee

The Talent and Remuneration Committee reviews and agrees Senior Civil Service workforce and resourcing actions. Membership comprises of Director Generals and the HR Director.

Implementation Committee

The Implementation Committee supports the board by scrutinising the Department'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, Director of Strategic Finance, Director of Strategy, Social Mobility and Disadvantage, 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, support, and challenge of the Department's arrangements for governance, risk management and internal controls. It is chaired by a non-executive board member and membership is comprised of another non-executive board member and four independent members all of whom are independent from the Department.

Nominations Committee

The Nominations Committee supports the board by providing independent scrutiny, assurance and advice on the Department's plans, strategies and systems for senior talent management, senior performance management, pay and reward, succession planning, board appointments 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 ESFA within the control framework

ESFA was established on 1 April 2017 as an Executive Agency of the Department. 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 taxpayer, 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.

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's business plan objectives, organisational effectiveness and performance, and alignment with the Department's mission, strategy and purpose.

ESFA communicates the financial control framework for ATs through the AFH. It also publishes an **Academies Accounts Direction**[71] to help ATs prepare their annual financial statements and to support auditors with the effective audit of AT financial statements.

To support ATs during the COVID-19 pandemic, ESFA issued a supplementary bulletin[72] to the Academies Accounts Direction to support and advise them on how to report on COVID-19 related activities and processes.

ESFA actively engages with the sector to raise standards of financial management and governance. In 2019/20, it participated in events and seminars for ATs and audit firms to promote understanding of the accountability framework and listen and consult with the sector to understand their challenges and pressures.

In addition, to further support ATs, ESFA extended the submission date for their audited financial statements for 2019/20 by one month to 31 January 2021.

While the primary responsibility for the oversight of ATs rests with trustees themselves, 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. 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.

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

Where ESFA has concerns about financial management or governance in an AT, it intervenes proportionately to the scale and nature of the risk, taking account of local circumstances, and to preserve effective education provision. Intervention actions can include working with the trust to reach a stronger position and build the trust's capacity; develop a plan or supporting the AT with a School Resource Management Adviser visit through to more formal actions, such as issuing and publishing a Financial Notice to Improve (FNtI)[73] or termination of the FA.[74]

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71 Academies accounts direction 2019/20 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/922611/Academies_Accounts_Direction_2019-2020.pdf

72 Academies accounts direction 2019/20 supplementary bulletin https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/904685/Academies_Accounts_Direction_supplementary_bulletin_July_2020.pdf

73 New Financial Notices to Improve issued from September 2021 are to be renamed Notices to Improve, as set out in the Academy Trust Handbook 2021: https://www.gov.uk/guidance/academies-financial-handbook/academy-trust-handbook-2021

74 Further details are available within ESFA's Annual Report and Accounts for the year ended 31 March 2020 (Pages 22-24): https://www.gov.uk/government/publications/education-and-skills-funding-agency-esfa-annual-report-and-accounts-2019-to-2020 and in Part 6 of the Academies Financial Handbook on 'the regulator and intervention': https://www.gov.uk/guidance/academies-financial-handbook/part-6-the-regulator-and-intervention

An FNtI sets out the actions ESFA requires an AT to take in order to address its concerns. The AFH requires that ATs comply with the terms of an FNtI and, in exceptional circumstances, the funding agreement could be terminated due to non-compliance with the terms the FNtI sets out.

The UK entered national lockdown in March 2020, in response to the COVID-19 pandemic. During this period ESFA and the Department wanted to ensure that Departmental support and AT's resources could be focussed on responding to the pandemic. FNtIs were issued and published only in the most critical circumstances and intervention activity was judged on a case-by-case basis [75]. This may have caused a variance in the number of notices issued compared to the prior year.

9 FNtIs (representing 0.3% of the total sector by number of ATs) were issued between 1 August 2019 and 31 July 2020, with one further notice issued during August 2020 [76] (15 FNtIs representing 0.5% of the total sector by number of ATs were issued between 1 August 2018 and 31 July 2019 with no further notices issued in August 2019).

In the same period, between 1 August 2019 and 31 July 2020, 15 FNtIs were closed, with no further notices closed during August 2020 (18 FNtIs were closed between 1 August 2018 and 31 July 2019 with two further notices closed during August 2019).

Between 1 August 2019 and 31 July 2020, ESFA received 41 allegations relating to fraud and/or financial irregularity in academies from a variety of sources (compared with 50 [77] for the year to 31 July 2019), including whistle-blowers.

Following review and analysis, including formal triage of allegations where appropriate, ESFA undertook seven visits between 1 August 2019 and 31 July 2020 (compared to 16 in 2018/19). This comprised:

- one financial management and governance reviews (compared to six in 2018/19);
- six investigations (compared to four in 2018/19).

Between 1 August 2019 and 31 July 2020, ESFA published two financial management and governance reviews (compared to four in 2018/19) and three investigation reports (compared to three in 2018/19). Reports on the reviews and investigations are available online [78]. None of the concerns raised resulted in a material financial impact on the SARA.

In accordance with the AFH 2019 (s6.9) 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 45 notifications from ATs [79] between 1 August 2019 and 31 July 2020 (compared to 68 in 2018/19). Two further notifications were received during August 2020 (compared to one in August 2019).

75 The ESFA's revised approach to intervention and issuing FNtIs was set out in the following letter from Eileen Milner's letter to accounting officers, dated 21 April 2020: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/880350/ESFA_letter_to_academy_trust_accounting_officers_April_2020.pdf
The resumption of intervention activities and publication of FNtIs was set out in a subsequent letter to accounting officers, dated 16 July 2020: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901192/ESFA_letter_to_academy_trust_accounting_officers_July_2020.pdf

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

77 Reported as 46 in 2018/19. 4 cases were received late and after the 2018/19 statistics compiled.

78 Academies reports: https://www.gov.uk/government/collections/academies-financial-management-and-governance-reviews / https://www.gov.uk/government/collections/academies-investigation-reports

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

The value of fraud, irregularity or theft against ESFA confirmed during the period 1 August 2019 to 31 July 2020 was £5,691,685 [80] (compared to £227,697 in 2018/19). Fraud, irregularity and theft against ESFA of £2,383,319 was confirmed in August 2020 (£3,541,914 in August 2019). [81]

At the reporting date, the amount recovered by ESFA during the period 1 August 2019 to 31 July 2020 was £8,119 (compared to £377,697 in 2018/19). A further £37,900 was recovered in August 2020 (no recovery was made in August 2019).

The value of fraud, irregularity or theft against ATs confirmed between 1 August 2019 and 31 July 2020 was £727,455 (compared to £2,296,331 in 2018/19). Further fraud values of £59,168 were confirmed in August 2020 (£69,747 in August 2019). The amount recovered by ATs during the period 1 August 2019 to 31 July 2020 was £544,618 [82] (compared to £3,850,364 in 2018/19). A further £23,905 was recovered in August 2020 (£120,229 in August 2019). The value of fraud reported to the Department by LAs relating to LA-controlled schools was £2.2 million for the 2019-20 LA financial year (£1.9m for the 2018-19 LA financial year). [83]

COVID-19 impact

Analysis of investigation data for 1 March to 31 July 2020 to assess the impact of COVID-19 suggests a reduction in referrals with ESFA receiving 17 allegations (compared to 23 for the same period in 2018/19). No referrals were received in either August 2019 or August 2020. ATs made 17 self-referrals during 1 March to 31 July 2020 with 2 in August 2020 (compared to 28 for the same period in 2018/19: 0 in August 2019).

ESFA investigation work has continued during the pandemic although appropriate action has been taken to comply with recommended safeguards to avoid unnecessary travel where appropriate. Where visits have not been possible owing to lockdown restrictions, we have adopted suitable alternative methods to ensure all relevant information and evidence has been satisfactorily obtained to support any future action that may be necessary to protect public funds.

During this period ESFA has continued to provide relevant support to ATs providing supplementary guidance to raise awareness of the particular fraud risks that may arise during the pandemic and remind them to be vigilant.

We issued ESFA Bulletin April 2020 [84] to advise all sectors of the increased risk of fraud during the pandemic and reminding them of the need to maintain effective financial oversight and internal controls. The bulletin also included a reminder that cybercrime poses an increasing risk to all businesses during this period pointing them to existing guidance on gov.uk. The letter to academy trust accounting officers [85] also included further reminders of the guidance available to help trusts manage fraud risks and of the increasing cybercrime threat and increased risks during the pandemic.

80 The majority of this value relates to 2 historical cases and includes fraud and irregularity values which occurred in prior academic years. The losses were quantified and reported during 2019/20.

81 This relates to one specific case and is a mixture of fraud and irregularity. The loss occurred in prior years but was quantified and reported in 2019/20.

82 This figure includes ongoing recovery against cases referred in prior years and is likely to increase as more information is received for those cases.

83 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.

84 https://www.gov.uk/government/publications/esfa-update-1-april-2020

85 https://www.gov.uk/government/publications/letter-to-academy-trust-accounting-officers-july-2020

ESFA has a zero tolerance towards fraud and will investigate allegations of concern where public money is at risk. 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, alongside relevant fraud and irregularity guidance. [86]

Secretary of State as Principal Regulator

On 1 August 2011, the Secretary of State became Principal Regulator (PR) for foundation and voluntary schools, ATs and sixth form colleges, as exempt charities. The Secretary of State became PR for further education corporations from 9 November 2016. One of the key duties of the PR is to promote compliance with charity law and the government has a duty to report on how the Secretary of State carries out these duties. As agreed in the memorandum of understanding between the Charity Commission and the Department, this duty is discharged in this report. [87]

The memorandum of understanding between the Charity Commission and the Department sets out how they work together, both in co-ordinating regulatory operations and formulating policy. The Department has promoted compliance by ensuring information on the role of the PR, coupled with information about academy compliance and trustee responsibilities, is published on GOV.UK. [88]

The articles of association for each AT set out the AT's charitable objects, as well as the financial statements and reports an AT must produce. Full details of the Secretary of State's powers are set out in the funding agreement for each academy.

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 2019/20, no cases were referred to the Charity Commission for investigation (2018/19: no cases were referred).

Further sources of assurance

Regional Schools Commissioners (RSC)
The role of RSC was established on 1 September 2014. RSCs are civil servants, accountable to the National Schools Commissioner, and appointed to take decisions in the name of the Secretary of State for Education.

RSC roles currently include:

- taking action, alongside ESFA, where academies and free schools are underperforming;
- intervening, alongside ESFA, in academies where governance is inadequate;
- deciding on applications from LA maintained schools to convert to academy status;
- improving underperforming (i.e. Ofsted judged inadequate) maintained schools by matching them to support from a strong sponsoring trust;
- encouraging and deciding on applications from sponsors to operate in a region;
- taking action to improve poorly performing sponsoring trusts;
- advising on proposals for new free schools via 'wave' application processes, and working with successful trusts to deliver educationally and financially viable schools;

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

87 The reporting requirements placed upon the Secretary of State in relation to sixth form colleges, foundation and voluntary schools can be found in the memorandum of understanding between the Charity Commission and the Department: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/640051/Charity_Commisison_-_Department_for_Education_-_MOU.pdf

88 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

- deciding on whether to defer or enter into Funding Agreements with free school projects, and advising on whether or not to cancel unsatisfactory free school projects;
- deciding on applications to make significant changes to academies and free schools;
- since March 2020, providing essential support in the government's response to COVID-19 by leading cross Departmental Regional Education and Children's Teams (REACTs) to provide coherent engagement with local authorities and the education system;
- deploying National Leaders of Education to support the schools that have been worse hit by the pandemic;
- preparing for the delivery of the Trust and School Improvement offer for the 2021/22 academic year; and
- supporting and challenging Local Authorities to fulfil their legal duty to ensure that there are sufficient primary and secondary school places (pupil place planning).

Each RSC is supported by an advisory board (AB), formerly called headteacher board made up of six to eight members. On each AB, 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. AB 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 ABs hold office for three years. Having been initially established in 2014, the third round of elections would have been held in Spring 2020. These elections were postponed because of the COVID-19 pandemic but are being held in the autumn of 2021.

ABs provide important local advice to the decisions of an RSC. If an RSC takes a decision that contradicts the advice given by the majority of their AB, this must be reported to the National Schools Commissioner and the minister. [89]

RSCs carry out their functions within a published national framework. [90] RSC decisions are made in line with the individual funding agreements that academies enter into with the Department (and are therefore legally bound by), relevant legislation, and published criteria.

The Department, acting through RSCs or ESFA, as appropriate, will take action wherever an academy is judged 'Inadequate' by Ofsted, or where financial mismanagement and/or governance failure is indentified, in line with an academy's funding agreement. The Department will also take swift action where there are safeguarding concerns and the safety of staff or pupils is threatened.

Where Ofsted has inspected an academy and issued it with an inadequate rating, the Department will take decisive action to bring about school improvement. The RSC, in their role of monitoring educational performance, will carefully consider the issues highlighted in the Ofsted report and take the decision on how best to address them to bring about rapid improvements. This may include transferring the academy into a different trust.

In line with the resumption of a full programme of Ofsted graded school inspections in autumn 2021, RSCs will issue a termination warning notice to academies judged inadequate unless there are exceptional circumstances. The issuing of a termination warning notice does not mean that a decision has been taken to transfer the academy to a new trust. It is the mechanism through which trusts are invited to make representations before the RSC decides on the most appropriate course of action.

89 A complete guide to AB membership is available in the terms of reference for ABs: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1023902/Terms_of_Reference_for_Advisory_Boards_October_2021.pdf

90 RSC decision-making framework: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/925062/201006_-_external_RSC_decision_making_framework_September_2020_FINAL_.pdf

The Department publishes online, copies of letters that it sends to ATs about poor performance, weaknesses in safeguarding, governance and/or financial management.[91]

RSC escalation approach for educational performance concerns in academies

Between 1 August 2019 and 31 July 2020[92], 22 RSC notices were issued to sponsored academies, 26 to converter academies, and seven to free schools (between 1 August 2018 and 31 July 2019, 20 RSC notices were issued to sponsored academies, 19 to converter academies, six to free schools).[93]

Figure 31: RSC notices issued between 1 August 2019 and 31 July 2020[94]

Minded to terminate letter	Pre-warning notices	Termination warning notices	Termination notices
• 6 to sponsored academies (compared to 19 in 2018/19) • 8 to converter academies (compared to 11 in 2018/19) • 2 to free schools (compared to 2 in 2018/19)	• 1 to sponsored academies (compared to 1 in 2018/19) • 0 to converter academies (compared to 0 in 2018/19) • 0 to free schools (compared to 0 in 2018/19)	• 15 to sponsored academies (compared to 0 in 2018/19) • 18 to converter academies (compared to 7 in 2018/19) • 4 to free schools (compared to 4 in 2018/19)	• 0 to an academy converter (compared to 1 in 2018/19) • 1 to a free school (compared to 0 in 2018/19)

RSCs are not responsible for carrying out school improvement activities. They can however advise the AT on suitable options. From 2021/22 RSCs will take responsibility for deploying a system leader (National Leader of Excellence or MAT leader) to eligible trusts to provide school improvement support under the Trust and School Improvement offer. However, the responsibility and accountability for taking the necessary action to improve outcomes remains with the AT.

Where improvements are not achieved rapidly at an academy, or a trust is not providing good enough support, the RSC can act. In line with the funding agreement and legislation, the RSC can challenge and, where necessary, move the academy to another AT. Where the decision is taken to transfer an academy to a new trust, the Department 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.

91 Letters to ATs about poor performance: https://www.gov.uk/government/collections/letters-to-academies-about-poor-performance
92 Due to COVID-19, for part of the reporting period the Department paused intervention activity, including the issue of notices, except in cases where it remained critically important to do so.
93 In August 2020 one Minded to Terminate letter was issued to an academy converter and one Termination Warning Notice was issued to a sponsored academy.
94 The Department has completed a deep data quality review in the last 12 months and as a result the 2018/19 comparative figures have been revised and may differ from those published in the 2018/19 SARA.

The RSC will only intervene in LA maintained schools on the grounds of educational underperformance where Ofsted has judged them to be inadequate, at which point RSCs will match these schools with an appropriate academy sponsoring trust. During the year up until 31 July 2020, 81 (2018/19: 105)[95] such schools were identified and issued with an academy order. RSCs will consider the use of their intervention powers in maintained schools in cases of a breakdown in financial management and/or governance or where the safety of staff or pupils is threatened. RSCs may use their powers on these grounds regardless of the school's Ofsted rating.

RSCs lead the relationship with sponsoring trusts operating solely within their RSC region, and with agreed national sponsoring trusts. RSCs are responsible for managing the sponsor market in their region and intervening if an AT is failing. Discussions with sponsoring trusts focus on performance and capacity, including plans for growth. An appropriate approach to growth is agreed with all trusts, reflecting their capacity.

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

- serious financial concerns and ESFA has issued a Financial Notice to Improve (FNtI);
- serious concerns about the leadership or governance of the trust including where there are due diligence issues with trusts;
- serious unresolved concerns with educational impact:
- serious safeguarding concerns.

241 academies moved ATs in the financial year 2019-20 (2018-19: 307). Of these 241 academies, 64 transfers were a result of intervention, 7 were a result of trust closures, and the remaining 170 transfers were initiated by the outgoing AT.

An academy transfer is when an academy moves from its current AT ('the outgoing AT') to another AT ('the incoming AT'). 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 AT – most academies that transfer between ATs do so based on a decision by the outgoing AT. This might be to ensure stronger school-to-school support or economies of scale (e.g. a Single Academy Trust (SAT) joining a Multi Academy Trust (MAT)). It might also be for strategic reasons (e.g. academies moving to an AT that is 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 ESFA have the power to terminate funding agreements and transfer the academy into a new AT.
- Sponsor or AT closure – in the rare event that an AT closes, academies in the closing AT must be transferred to a new AT as part of the closure. Academies within a closing AT must be transferred even if they themselves are not otherwise eligible for intervention.[96]

95 80 Academy orders were issued from 1st September 2019 – 31st August 2020 (2018/19: 107)
96 Academy transfers and funding: https://www.gov.uk/government/statistics/academy-transfers-and-funding

COVID-19 work

Regional Education and Children's Teams (REACTs) were established in March 2020 bringing together colleagues from RSC teams, children's social care and SEND, early years, further education and ESFA's academies and maintained school's directorate, along with Ofsted's Regional Directors.

Led by RSCs, REACTs worked across organisational boundaries to:

- Deliver the priorities of the Secretary of State for Education in relation to the response to COVID-19.
- Provide a strategic overview of all local authorities, coordinating support for those areas that needed it most.
- Offer time-limited school-to-school recovery support to schools and trusts, provided by an experienced system leader, to overcome the challenges faced by COVID-19.

Provide a source of support and challenge in their region to assist LAs, ATs, and education establishments in following government guidance, within the scope of REACT.

Opening new free schools

RSCs decide whether to enter into funding agreements to open new free schools. RSCs agreed to open 63 new free schools (2018/19: 59) in the 2019/20 academic year.

RSCs advise ministers on free school applications. They make recommendations about which applications to reject before interview and which to approve into pre-opening before ministers make the final decision. In the 2019/20 academic year, 125 bids were received for wave 2 SEN/AP applications and 89 bids for wave 14 mainstream applications. 38 wave 2 and 21 wave 14 projects were ultimately approved into pre-opening.

Where proposals are received for the establishment of a new LA led presumption free school within their region, the RSC will make the decision about which proposer is most likely to deliver a high performing school. In the 2019/20 academic year proposers were approved for 17 presumption schools.

Working with ESFA

RSCs and ESFA work together to develop a coherent and joined up picture of an AT 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 ATs to ensure strong processes are in place to maintain and improve educational performance. They will 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 plan agreed between the trust and ESFA.

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

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 judgement 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. Its 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.[97]

The NAO also undertakes investigations, which are shorter, more focused pieces of work, designed to establish the facts on a particular topic.

Since September 2019, the NAO has published the following reports which have relevance for the academies sector:

- **Support for pupils with special educational needs and disabilities in England**[98] (September 2019) examined how well pupils with SEND are being supported.
- **Investigation into university technical colleges**[99] (October 2019) set out the facts about the UTC programme. It covered how the programme has progressed and the financial and educational performance of UTCs.
- **Supporting disadvantaged families through free early education and childcare entitlements in England** (March 2020) examines whether the Department is supporting disadvantaged families effectively through free education and childcare entitlements.
- **Financial sustainability of colleges in England**[100] (September 2020) focuses on the financial sustainability of FE and sixth-form colleges.
- **Investigation into the free school meals voucher scheme**[101] (December 2020) sets out how the Department set up and implemented the free school meals voucher scheme.
- **Support for children's education during the early stages of the COVID-19 pandemic**[102] (March 2021) examines the Department's support for children's education during the early stages of the COVID-19 pandemic.
- **School Funding in England**[103] (July 2021) focuses on the Department's funding for mainstream schools in England, and updates aspects of the NAO's 2016 report on the financial sustainability of schools.
- **Financial sustainability of schools in England** (November 2021) examines whether the Department is supporting schools in a way that improves their financial sustainability.

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97 NAO value for money: https://www.nao.org.uk/about-us/our-work/value-for-money-programme/

98 Support for pupils with special educational needs and disabilities in England: https://www.nao.org.uk/report/support-for-pupils-with-special-educational-needs-and-disabilities/

99 Investigation into university technical colleges: https://www.nao.org.uk/report/investigation-into-university-technical-colleges/

100 Financial Sustainability of Colleges in England https://www.nao.org.uk/report/financial-sustainability-of-colleges-in-england/

101 Investigation into the free school meals voucher scheme https://www.nao.org.uk/report/investigation-into-the-free-school-meals-voucher-scheme/

102 Support for children's education during the early stages of the COVID-19 pandemic https://www.nao.org.uk/report/support-for-childrens-education-during-the-covid-19-pandemic//

103 School Funding in England https://www.nao.org.uk/report/school-funding-in-england/

Public Accounts Committee

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

During the year, the Permanent Secretary, on behalf of the Department, attended the following PAC sessions directly relating to the Sector Annual Report and Accounts:

- **Support for children with special educational needs and disabilities** (evidence session March 2020)
- **University technical colleges** (evidence session March 2020)
- **Managing colleges' financial sustainability** (evidence session November 2020)
- **COVID-19: free school meals voucher scheme** (evidence session December 2020)
- **COVID-19: Education** (evidence session March 2021)
- **School funding** (evidence session July 2021)

Internal Audit

At a local level, ATs are encouraged to use internal audit to provide further assurance to those charged with governance. Within the Department, the Government Internal Audit Agency conduct a programme of work designed to give overall assurance for the Department.

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 Department level to ensure that they are correctly identified and that appropriate counter-measures and contingencies are in place. All risks have owners within the Department.

The top risks for the Academies Programme in 2019/20 were:

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, in the right geographical areas, 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 Trust Capacity Fund was used to support strong MATs to grow and innovate in areas of long-standing need, accelerate the development of mid-sized trusts with the potential to be strong, and create strong trusts either by SATs joining larger trusts, or by supporting the growth of existing trusts via mergers.

The Department also provides support for MATs to grow capacity through CEO and Chairs induction, regional MAT leadership events, and programmes that offer peer support and collaboration across the sector.

From March 2020 the sector faced unprecedented pressures as a result of the COVID-19 pandemic; during this time academies and ATs rightly turned their attention to response efforts. So that ATs, academies and schools had time to focus their attention on emergency response activities, the Department did not pursue major activities relating to MAT growth. Instead between March and July 2020 the Department redirected the majority of efforts and capacity of the strongest ATs to support other trusts, academies, local authorities and schools with their emergency response activities.

Intervention and performance risk: Our objective as we improve our oversight is to minimise the risks of future AT failure to the greatest possible extent. The Department continues to improve the way information and data is shared between operational teams. They work closely together to maintain a single Departmental view of ATs of concern based on common information, this is done in partnership with colleagues in ESFA. This strengthens our forecasting and leads to consistently applied joint intervention where necessary. This applies to any failure of education, governance or finance. The Department will continue to make improvements to its scrutiny of trusts' adherence to the accountability framework. In addition, from the first national lockdown in March 2020 the focus of this risk changed to concentrate on how ATs were responding to the pandemic and implementing new government guidance in response to COVID-19.

Financial health and efficiency 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. The government has also made additional funding available to all state-funded schools to cover additional costs as a result of the COVID-19 outbreak; and has offered school resource management adviser COVID-19 resilience visits.

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 financial statements, which are published on each AT's website alongside submission to ESFA and is also accessible via the Companies House website. [104]

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.

Data Breaches

In the financial year 2019/20 there were 145 incidents across 112 ATs (2018/19: 177 incidents across 135 ATs) where personal data breaches occurred. The majority of these were low level incidents, often involving administrative errors.

Susan Acland-Hood
Permanent Secretary
1 December 2021

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

Remuneration and Staff Report

Information in this section is reported to meet the requirements of the 2019-20 **Government Financial Reporting Manual (FReM)** [105] and relates to the academic year ending 31 August 2020. This information has been collated from the audited Academies Accounts Return (AAR), which is an annual return submitted by individual ATs to ESFA.

As set out in the introduction, 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. Derogations from FReM, as approved by HMT, are set out in the 2019/20 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 AT's circumstances. Their policies are often set by reference to the national pay spine. However, the School Teachers' Review Body publishes an annual report with recommended pay increases, which many academies choose to follow. From September 2019, it was recommended that the maxima and minima of all pay and allowance ranges be increased by 2.75%. From September 2020, it was recommended that the main pay range minima be increased by 5.5%, with the main pay range maxima and other pay and allowance range's minima and maxima increasing by 2.75%. Advisory pay points were also introduced on the main pay range and upper pay range.

The Department does not set the employment and remuneration policies of ATs. Accordingly, in a departure from *FReM,* the Department has not presented the employment and remuneration policies of the sector as this would imply a greater level of influence by the Department 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 the Department in this area, DfE has restricted remuneration disclosures in the AAR 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 financial statements.

105 FReM: https://www.gov.uk/government/publications/government-financial-reporting-manual-2019-20

Summary of trustee remuneration

Trustee remuneration [106]

The table below presents a breakdown of the number of trustees who received remuneration either in their capacity as a member of staff as well as a trustee or in their capacity purely as trustee (and not a member of staff). Details of payments to trustees are available in the financial statements of the individual ATs and trusts where an individual employee or trustee's remuneration is greater than £150,000 per annum are listed in annex 6. The remuneration shown below includes salary, bonus payments, benefits-in-kind and employer pension costs.

2019/20 trustee remuneration including employer pension contributions

	2019/20	2018/19
Remuneration bands (including employer pension contributions)	Number of trustees	Number of trustees
£1-£60,000	2,400	3,430
£60,001-£70,000	474	419
£70,001-£80,000	265	371
£80,001-£90,000	268	360
£90,001-£100,000	264	351
£100,001-£110,000	238	330
£110,001-£120,000	308	239
£120,001-£130,000	258	211
£130,001-£140,000	224	101
£140,001-£150,000	175	77
£150,001-£160,000	93	69
£160,001-£170,000	71	60
£170,001-£180,000	50	29
£180,001-£190,000	33	26
£190,001-£200,000	26	22
£200,001+	66	43
	5,213	**6,138**

Included in the table above are 5,213 trustees paid as staff (2018/19: 6,137) and no non-staff paid trustee (2018/19: one). In 2019/20 there were 19,183 trustees who were not paid (2018/19: 19,943) as the majority of trustees are volunteers who are not employed by the AT and receive no remuneration. Trustees paid as staff only receive remuneration for their work in the AT as an employee (such as head teacher, teacher, teaching assistant or other member of staff).

106 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 financial statements for each trust's board of trustees.

Pension Entitlements

Pension costs

ATs operate a range of pension schemes for their employees, dependent upon their role. The latest actuarial valuation of the Teachers' Pension Scheme (TPS), one of the schemes operated by ATs, was carried out as at 31 March 2016 and was published by the Department in April 2019. Subsequently, the employer contribution rate was increased from 16.48% to 23.68% on 1 September 2019. 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 [107]

Staff exit packages: Audited

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

			2019/20			2018/19
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages agreed	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages agreed
< £10,000	1,195	1,313	2,508	2,016	1,716	3,732
£10,001 – £25,000	394	591	985	704	807	1,511
£25,001 – £50,000	116	186	302	176	244	420
£50,001 – £100,000	17	24	41	23	29	52
£100,001 – £150,000	2	2	4	3	3	6
£150,001 – £200,000	1	–	1	–	–	–
Total number of cases	**1,725**	**2,116**	**3,841**	**2,922**	**2,799**	**5,721**
Total cost (£m)	**16**	**26**	**42**	**27**	**32**	**59**

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 financial statements to aid transparency.

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

Loss of office payments: Audited

	2019/20			2018/19		
	Accounting Officer	Other Trustee	Total	Accounting Officer	Other Trustee	Total
	Number	Number	Number	Number	Number	Number
Serving at end of year	2	–	2	2	2	4
Left during year	8	2	10	11	3	14
Total number of cases	**10**	**2**	**12**	**13**	**5**	**18**

Fair pay disclosure

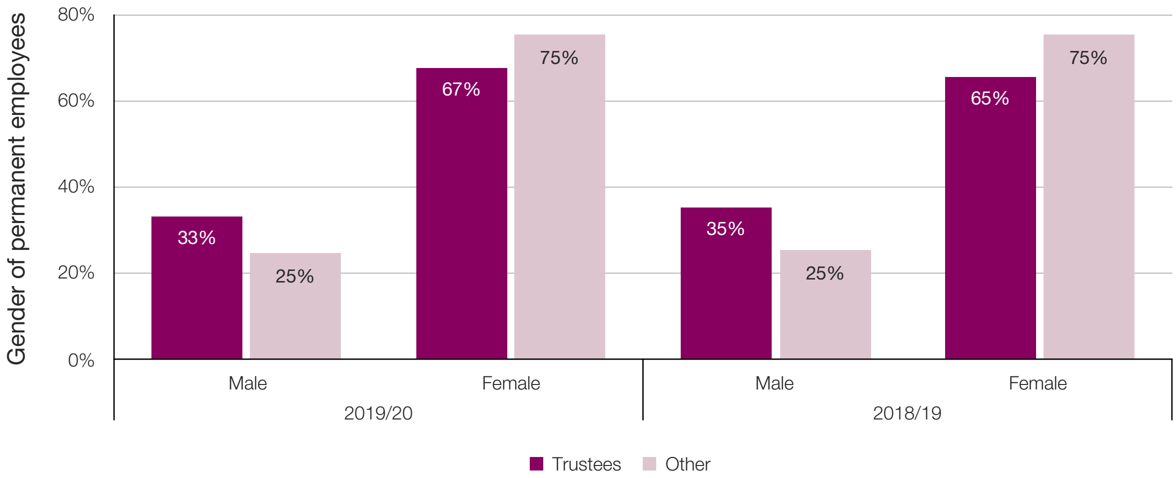
Pay multiples at sector level are not recorded in this document. This information is available at trust level in AT financial statements.

Staff report

Gender of permanent employees

The split of male and female permanent employees at 31 August 2020 is detailed in figure 33 below.

Figure 33: Split of male and female employees by Trustees and other



			2019/20			2018/19
	Male	Female	Total	Male	Female	Total
	Number	Number	Number	Number	Number	Number
Trustees	935	1,904	2,839	1,069	1,982	3,051
Other staff	119,833	368,171	488,004	116,427	354,461	470,888
	120,768	**370,075**	**490,843**	**117,496**	**356,443**	**473,939**

Details of the average number of staff employed are included in the table on page 75.

The number of days lost due to sickness absence was 3,527,753 (2018/19: 3,414,590) days. This represents an average of 7.2 days (2018/19: 7.2 days) per year based on permanent staff numbers.

Consultancy and off-payroll arrangements

During the year, the ATs incurred consultancy costs of £228 million (2018/19: £230 million) relating to advisory services.

	2019/20	2018/19
	£m	£m
Educational	193	193
Non-educational	35	37
	228	**230**

During the year, 27 ATs (2018/19: 25 ATs) had off-payroll arrangements, of these two (2018/19: four) had such arrangements with trustees. The arrangements with trustees were for interim chief executive officer services. Details of these arrangements can be found in the individual AT financial statements.

Staff Costs: Audited

			2019/20	(represented)[108] 2018/19
	Permanently employed staff	Temporary staff	Total	Total
	£m	£m	£m	£m
Salaries	15,571	–	15,571	14,367
Temporary staff costs	–	908	908	928
Social Security	1,480	37	1,517	1,408
Pension costs	4,263	100	4,363	3,261
Severance payments	45	1	46	74
	21,359	**1,046**	**22,405**	**20,038**
Less recoveries in respect of outward secondments	**(2)**	**–**	**(2)**	**(2)**
	21,357	**1,046**	**22,403**	**20,036**

The table above shows an increase of 11.8% in total staff costs, which is mainly attributed to the staff pay rises and increased employer contribution rates for the pension schemes in particular the Teachers' Pension Scheme (TPS). Furthermore, the increase in staff costs is linked to the staff numbers in the sector which have increased by 3.6% (see table below).

Average Staff Numbers: Audited

			2019/20			2018/19
	Permanently employed staff	Temporary staff	Total	Permanently employed staff	Temporary staff	Total
	Number	Number	Number	Number	Number	Number
Teachers	230,259	14,661	244,920	220,349	14,611	234,960
Management	32,260	710	32,970	29,524	530	30,054
Admin and support	228,324	15,522	243,846	224,065	14,368	238,433
	490,843	**30,893**	**521,736**	**473,938**	**29,509**	**503,447**

For 2019/20 and 2018/19, ATs have recorded full-time equivalent figures for average staff numbers. Staff numbers have grown by 3.6% which is broadly in line with the increase in academies converting into the sector and the increase in pupil numbers of 2.9%.

108 Staff costs for 2018/19 have been represented to separate out the net finance cost on the defined benefit scheme from staff costs.

Parliamentary Accountability and Audit Report

Grant Tracker

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

Parliament votes grant expenditure through the Department's supply estimate process, which operates on a financial year basis.

The below 'grant tracker' reconciles the grants paid out by the Department (over the 2019-20 and 2020-21 financial years to March), with the amount recognised as grant income in the financial statements of the ATs for the 2019/20 academic year to August.

There are three 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.
- where an AT administers a grant on behalf of the Department, and the ultimate recipient is an individual pupil or family, then the SARA will only recognise the element of administration cost for that grant. Examples include the 16-19 bursary and some COVID-19 funding which are further discussed in note 6.

The revenue grant tracker (figure 34) 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 primary reasons for the difference between the Department revenue grants paid out and the revenue grants ATs have recognised are:

- differences in accounting treatment, where an AT can anticipate income or a reduction in income based on meeting certain criteria, such as pupil numbers, that the Department recognises in later grant payments;
- where an AT occupies, but does not control, a site, and the Department has paid capital grants for the upkeep, the trust can transfer that capital grant to revenue, increasing the revenue grant income.

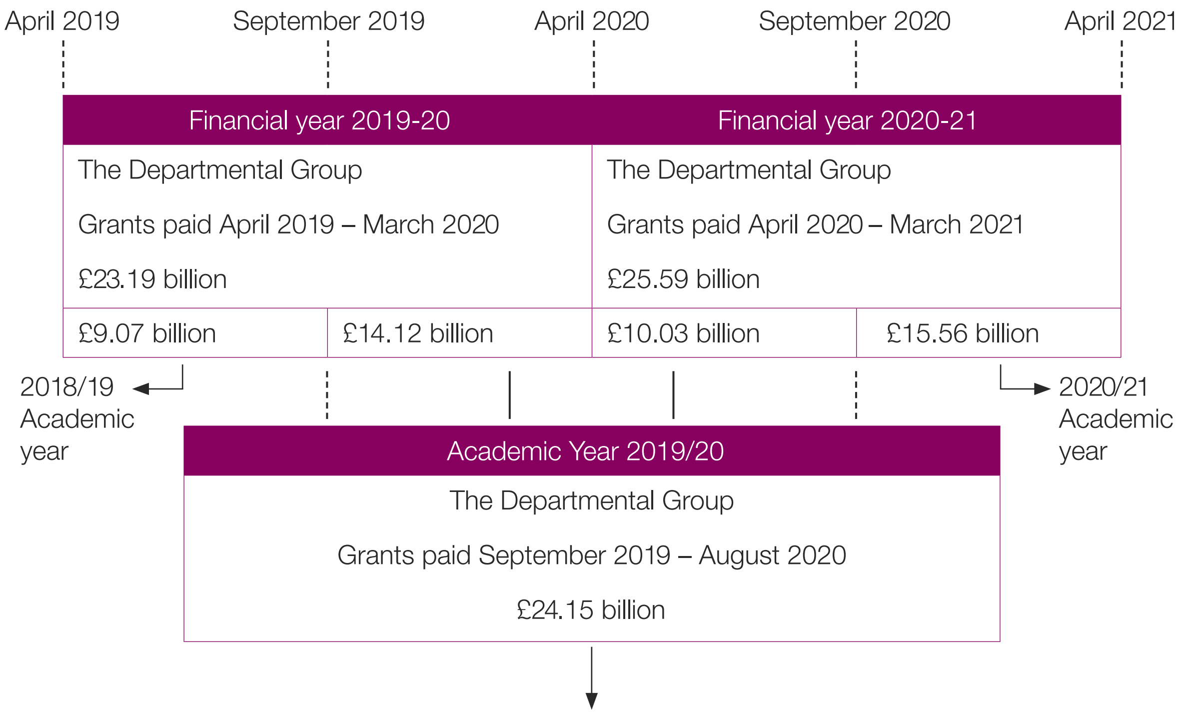
The capital grant tracker (figure 35) includes all academy capital funding issued by DfE. This includes:

- 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).

The primary reasons for the difference between the DFE capital grants paid out and the capital grants ATs have recognised are:

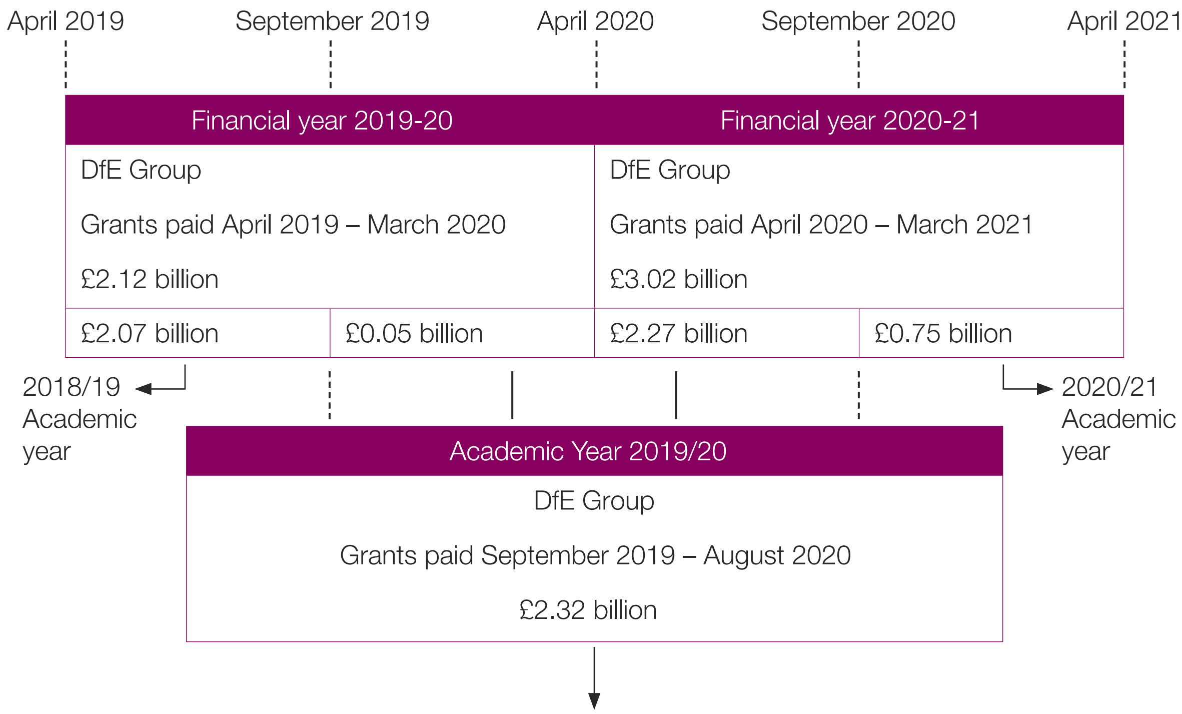
- where the Department is funding the construction of a school site (AuC), the Department recognises the expenditure as it is incurred. The ATs normally recognise the full value of the asset when it becomes operational;
- where an AT occupies, but does not control a site, and the Department have paid out capital grants for upkeep, the AT can transfer the capital grant to revenue, reducing the capital grant income;
- differences in accounting treatment, where an AT can recognise grants on receipt of confirmation of grant approval such as Condition Improvement Fund grants for school building improvements, that the Department recognises in later grant instalment payments.

Figure 34: Revenue grant tracker



Academic year 2019/20 Revenue Grant Reconciliation	
Grants paid from the Departmental Group to academies	£24.15 billion
Grant income from the Departmental Group reported in the Sector Accounts	£24.20 billion
Variance	-£0.05 billion
Explained variance	-£0.03 billion
Residual (unexplained) variance	-£0.02 billion

Figure 35: Capital grant tracker



Academic year 2019/20 Capital Grant Reconciliation	
Grants paid from the DfE Group to academies	£2.32 billion
Grant income from the DfE Group reported in the Sector Accounts	£2.59 billion
Variance	-£0.27 billion
Explained variance	-£0.16 billion
Residual (unexplained) variance	-£0.11 billion

Losses and Special Payments[109]: Audited

Losses statement

	2019/20	2018/19
Total number of cases	**28**	**30**
	£m	**£m**
Administration write offs	0.3	0.2
Total value	**0.3**	**0.2**

Special payments statement

	2019/20	2018/19
Total number of cases	**1,492**	**1,880**
	£m	**£m**
Ex-gratia	0.1	0.2
Compensation	0.1	0.1
Severance	15.1	18.9
Other	0.2	0.2
Total value	**15.5**	**19.4**

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

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

Gifts

There were 10 gifts in 2019/20 with a value less than £0.1 million (2018/19: 30 instances with a value less than £0.1m).

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.

Susan Acland-Hood
Accounting Officer
1 December 2021

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

The audit report 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 2020 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 the 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:

- the financial statements give a true and fair view of the state of Sector's affairs as at 31 August 2020 and of net 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.

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.

Basis of opinions

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 report. 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.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Sector's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Sector has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Sector's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the accounting officer for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.
- conclude on the appropriateness of the Sector'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. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause the Sector to cease to continue as a going concern.

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

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the [income and expenditure/receipts and payments] 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 the HM Treasury Accounts Direction;
- in the light of the knowledge and understanding of the Sector 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 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

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

- 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
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Gareth Davies
Comptroller and Auditor General
7 December 2021

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

Financial Statements

Financial Statements

Consolidated Statement of Comprehensive Net Expenditure/Income

for the year ended 31 August 2020

	Note	2019/20 £m	2018/19 £m
Operating income			
Income	5	31,286	28,883
Operating expenditure			
Staff costs	7	(22,403)	(20,036)
Other operating expenditure	8	(10,488)	(10,538)
Net operating deficit		**(1,605)**	**(1,691)**
Net finance cost on defined benefit scheme	15	(205)	(183)
Net (loss)/gain on conversion of non-local authority academies	4	(1)	7
Net gain on conversion of local authority academies	4	1,088	2,398
(Deficit)/surplus for the year		**(723)**	**531**
Other comprehensive expenditure			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property, plant and equipment	2	1,957	3,327
Actuarial loss on defined benefit pension scheme	15	(1,329)	(3,054)
Items that may be reclassified subsequently to profit or loss:			
Other recognised gains and losses		–	2
Total other comprehensive income		**628**	**275**
Total comprehensive (deficit)/income		**(95)**	**806**

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

The notes on page 90 to page 126 form part of these Accounts.

Consolidated Statement of Financial Position

as at 31 August 2020

		2020	2019
	Note	£m	£m
Non-current assets			
Property, plant and equipment	2	59,736	57,584
Intangible assets		5	4
Investments	10	90	99
Receivables	11	16	20
		59,847	**57,707**
Current assets			
Inventories		9	9
Receivables	11	1,569	1,406
Cash and cash equivalents	12	4,747	4,204
		6,325	**5,619**
Total assets		**66,172**	**63,326**
Current liabilities			
Payables	13	(2,413)	(2,342)
Provisions		(4)	(4)
		(2,417)	**(2,346)**
Total assets less current liabilities		**63,755**	**60,980**
Non-current liabilities			
Payables	13	(242)	(246)
Provisions		–	–
Pension deficit	15	(13,928)	(11,054)
		(14,170)	**(11,300)**
Assets less liabilities		**49,585**	**49,680**
Taxpayers' equity			
Charitable Funds		40,362	42,414
Revaluation Reserve		9,223	7,266
		49,585	**49,680**

Susan Acland-Hood
Accounting Officer
1 December 2021

The notes on page 90 to page 126 form part of these Accounts.

Consolidated Statement of Cash Flows

for the year ended 31 August 2020

		2019/20	2018/19 [110]
	Note	**£m**	**£m**
Cashflows from operating activities			
Net operating deficit		(1,605)	(1,691)
Depreciation and amortisation	2, 8	1,469	1,319
Impairment	2	3,096	2,974
Increase in receivables	11	(159)	(156)
Increase in payables	13	67	253
Non-cash pension movements	15	2,313	1,969
Employer pension contributions	15	(1,052)	(930)
Property, plant and equipment donations	2	(1,018)	(895)
Other non-cash transactions		105	(100)
Net finance cost on defined benefit scheme	15	(205)	(183)
Net cash inflow from operating activities		**3,011**	**2,560**
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(2,575)	(2,469)
Proceeds of disposal of property, plant and equipment		41	53
Other movements		10	(22)
Net cash outflow from investing activities		**(2,524)**	**(2,438)**
Cash flows from financing activities			
Cash acquired on conversion of academies	4	61	97
Other movements		(5)	96
Net cash inflow from financing activities		**56**	**193**
Net increase in cash and cash equivalents in the year	**12**	**543**	**315**
Cash and cash equivalents at the beginning of the year net of overdrafts	**12**	**4,203**	**3,888**
Cash and cash equivalents at the end of the year net of overdrafts	**12**	**4,746**	**4,203**

The notes on page 90 to page 126 form part of these Accounts.

110 The Statement of net consolidated cashflow for 2018/19 has been represented to disclose net finance cost on defined benefit pension schemes separately. The net finance costs were previously disclosed within staff pension costs and therefore included in the net operating deficit figure in the cashflow statement in the prior year.

Consolidated Statement of Changes In Taxpayers' Equity

for the year ended 31 August 2020

	Note	Revaluation Reserve £m	Charitable Funds £m	2020 Total £m
Balance at 1 September 2019		**7,266**	**42,414**	**49,680**
Deficit for the year		–	(723)	(723)
Other comprehensive income				
Net gain on revaluation of property, plant and equipment	2	1,957	–	1,957
Actuarial loss on defined benefit pension scheme	15	–	(1,329)	(1,329)
Fair value gain on investments		–	–	–
Total other comprehensive income/(deficit)		**1,957**	**(1,329)**	**628**
Total comprehensive income/(deficit) for the year		**1,957**	**(2,052)**	**(95)**
Balance at 31 August 2020		**9,223**	**40,362**	**49,585**

for the year ended 31 August 2019

	Note	Revaluation Reserve £m	Charitable Funds £m	2019 Total £m
Balance at 1 September 2018		**3,939**	**44,935**	**48,874**
Surplus for the year		–	531	531
Other comprehensive income				
Net gain on revaluation of property, plant and equipment	2	3,327	–	3,327
Actuarial loss on defined benefit pension scheme	15	–	(3,054)	(3,054)
Fair value gain on investments		–	2	2
Total other comprehensive income/(deficit)		**3,327**	**(3,052)**	**275**
Total comprehensive income/(deficit) for the year		**3,327**	**(2,521)**	**806**
Balance at 31 August 2019		**7,266**	**42,414**	**49,680**

The Charitable Funds represent total assets less liabilities, less unrealised revaluation adjustments to property, plant and equipment (see note 2).

The notes on page 90 to page 126 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 2019-20 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 2019/20 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 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.

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

1.2 Going concern

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

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

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

1.3 Basis of consolidation

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

ATs have been classified by the Office for National Statistics as central government public sector bodies since 2004. Until 2015-16, ATs were included within the Departmental consolidation boundary.

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

Throughout these accounts ‘DfE’ or ‘Department’ refers to the core Department whilst ‘sector’ refers to the combination of all ATs that prepared audited statutory accounts (financial statements) as at the date of this SARA.

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 is included in the relevant note.

To provide increased clarity and brevity, DfE has chosen to aggregate most sub-totals of less than £100m 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 Adoption of FReM amendments

There have been no significant amendments to the FReM for 2019-20.

1.6 Early adoption

The sector has not early adopted any accounting standards in 2019/2020.

1.7 IFRSs in issue but not yet effective

To comply with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the SARA must disclose where it has not applied a new IFRS that has been issued but is not yet effective. The Department has carried out a review of the IFRSs in issue but not yet effective, to assess their impact on its accounting policies and treatment. The full impact of the IFRSs in issue but not yet effective is not known and could be material to the accounts. The Department has chosen not to early adopt requirements of the following accounting standards and interpretations which have an effective date after the start of these accounts.

Standard	Effective	FReM application	Change and Impact
IFRS 16 Leases	Annual periods beginning on or after 1 January 2021	2021-22	Change: The proposed changes 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 (on-balance sheet). This will result in the recognition of a right of use asset, measured at the present value of future lease payments, with a matching financing liability. The pattern of recognition of the expenditure will result in depreciation of the right of use asset and an associated finance cost being recognised. Impact on SARA: The main effect of the adoption of IFRS 16 will be for ATs acting as lessees, which will result in a number of former operating leases (anticipated to be shorter term land and building leases) being brought on-balance sheet. Work is still ongoing into the implementation of this new accounting standard and at this stage the Department is unable to quantify the impact of adopting IFRS 16 due to the full extent of the lease portfolio still being identified and the lack of HMT supplied discount rate. It is expected that the impact will be significant in the SARA accounts in the year of adoption and then is expected to have a lower impact in subsequent years. Work will continue throughout 2020/21.
IFRS 17 Insurance Contracts	Annual periods beginning on or after 1 January 2023	Unknown	Change: The standard makes changes to how insurance contracts are accounted for and may in certain circumstances widen the scope to include arrangements that may not have previously been viewed as insurance contracts. Changes may be more extensive for bodies that have not previously adopted the existing insurance standard, IFRS 4. However, prior to endorsement by the EU and adoption by FReM, the final version for the standard applicable to the SARA has still to be decided. Consequently, the Department is unable to scope the impact of adopting the new standard at present.

2. Property, Plant and Equipment

2019/20	Land and Buildings £m	Leasehold Improve'ts £m	IT Equipment £m	Plant and Machinery £m	Furniture and Fittings £m	Motor Vehicles £m	AuC £m	Total £m
Cost or valuation								
At 1 September 2019	54,763	647	1,454	212	1,636	52	1,500	60,264
Additions	455	153	176	16	168	8	1,599	2,575
Acquired on conversion [111]								
LA	1,206	-	4	1	7	-	19	1,237
Non-LA	54	-	1	-	1	1	1	58
Donations	970	10	3	2	8	-	25	1,018
Disposals	(382)	(15)	(36)	(10)	(17)	(2)	(28)	(490)
Revaluations	3,327	-	-	-	-	-	-	3,327
Impairment charge	(4,883)	-	-	-	-	-	-	(4,883)
Reclassifications	1,568	28	3	-	6	-	(1,605)	-
Transferred from/(to) Departmental Group	-	-	-	-	-	-	273	273
At 31 August 2020	**57,078**	**823**	**1,605**	**221**	**1,809**	**59**	**1,784**	**63,379**
Depreciation								
At 1 September 2019	(195)	(130)	(1,169)	(121)	(1,029)	(36)	-	(2,680)
Charged in year	(1,045)	(55)	(164)	(19)	(179)	(5)	-	(1,467)
Disposals	33	1	34	5	13	1	-	87
Revaluations	417	-	-	-	-	-	-	417
Reclassifications	-	-	(1)	3	(2)	-	-	-
At 31 August 2020	**(790)**	**(184)**	**(1,300)**	**(132)**	**(1,197)**	**(40)**	**-**	**(3,643)**
Carrying value as at:								
1 September 2019	**54,568**	**517**	**285**	**91**	**607**	**16**	**1,500**	**57,584**
31 August 2020	**56,288**	**639**	**305**	**89**	**612**	**19**	**1,784**	**59,736**

Reconciliation of impairment and revaluation:

2019/20	Value in Land and Buildings (note 2) £m	Value disclosed in SoCNE (note 8) £m	Net Revaluation Movement in SoCTE (reserves) £m
Impairment	(4,883)	(3,456)	(1,427)
Impairment reversal	–	360	(360)
Revaluation gain	3,744	–	3,744
Total	**(1,139)**	**(3,096)**	**1,957**

111 For more detail, please refer to note 4 – Transfer on conversion.

2018/19	Land and Buildings £m	Leasehold Improve'ts £m	IT Equipment £m	Plant and Machinery £m	Furniture and Fittings £m	Motor Vehicles £m	AuC £m	Total £m
Cost or valuation								
At 1 September 2018	50,329	526	1,333	191	1,461	42	1,120	55,002
Additions	519	106	171	18	171	9	1,475	2,469
Acquired on conversion [112]								
LA	2,371	-	6	1	14	-	45	2,437
Non-LA	313	1	1	-	1	-	2	318
Donations	880	4	1	-	5	-	5	895
Disposals	(404)	(34)	(61)	(2)	(23)	1	(5)	(528)
Revaluations	3,596	-	-	-	-	-	-	3,596
Impairment charge	(4,269)	-	(1)	1	-	-	-	(4,269)
Reclassifications	1,428	44	4	3	7	-	(1,486)	-
Transferred from/(to) Departmental Group	-	-	-	-	-	-	344	344
At 31 August 2019	**54,763**	**647**	**1,454**	**212**	**1,636**	**52**	**1,500**	**60,264**
Depreciation								
At 1 September 2018	(299)	(103)	(1,067)	(105)	(892)	(28)	-	(2,494)
Charged in year	(939)	(37)	(159)	(18)	(158)	(5)	-	(1,316)
Disposals	16	11	58	1	21	(3)	-	104
Revaluations	1,026	-	-	-	-	-	-	1,026
Reclassifications	1	(1)	(1)	1	-	-	-	-
At 31 August 2019	**(195)**	**(130)**	**(1,169)**	**(121)**	**(1,029)**	**(36)**	**-**	**(2,680)**
Carrying value as at:								
1 September 2018	**50,030**	**423**	**266**	**86**	**569**	**14**	**1,120**	**52,508**
31 August 2019	**54,568**	**517**	**285**	**91**	**607**	**16**	**1,500**	**57,584**

Reconciliation of impairment and revaluation:

	Value in Land and Buildings (note 2) £m	Value disclosed in SoCNE (note 8) £m	Net Revaluation Movement in SoCTE (reserves) £m
Impairment	(4,269)	(3,220)	(1,049)
Impairment reversal	–	246	(246)
Revaluation gain	4,622	–	4,622
Total	**353**	**(2,974)**	**3,327**

112 For more detail, please refer to note 4 – Transfer on conversion.

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 financial statements, 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 a number of sites within the sector that are operated through PFI arrangements. Whilst the sites are managed through PFI arrangements, the majority of ATs are not direct counterparties to the PFI agreements, which remain with their local authorities or ESFA.

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

The future impact of **IFRS 16 Leases** is considered further 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 is how assets are held at current value in existing use. 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. The Department used Montagu Evans LLP as their professional surveyors for 2019/20, 2018/19 and 2017/18. For 2016/17 and 2015/16 the Department used Kier Business Services Ltd. Both firms conduct valuations in accordance with the Royal Institute of Chartered Surveyors' (RICS) Appraisal and Valuation Manual and the Department's Building Bulletin 103 and Building Bulletin 104.

Valuations are conducted when:

- A new academy is opened; or
- An asset under construction is completed and becomes operational; or
- An AT reports a significant addition or disposal; or
- We determine that only part of the site should be recognised; or
- Where none of the above apply, sites are valued at least once every five years in accordance with **IAS 16, Property, plant and equipment** and **IFRS 13, Fair Value Measurement**.

In accordance with the accounting policies selected by the Department, 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: public (other than housing)".
- Land values are indexed, using the House Price Index (HPI) residential land index issued by LSL Acadata.

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

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. Due to 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); and
- the prescribed space per pupil set under the government approved standards published within Building Bulletins, which differs by phase and the purpose of the academy.

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

- A higher pupil roll will increase service potential due to an increase in space required;
- Geographic location drives the land value, permissible construction materials and methods (e.g. high-rise/ low-rise), and the level of building costs at the valuation date;
- Land values are based on residential land values local to the school, except in cases where the equivalent asset could be constructed 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 year 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 on a large scale. To mitigate the absence of site inspections, the desktop reviews are supplemented with additional data such as a 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.

The impairment charge reported in the year of £4.9 billion recognised against land and buildings reflects the changes in valuation methodology (as outlined above) and the increase in the volume of valuations undertaken.

The overall result of valuations in the year was a net revaluation loss of £1.1 billion.

As at 31 August 2020 the valuation of land and buildings reflects the identifiable macro economic factors observable at this point in time. Where there has been a revaluation or impairment during the year, management is satisfied that this represents changes in accounting estimates reflecting market movements or information that was not previously available rather than an indication of error in the prior year. An impairment review has been conducted which considered the key factors that drive the valuation model. This did not identify any indicators of further impairment.

Valuation of assets under construction, additions and converter schools

The value of Assets Under Construction (AuC) is measured at cost plus direct costs directly attributable to bringing the assets into working condition, in line with IAS 16. Direct costs include all costs associated with purchasing the land and property and bringing the assets into use, and a fair proportion of the sector's internal costs. The sector recognises AuC assets where it has control over the asset, and the right to the future economic benefits from that asset. The majority of AuC is funded by the DfE Group capital grant to the sector (as disclosed in note 5 and the capital grant tracker). Where parts of an AuC are brought into use by the AT in advance of the full completion of the project, the proportion in use is measured at cost plus direct costs directly attributable to bringing the assets into working condition and included within Land and Buildings. It is also subject to depreciation and indexation to correctly reflect the utilisation of that asset. A full DRC valuation is undertaken upon the completion of the full AUC project.

Minor capital work undertaken by individual ATs is held at historic cost until completion of the next full revaluation of the site at depreciated replacement cost.

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 LAs to Academies, normally under 125 year lease terms. Where these have not previously been recognised in the SARA, for example, through our AuC programme, they are recognised at the value of the asset recognised in the ATs' financial statements and then revalued in line with the Departments valuation policy.

Other Critical Factors Affecting Land and Buildings

Key accounting adjustments

As part of the ongoing process to improve the quality of the financial reporting, we introduced a fixed asset register in the current reporting period. This is the final feature we adopted to improve the accuracy, transparency and financial reporting of land and buildings, following the introduction of the SARA.

A key feature of the new system was to embed a series of detective and preventative controls designed to prevent inconsistent accounting across the sizeable estate (c.8,300 recognised sites). These controls identified a small number of historic errors in the reserve accounting for some assets. There were two principal errors. The first arose where historic impairments were not reversed by subsequent increases in valuation in line with **IAS 16, Property, plant and equipment**. The second arose from manual error, where assets were recognised and subsequently revalued soon after, the element to be recognised as a donation was understated and the revaluation element overstated.

These have been corrected in the current reporting period in line with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which requires non-material adjustments to be corrected in the current reporting period. The impact of this adjustment is:

- additional donations have been recognised in the year of £239 million;
- the net impairment charge to the SOCNE was reduced by £138 million; and
- the revaluation reserve was reduced by £377 million.

There was no change to the value of assets carried within the account.

Other Asset Classes

For other classes of assets, individual ATs apply their own local accounting policies for capitalisation thresholds. Therefore, the de minimis value at which a purchased item will be capitalised vary across the sector, ranging from £200 to £10,000. 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	Up to 60 years
Leasehold buildings	60 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

COVID-19

COVID-19 has impacted on the Land & Building values recognised within the SARA account. These are outlined below:

- Due to public health concerns during lockdown, construction on a number of capital projects was paused or delayed. This is reflected in the AuC balance at year end.
- There was a decline in the number of schools converting to academy status in the year. This has reduced the total value of assets transferring into the sector.
- The indexation related increase in building assets was significantly reduced as at August 2020, resulting in lower revaluation gains from indexation.
- There was some market uncertainty, particularly around future residential and commercial land prices, which has resulted in lower gains on revaluation.
- We were unable to increase the number of properties physically inspected as planned, although we did complete the same number of inspections as previous years; and
- Temporary adjustments were made to school sites to provide a safe environment.

Given the temporary nature of these adjustments, we do not consider that the long-term service potential of school sites has been affected, and no further impairment is considered to be appropriate.

We would anticipate any permanent changes to the design of schools arising from the experience of COVID-19 to be incorporated into future valuations through changes in the building bulletins.

3. 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, HMT 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 on page 76 to page 79. The relationship between management of DfE and the sector have been disclosed in the ARA for DfE. [113]

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

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

Details of related parties are disclosed in ATs' financial statements.

	2019/20	2019/20	2018/19	2018/19
	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	1,538	17	1,934	18
£50,001 to £100,000	131	9	152	10
£100,001 to £200,000	67	9	55	8
£200,001 to £250,000	21	5	18	4
£250,001+	50	47	50	53
	1,807	**87**	**2,209**	**93**

	2019/20	2019/20	2018/19	2018/19
	Number of related party transactions	Receipts from related parties	Number of related party transactions	Receipts from related parties
Receipts from related parties	**Number**	**£m**	**Number**	**£m**
£1 to £50,000	697	8	788	8
£50,001 to £100,000	80	6	117	9
£100,001 to £200,000	68	10	77	11
£200,001 to £250,000	19	4	15	3
£250,001+	57	44	64	46
	921	72	1,061	77

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**. [114]

113 https://www.gov.uk/government/collections/dfe-annual-reports
114 https://www.gov.uk/government/collections/academies-investigation-reports

4. Transfer on Conversion

	2019/20 LA £m	2019/20 DfE £m	2019/20 Total £m	2018/19 LA £m	2018/19 DfE £m	2018/19 Total £m
Non-current assets						
Property, plant and equipment	1,237	58	1,295	2,437	318	2,755
	1,237	**58**	**1,295**	**2,437**	**318**	**2,755**
Current assets						
Receivables	31	-	31	291	1	292
Cash and cash equivalents	52	9	61	84	13	97
	83	**9**	**92**	**375**	**14**	**389**
Current liabilities						
Payables	(4)	(28)	(32)	(11)	(282)	(293)
	(4)	**(28)**	**(32)**	**(11)**	**(282)**	**(293)**
Non-current liabilities						
Payables	(3)	-	(3)	(45)	-	(45)
Pension scheme deficit	(225)	(40)	(265)	(358)	(43)	(401)
	(228)	**(40)**	**(268)**	**(403)**	**(43)**	**(446)**
Net assets transferred on conversion – total	**1,088**	**(1)**	**1,087**	**2,398**	**7**	**2,405**

Accounting Policy: In-year conversions

Schools convert into academies throughout the reporting period. In 2019/20 there has been a reduction in the number of schools converting to academies as a result of the impact of the COVID-19 pandemic. Furthermore, the net assets transferred on conversions is lower than in prior year due to a number of conversions into the sector which included land and buildings assets which, following an accounting assessment, were derecognised.

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-LA 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 an LA maintained school, foundation school, faith school), 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.

5. Income

	2019/20	2018/19
	£m	£m
Income from Contracts		
Income from activities for generating funds from contracts	292	400
Miscellaneous income from contracts	303	511
Catering income	262	376
	857	**1,287**
Revenue Grant Income		
General annual grant	21,118	19,638
Pupil premium grant	1,200	1,130
Other DfE Group revenue grants	1,882	998
Other revenue grants:		
Local Authority Special Educational Needs grants	1,094	943
Other Local Authority revenue grants	651	566
Other grants	129	77
	26,074	**23,352**
Capital Grant Income		
DfE Group capital grants	2,591	2,610
Local Authority capital grants	126	130
Other capital grants	29	5
	2,746	**2,745**
Other Income		
Capital donations	1,045	937
Revenue donations	243	240
Rental income	226	236
Investment income	12	12
Income from activities for generating funds	17	19
Miscellaneous income	66	55
	1,609	**1,499**
	31,286	**28,883**

Accounting Policy: Revenue from Contracts (IFRS 15)

Revenue for services provided is recognised when (or as) performance obligations are satisfied by transferring promised services to the customer. It is measured at the amount of the transaction price allocated to that performance obligation. The nature of the obligations differs between contract types.

Catering Income – Academies charge students for school lunches and sometimes for items sold from a tuck shop/breakfast club. The identified performance obligation is the provision of food/catering services. Payment is usually made at the same time that goods are purchased. On occasion payment is made in advance, at the start of term, in which case revenue is recognised across the term as the performance obligation is met. In this case payment and satisfaction of the performance objective fall within the same financial year so there is no deferral of revenue at year-end.

Academy Trips – Academies may charge students or parents for school trips. The identified performance obligation is the delivery of the school trip with revenue recognition occurring immediately on performance. Whilst payment is often made in advance of the service being provided it is very rare for it to be made in a different financial year to which the service is delivered.

Boarding Fees – Academies may charge fees for provision of accommodation and other services for boarding students. The identified performance obligation is the supply of boarding accommodation/facilities with revenue recognition occurring over the period in which these facilities are supplied. Whilst payment is often made in advance of the service being provided it is very rare for it to be made in a different financial year to which the service is delivered.

Teacher Training income – Academies may charge LAs or other academies for the cost of training teachers from other schools. Income from other academies is eliminated on consolidation. Income from maintained schools and other sources is recognised on satisfaction of the identified performance obligation, the supply of teacher training, with revenue being recognised immediately on delivery.

Accounting Policy: Grant Income (IAS 20)

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

This report's Grant Tracker provides a reconciliation between both grant and capital income from DfE (and ESFA) recorded by the sector and expenditure on the sector recorded by DfE and the ESFA. The Grant Tracker can be found on page 76 to page 79.

Income is stated net of recoverable VAT where applicable.

Accounting Policy: Donations

Donations are outside the scope of IFRS 15. Donations are recognised when there is evidence of entitlement to the gift, receipt is probable and its amount can be measured reliably.

6. Exceptional income in response to COVID-19

The table below outlines the main sources of income in response to the COVID-19 pandemic during the reporting period:

	2019/20
	£m
DfE exceptional costs associated with COVID-19 grant	42
Covid-19 Job Retention Scheme Grant	23
Covid-19 Government funding – other	5
	70

The above sources of COVID-19 income from Government sources were included within Revenue Grant Income in note 5. Funds were provided to the sector by these sources, in relation to additional costs incurred and disclosed within staff costs note 7, and other operating expenditure note 8.

The funding support from the Department principally comprises payments made to reimburse ATs for costs linked to free school meals, prior to the national voucher scheme being introduced, for additional costs linked to opening the school across the summer and cleaning costs.

The Job Retention Scheme funding was provided by HM Treasury where staff were furloughed. The reasons for ATs claiming this include schools which provide boarding facilities, peripatetic teachers in subjects such as music and sports, and where the school generated additional income from its sports facilities.

What's important to understand about COVID-19 income in the sector?

The **DfE Exceptional costs associated with COVID-19 Grant** is a grant payable to eligible ATs. This income has been used to cover for example, increased premises costs, support for free school meals (before the National Free School Meals Voucher Scheme was created) and additional cleaning.

The value reported in the SARA accounts is lower than the value reported in Note 7 of the Department for Education 2020-21 annual report and accounts for the following reasons:

- The SARA accounts operate on a different year end to the Department. Therefore, only funding relating to March -August 2020 is recognised in this year's SARA with subsequent funding being recognised in the 2020-21 SARA. This particularly affects the **Catch-up Premium, Get Help with Technology** and the **National Tutoring Programme.**
- The Department totals include a number of programmes where payment is made to LAs, such as the Free School meals Supplementary Grant, and therefore is not recognised in the AT's financial statements. As such, this income is not consolidated within the SARA accounts.
- The Department total includes the **National Free School Meals Voucher Scheme** which is separate to the COVID-19 Free School Meals Additional Costs income included in the table above. Whilst ATs are critical to the administration of this scheme, as the voucher is from the Department directly to the relevant family, it is not recognised as income by the ATs. As such, this income is not consolidated within the SARA accounts.

7. Staff Costs

	2019/20	2018/19 [115]
	£m	£m
Salaries	15,571	14,367
Temporary staff costs	908	928
Social security	1,517	1,408
Pension costs	4,363	3,261
Severance payments	46	74
	22,405	**20,038**
Less recoveries in respect of outward secondments	(2)	(2)
	22,403	**20,036**

Staff numbers and further disclosures relating to staff costs are included within the Remuneration and staff report on page 70 of 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 [116]. The Academies Financial Handbook sets out delegation limits, beyond which permission to make severance payments must be approved by both ESFA and HMT. [117]

115 Staff costs for 2018/19 have been represented to separate out the net finance cost on the defined benefit scheme from staff costs.
116 For further details, please see the Remuneration and Staff Report.
117 Academies Financial handbook: https://www.gov.uk/guidance/academies-financial-handbook

8. Other Operating Expenditure

	2019/20	2018/19
	£m	£m
Educational supplies	636	704
Building maintenance and repair costs	496	582
Premises costs including rates and service charges	707	648
Catering costs	548	588
Consultancy and other professional fees	424	432
IT and telecommunications costs	381	342
Utilities	367	372
Exam fees	226	249
PFI related charges	201	153
Staff related costs	191	209
Remuneration of academy auditors:		
Audit fees	36	35
Non-audit fees	4	3
Other expenditure	1,336	1,553
Non-cash items		
Depreciation & amortisation	1,469	1,319
Impairment	3,096	2,974
(Gain)/Loss on disposal	364	371
Other non-cash expenditure	6	4
	10,488	**10,538**

Operating expenditure has decreased in the current year. More detail on this is included in the financial overview section and note 2.

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 £475,000 (2018/19: £475,000) for the audit of this SARA. This is not reported in the values above. Instead, it is reported in the Department's Consolidated Annual Report and Accounts for the relevant financial year.

9. Financial Instruments

9.1 Financial assets by category

	2020	2020	2020	2019
	Financial Assets held at amortised cost	Designated at fair value through profit or loss	Total	Total
	£m	£m	£m	£m
Investments	–	90	90	99
Receivables [118]	1,585	–	1,585	1,426
Cash	4,747	–	4,747	4,204
	6,332	**90**	**6,422**	**5,729**

9.2 Financial liabilities by category

	2020	2019
	£m	£m
Held at amortised cost:		
Loans	163	165
Other payables, excluding accruals	1,466	1,433
	1,629	**1,598**

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 **IFRS 9 Financial Instruments**. 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.

118 The value of the expected credit loss recognised against these financial assets was £2.5 million.

Financial assets

Financial assets include cash and cash equivalents, trade and other receivables and investments. 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 into IFRS 9's three categories: amortised cost, fair value through profit and loss (FVTPL) and fair value through other comprehensive income.

Amortised cost

Financial assets classified as amortised cost include:

- Trade and other receivables which have fixed or determinable payments that are not quoted on an active market.
- Cash and cash equivalents which comprises cash in hand and on demand deposits.

The above asset types are subsequently recognised at amortised cost using the effective interest method. Carrying values are based on initial fair value adjusted for repayments. Appropriate allowances for estimated irrecoverable amounts are recognised in the SoCNE based on expected losses for a particular asset, or group of assets. The allowance recognised is measured as the difference between the asset's carrying amount and the estimated future recoverable amount.

Fair Value Through Profit and Loss

Financial assets at fair value through profit or loss include:

- Investments: The sector holds a small number of quoted investments which are recognised at fair value. Movements in fair value are recognised in profit and loss.

Impairment of financial assets

IFRS 9 requires that for all financial assets measured at amortised cost, a loss allowance is recognised that represents Expected Credit Losses (ECLs) on the financial instruments.

HMT has ruled that balances with core central government Departments including their executive agencies, are excluded from early assessment (stage 1 and stage 2 impairments). The SARA therefore does not recognise loss allowance for stage 1 or stage 2 impairments against balances due from the Department or ESFA.

The Sector holds £415 million (2018/19: £380 million) of non-Government balances measured at amortised cost. This is made up of a large number of small balances owed from a diverse and diffuse population of counterparties, the majority of whom are individuals (parents, teachers and friends of the school) or local sports clubs and local hobby groups all with different risk characteristics. There is very limited available information about the credit risk of these counterparties.

The Department therefore deems that it is not possible, without undue time, effort and cost, to monitor changes to the credit risk associated with these financial assets until a loss event occurs. The Department therefore determines that it is not possible to reliably estimate the ECL of the sector for stage 1 and stage 2 impairments. Given that the value of non-Government debt measured at amortised cost is immaterial it follows that, could we calculate it, the value of stage 1 and stage 2 ECLs would be highly immaterial.

When a loss event occurs, and an asset becomes credit impaired (stage 3) we recognise an ECL.

For the same reasons as above, the Department expects on transition the ECL under IFRS 9 is equal in value to the incurred loss model impairment allowance previously recognised under IAS 39.

Financial liabilities

The adoption of IFRS 9 has not significantly changed the accounting for financial liabilities. Financial liabilities are measured at amortised cost. Financial liabilities include trade and other payables and loans. 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 excluding 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 both interest free loans and 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 loans at amortised cost using the effective interest method where interest is charged.

Financial instrument risk management

As the cash requirements of the sector are met through grant funding from the Department, supplemented by operating activities of the academy, the sector is not exposed to the degree of financial risk faced by similar sized business entities.

Consequently, financial instruments play a more limited role in creating and managing risk than in a non-public sector body. The sector has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the sector in undertaking its activities.

It is therefore deemed that the nature of the sector's financial instruments does not expose it to significant financial risk.

10. Investments

	2020	2020	2020	2019
	Investments at amortised cost	Investments at fair value through SoCNE	Total	Total
	£m	£m	£m	£m
1 September	13	86	99	88
Additions	6	54	60	63
Disposals	(1)	(62)	(63)	(31)
Other reclassifications and fair value adjustments	-	(6)	(6)	(21)
Balance at 31 August	**18**	**72**	**90**	**99**

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

11. Receivables

	2020	2019
	£m	£m
Amounts falling due within one year:		
Trade receivables	110	111
VAT receivable	225	290
Accrued capital grants	393	249
Prepayments and other accrued income	747	669
Other receivables	94	87
Total receivables falling due within one year	**1,569**	**1,406**
Amounts falling due after more than one year:		
Receivables due after more than one year	16	20
Total receivables due after more than one year	**16**	**20**
Total receivables	**1,585**	**1,426**

12. Cash and Cash Equivalents

	2020	2019
	£m	£m
Cash and cash equivalents in Statement of Financial Position		
Balance at 1 September	4,204	3,889
Acquired on conversion	61	97
Net change excluding conversions	482	218
Balance at 31 August	**4,747**	**4,204**
Cash and cash equivalents in Statement of Cash Flows		
Cash at bank and in hand	4,747	4,204
Overdrafts	(1)	(1)
Balance at 31 August	**4,746**	**4,203**

Included in the above is £36 million in relation to amounts held for third parties (31 August 2019: £71 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.

13. Payables

	2020	2019
	£m	£m
Amounts falling due within one year:		
Accruals and other deferred income	1,026	990
Trade payables	551	621
Tax and social security payables	351	325
Loans	32	35
Other payables	453	371
Total payables due within one year	**2,413**	**2,342**
Amounts falling due after more than one year:		
Loans	131	130
Other payables	111	116
Total payables due after more than one year	**242**	**246**
Total payables	**2,655**	**2,588**

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:

	2020	2019
	£m	£m
Property, plant and equipment	376	340
Non-cancellable contracts	20	59
	396	**399**

14.2 Commitments under leases

Operating leases [119]

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

	2020 £m	Restated 2019 £m
Land and buildings		
Not later than one year	205	186
Later than one year and not later than five years	794	758
Later than five years	1,825	1,928
	2,824	**2,872**
Other		
Not later than one year	72	79
Later than one year and not later than five years	106	100
Later than five years	65	20
	243	**199**

Included in the table above is £2,594 million (2018/19 restated: £2,536 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. The prior year comparative for operating leases in the table above and the element of these which relates to service concession arrangements on PFI contracts has been restated to provide the consistent reporting of variable annual charges. Whilst there is significant variability in the individual payment, at a sector level this uncertainty lessens and can be reliably estimated. The impact of this restatement is not material and has resulted in an increase to the prior period liability of £190 million. The split of the increase of £190 million to the liability was £8 million in not later than one year, £67 million in later than one year and not later than five years, £115 million in later than five years.

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

Finance leases

Total commitments under finance leases have an aggregate liability of £61 million (2018/19: £66 million). Included within the finance lease commitments is £60 million of PFI arrangements held by one trust.

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: IFRS 16 will become effective in Government for accounting periods beginning on or after 1 April 2022. 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 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 on leases disclosed in the SARA and on internal processes to be as follows:

- 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 2019/20 (as we do not consider these to be recognisable under IAS 16), as detailed in note 2;
- 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 a statutory, unfunded, multi-employer, defined benefit occupational pension 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 was increased from 16.48% to 23.68% on 1 September 2019. These rates include a charge equivalent to 0.08% of pensionable salary to cover administration expenses which was introduced from 1 September 2015. Employers' contributions for 2019/20 were £2,374 million (2018/19: £1,496 million).

The formal actuarial valuation report and supporting documentation can be found on the **Teachers' Pension Scheme website.** [120]

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

Local Government Pension Scheme

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

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

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

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 2019/20 were £1,052 million (2018/19: £930 million). The agreed contribution for future years ranges from 6% to 43% for employers' dependant on the local authority.

As LGPSs are not sectionalised the value of the assets and liabilities in respect of each participating employer including each AT is only determined once every three years via an actuarial funding valuation, the most recent such valuation was 31 March 2019. The results of the valuation are used to determine the funding level of the LGPS and to specify the level of future contributions for each employer. The results of the funding valuation are then rolled forward each year allowing for cashflows and changes in financial conditions to produce the approximate funding level on an accounting basis for each AT. The asset and liability values for each AT at 31 August 2020 are based on the results of the 31 March 2019 valuation, the corresponding values at 31 August 2019 were based on roll-forwards of the 31 March 2016 funding valuation. The actual asset value for each AT's share of an LGPS is determined only at each funding valuation.

A triennial valuation of the local government pension scheme was conducted as at 31 March 2019.

At the 31 March 2019 funding valuations, the funding level across the LGPS's in England and Wales as a whole was 98% which was an improvement from the 85% level from the 31 March 2016 funding valuations. Across these LGPS's as a whole the average employer contribution rate, as a percentage of salary, payable for the period 2020 to 2023 was similar to the rate for 2017 to 2020.

There were two main impacts of the 2019 funding valuation. Demographic assumptions were updated to reflect more up to date experience and expectations. In particular, life expectancies for the 2019 funding valuations are around one year less than for the 2016 valuations- see Note 15.9 Major financial assumptions. The impact of some of this change was reflected in 2017/18 and 2018/19. The impact reflected in 2019/20 is estimated to be around 1% of the liability value which is around £250 million. The second impact related to updating the calculations for the actual experience differing from that assumed over the 2016 to 2019 period, with an estimated loss reported in 2019/20 of around £400 million.

15.2 Summary of movements in the LGPS net liability

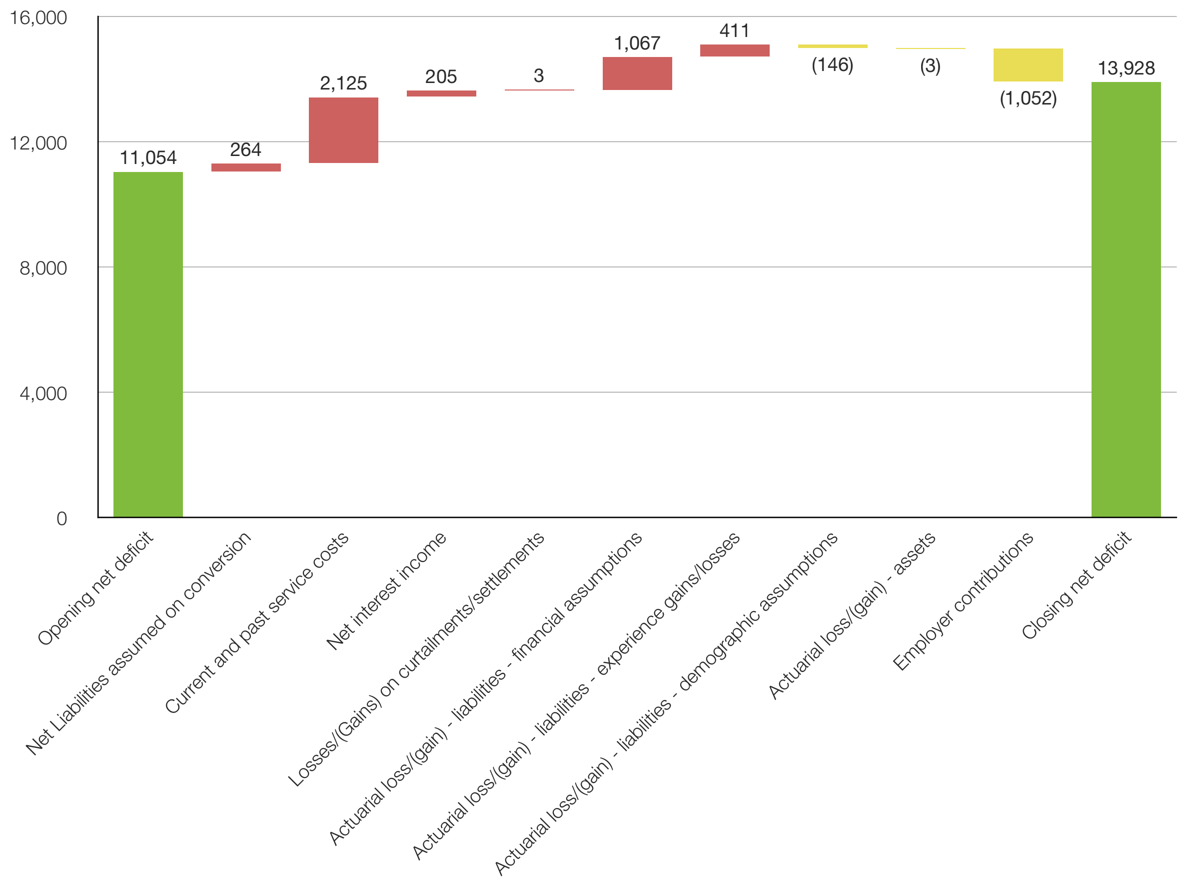
Funded pension schemes are shown on a net liability basis (or net asset where the total scheme asset balance exceeds the gross liability). This means that scheme assets are deducted from the gross pension liability balance.

	2020	2019
	£m	£m
At 1 September	11,054	6,556
Net liabilities assumed on conversion	264	401
Current service cost	2,093	1,512
Employee contributions	-	-
Employer contributions	(1,052)	(930)
Benefits paid	-	-
Past service cost	26	258
Net finance cost	205	183
Settlements	-	8
Curtailments	3	8
Pension scheme administration costs	6	4
Actuarial loss/(gain)	1,329	3,054
At 31 August	**13,928**	**11,054**

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

- the actuarial loss/gain
- the current service costs which increase the liability
- employer contributions which decrease the liability

2019/20 Movements in Net Pension Deficit



In 2019/20 the current service cost is the primary driving factor behind the increase in the net pension liability. Current service cost is driven by the discount rate at the start of the year and therefore the previous year's increase in discount rate has also resulted in a significant increase in the current service cost compared to the prior year. Net pension liability in 19/20 is also driven by the actuarial loss. This volatility of actuarial gains or losses is predominantly due to the change in assumptions, in particular the discount rate. The decrease in discount rate increases the value of the net pension liability recognised in the 2019/20 SARA but it does not alter the amount of cash ultimately required to settle these liabilities and thus has no bearing on the financial sustainability of the sector. Discount rates are subject to fluctuation and the decrease during 2019/20 may be reversed in future years.

Past service costs have reduced in 2019/20 following a one-off additional cost included in 2018/19. This related to government introduced reforms to public sector pensions in 2015, meaning most public sector workers were moved into new pension schemes in 2015. In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judicial (referred to as McCloud) and fire fighters' schemes as part of the reforms amounted to unlawful discrimination and in June 2019 the Supreme Court denied the government permission to appeal. Consequently, ATs included an estimated allowance of £250 million for the potential costs following the judgement in the prior year accounting period within Past Service Costs in 2018/19.

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 ATs 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.

Breakdown of Actuarial Gain/Loss

	2020	2019
	£m	£m
Experience gains/losses	420	46
Change in financial assumptions – assets	(12)	(448)
Change in financial assumptions – liabilities	1,067	3,961
Demographic assumptions	(146)	(505)
Actuarial loss	**1,329**	**3,054**

FRS 102 Financial Reporting Standard, which is followed by the academies sector, does not require the analysis of actuarial gain/loss to be further analysed into its three component figures and this analysis is, therefore, not included within the ATs' own financial statements.

15.3 Movements in the present value of LGPS gross liability

	2020	2019
	£m	£m
At 1 September	23,471	16,762
Liabilities assumed on conversion:		
Local Authority	469	763
Non-local Authority	75	88
Current service cost	2,093	1,512
Interest cost	449	484
Employee contributions	284	260
Past service cost	26	258
Actuarial loss/(gain)	1,332	3,502
Benefits paid	(227)	(165)
Pension scheme administration costs	-	(1)
Losses on curtailments	3	8
Effect of non routine settlements	14	-
At 31 August	**27,989**	**23,471**

15.4 Movements in the fair value of LGPS scheme assets

	2020	2019
	£m	£m
At 1 September	12,417	10,206
Assets transferred on conversion:		
Local Authority	245	405
Non-local Authority	35	45
Employer contributions	1,052	930
Employee contributions	284	260
Actuarial gain	3	448
Benefits paid	(227)	(165)
Interest income	244	301
Assets transferred on scheme settlements	-	(11)
Pension scheme administration costs	(6)	(5)
Effect of non-routine settlements	14	3
At 31 August	**14,061**	**12,417**

15.5 Scheme assets

	2019/20	2018/19
	%	%
Equities	61	63
Corporate bonds	10	10
Property	9	9
Gilts	8	8
Cash and other liquid assets	4	3
Other	8	7
	100	**100**

15.6 Analysis of non-interest costs charged to SoCNE

	2019/20	2018/19
	£m	£m
Current service cost	2,093	1,512
Past service cost	26	258
Loss on curtailments	3	8
Loss/(gain) on transfer of assets on scheme settlements	-	11
Pension administration costs	6	4
Net cost	**2,128**	**1,793**

15.7 Analysis of interest costs charged to SoCNE

	2019/20	2018/19
	£m	£m
Interest income	(244)	(301)
Interest on scheme liabilities	449	484
Net cost	**205**	**183**

15.8 Analysis of amounts in other comprehensive expenditure

	2019/20	2018/19
	£m	£m
Total actuarial loss/(gain)	1,329	3,054
Net cost	**1,329**	**3,054**

15.9 Major financial assumptions

	2019/20	2018/19
Rate of Inflation	0.5% – 3.3%	1.0% – 3.7%
Rate of increase in salaries	1.6% – 4.1%	1.0% – 4.2%
Discount rate	1.4% – 3.2%	1.3% – 5.9%
Rate of increase of pensions in payment	1.0% – 3.5%	1.0% – 3.5%
Average future life expectancies:		
Current pensioners: males	20 – 24	20 – 26
Current pensioners: females	22 – 27	22 – 29
Future pensioners retiring in 20 years: males	21 – 26	21 – 29
Future pensioners retiring in 20 years: females	22 – 29	24 – 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.

The key investment risks are:

1. **Market risk** – this is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. All investments present a risk of loss of capital. In general, excessive volatility in market risk is managed through the diversification of the individual LGPS portfolios in terms of asset classes, geographical and industry sectors and individual securities. The emergence of COVID-19 in 2020 led to an unprecedented level of market volatility in global economic markets.

2. **Interest rate risk** – this represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The value of the liabilities is also estimated using long term interest rates (by reference to AA corporate bonds).

3. **Currency risk** – this represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

4. **Credit risk** – this represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the LGPS to incur a financial loss.

5. **Liquidity risk** – this represents the risk that the LGPS will not be able to meet its financial obligations as they fall due.

As the ATs participate in a number of LGPS, we consider that the investment risks within the SARA will be similar to those for each LGPS. On this basis, we do not believe at the consolidation level that there is any undue concentration of asset or investment risk.

In 2019/20, 80% of assets were in equity, corporate bonds and property (2018/19: 82%). The markets for these assets may be subject to significant volatility over time and as a result, asset values may move in value.

Property Valuations: COVID-19 Uncertainty

There is additional uncertainty over the valuations of property investments. Some property valuations within the LGPS scheme are reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global as result of the impact of COVID-19. Consequently, less certainty and a higher degree of caution should be attached to these valuations than would normally be the case. The assets affected are £1.3 billion of the total assets held in the scheme and therefore are highly unlikely to result in material error if they were to change in value. The effects and impact that COVID-19 might have on the real estate market is not yet possible to predict.

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%	+/- £640m
CPI inflation (and associated pension increases and salary growth)	+/- 0.1%	+/- £640m
Salary growth	+/- 0.1%	+/- £140m
Life expectancy	+/- 1 year	+/- £850m

There is a range of actuarial assumptions which is acceptable under IAS 19, particularly in respect of expected salary increases and demographic factors. The assumptions used are the responsibility of the ATs, after taking the advice of the actuaries. There are risks and uncertainties associated with whatever assumptions are adopted, as the assumptions are effectively projections of future investment returns and demographic experience many years into the future. Inevitably this involves a great deal of uncertainty about what constitutes a "best estimate" under IAS 19. The actuaries interpret this as meaning that the proposed assumptions are neutral, i.e. there is an equal chance of actual experience being better or worse than the assumptions used.

The assumptions used are largely prescribed and reflect market conditions at 31 March 2021. Changes in market conditions can have a significant effect on the value of liabilities reported. For example, a reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. The effect of changes in the key assumptions is shown in the table below.

The COVID-19 pandemic led to an increased level of volatility in the discount rate which is used to value the pension scheme deficit. The table below shows the lower and upper bound of the fluctuation between 1 August 2019 and 31 August 2020 on the same indices reported in the major financial assumptions section (section 15.9 above), and what the scheme liabilities would be for each scheme if they were valued using these alternative discount rates.

	Discount rate used 31 August 2020 (illustrative)	Liability at 31 August 2020 using discount rate (illustrative)	Lower bound discount rate	Liability when using lower bound discount rate	Upper bound discount rate	Liability when using upper bound discount rate
Assumption	%	£'m	%	£'m	%	£'m
LGPS	1.70%	27,891	1.45%	29,491	1.80%	27,251

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 Statement of Financial Position (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 2020.

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;
- 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 2020.

17. Events after the reporting period

ATs have continued to be incorporated and to open new academy schools throughout the period from 31 August 2020 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 financial statements. Any significant events will be disclosed as non-adjusting events.

COVID-19

The UK Government has continued to implement temporary lockdown arrangements after the reporting period restricting non-essential travel and services including the closure of schools for children of non-key workers alongside safeguarding measures for those children attending school. The impact of this lockdown on the school sector and ATs specifically remains uncertain in financial terms, and so we continue to monitor the issue accordingly. Additional lockdowns including school closures occurred after the reporting period during 2020 and 2021. Within the SARA, two areas are particularly sensitive to changes in markets, these are the net pension deficit where a number of the inputs to the model are derived from observed market conditions such as the yield curve on Gilts and the valuation of land and buildings where land prices are derived from local property values. The impact of this during the year has been included in the pension valuation in note 15 but this continues to be an area of sensitivity after the reporting period. As the value of a school is derived from its long-term service potential, we do not anticipate that the temporary safeguarding measures introduced during lockdown will need to be reflected within those valuations. Further discussion of the impact on valuation of land and buildings is included in note 2. The results of wider Government interventions, such as the additional funding provided to schools has been disclosed in note 6 where it fell within the reporting period. Additional funding provided to schools after the reporting period to support them through the pandemic will be disclosed in the following year's SARA.

Exiting the European Union

The UK exited from the EU on 31 January 2020 and entered a one-year transition period which ended on 31 December 2020 after the reporting period. We continue to monitor the issue and any impact it may have on the financial statements.

These accounts were authorised for issue by Susan Acland-Hood (Accounting Officer) on the date they were certified by the Comptroller & Auditor General.

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

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