

Post Audit Management Report

Kite Academy Trust

Year ended 31 August 2023

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Key Contacts

Shachi Blakemore

Engagement Partner

Tel: 020 7556 1420

Email: BlakemoreS@buzzacott.co.uk

Stephen Elsworth

Engagement Manager

Tel: 020 7710 0372

Email: ElsworthS@buzzacott.co.uk

Buzzacott LLP, 130 Wood Street,
London, EC2V 6DL

Executive summary

Purpose of the external audit

Our work was performed with a view to expressing an opinion on the financial statements of Kite Academy Trust (the Academy Trust) for the year ended 31 August 2023 and to draw a limited assurance conclusion concerning regularity and propriety in the application of government funding.

Our audit work also included consideration of the internal controls relevant to the preparation of the financial statements 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 internal control.

The matters being reported are limited to those that were identified during the audit and that we conclude are of sufficient importance to merit being reported to those charged with governance and/or to the Education and Skills Funding Agency (ESFA) in accordance with their requirements.

We appreciate that you will already be aware of some of the matters contained in this report. However, in accordance with the ESFA's requirements and International Standards on Auditing (UK) (ISAs) we are communicating them to you formally.

This report and its contents were submitted in draft form to Jeremy Meeks and Jane Coleman for comment prior to finalisation.

Audit progress

We are pleased to report that the audit, from our perspective, went well and that the timetable for the overall completion of the audit has been met. We would like to take this opportunity to thank all those with whom we dealt during the audit for their assistance and co-operation.

Expected opinions

Subject to the satisfactory receipt of the outstanding items and confirmations as set out below, we intend to issue the following opinions:

Financial statements opinion:

We expect to express that in our opinion the financial statements give a true and fair view and have been properly prepared in accordance with the Academies Accounts Direction 2022 to 2023 and previous supplementary bulletin (July 2021) issued by the ESFA, and Companies Act requirements.

Regularity assurance conclusion:

We intend to state that in the course of our work nothing has come to our attention which suggests that in all material aspects the expenditure disbursed and income received during the year ended 31 August 2023 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Key audit findings

Key audit issues and outcomes

As part of our pre-audit planning process, we identified those areas where we believe there is a higher probability that a material error may appear in the financial statements as well as areas of significant interest or concern for management and those charged with governance. In the pages which follow we have provided a brief summary of the original risks we identified as part of our initial planning discussions, as well as any changes since our initial planning, and the outcome of our audit work in relation to those areas.

Area	Issue and response
Financial climate, reserves policy and going concern assessment	<p>Risk: The current financial climate is challenging for the sector, particularly in the context of cost inflation, which is increasing the importance of carefully managing reserves and financial forecasting. The high inflation environment began to impact the United Kingdom in 2022 and is continuing to be a challenge in terms of current cost control and also in relation to budgeting for future periods. The 2022/23 pay awards of up to 8.9% for teaching staff and 10.5% for non-teaching staff provide further challenges for leaders in balancing Trust budgets.</p> <p>When approving the financial statements, the Trustees must consider whether it is appropriate for the financial statements to be prepared on the going concern basis and whether the disclosures in connection with the financial viability of the Academy Trust are adequate. The Trustees must therefore see financial information covering a period of not less than one year from the date of approval of the financial statements (i.e. to December 2024) in order to make their assessment of whether it is appropriate to prepare the financial statements on the going concern basis.</p> <p>Results: <i>The Academy Trust has prepared a going concern summary for approval by the Trustees which we have reviewed alongside supporting documents which include the three-year budget forecast return, post year end bank statements, funding remittances, payroll reports and student numbers.</i></p> <p><i>We are satisfied that the Trustees have given due consideration to the going concern status of the Academy Trust and we are in agreement with the conclusion made in light of the evidence provided. This is reflected within our audit report. We have reviewed the Trustees’ Report together with the disclosures made in the governance statement and accounting policies and confirm that the requirements of the Academy Accounts Direction have been met.</i></p>

Area	Issue and response
Capital projects	<p>Risk: During the year, the Academy Trust received funding for several capital projects, with £316,000 of CIF grant income being recognised. Given the significant financial value attached to these projects, it is important that the costs are correctly capitalised or expensed as appropriate. It was envisaged that the project would be completed over the school summer holiday with handover expected just after the balance sheet date. Given the timing of completion, there was a further risk in relation to whether all relevant costs had been recognised in the correct accounting period and whether disclosures regarding any unaccrued capital commitments were complete.</p> <p>Results: £496,000 has been capitalised in relation to projects during the 2022/23 financial year, £87,000 of which is owed to the contractors and included within year end creditors. The projects have a cumulative retention balance of £25,000 which has also been capitalised and included correctly within creditors.</p> <p><i>We have reviewed the amounts expended in relation to the capital project and sample checked the expenditure to gain assurance over the accounting treatment. The amounts sample checked were considered capital in nature and the treatment was deemed appropriate. We also reviewed the repairs and maintenance expenditure for the year to identify potential costs expended on the project which may have been incorrectly written off. This review did not reveal any additional costs which should have been capitalised. We also reviewed cut-off, i.e. the financial period in which the expenditure has been recognised, and the disclosures made surrounding the year end capital commitment.</i></p>
Aggregation risk	<p>Risk: There is a risk that the aggregation process for the multi-academy trust is not accurate. Journals that are processed as part of the accounts preparation may not fully identify intra-school transactions and balances. As a result debtors, creditors, income and expenditure may potentially be misstated as a result within the aggregated figures.</p> <p>Results: <i>We have reviewed the accuracy of the aggregation workings including the reconciliation of intra-Academy Trust and inter-group balances, ensuring transactions between individual schools, the central office are eliminated, and the appropriateness of other year end aggregation journals. No material concerns were noted.</i></p>

Area	Issue and response
Income recognition	<p data-bbox="651 320 2112 392">Risk: There is an inherent risk in all organisations in relation to revenue recognition, i.e. that income may be accounted for in the wrong period or at artificially inflated or suppressed amounts.</p> <p data-bbox="651 432 2112 576">Results: We carried out detailed analytical review against expectations based on our understanding of the Academy Trust and against the prior year. Reasonable explanations were obtained from management and significant variances were substantiated as appropriate. No significant issues arose during our audit testing and sample-based checks including on our work on ESFA and non-ESFA income.</p> <p data-bbox="651 624 2112 695">We noted in draft one of the accounts, there was no accrual for pupil premium income, this was investigated by the finance team and an accrual of £109,000 was recognised in income and debtors.</p> <p data-bbox="651 735 2112 839">The Academy Trust received £63,000 in relation to the School-led Tutoring Grant income. The Trust was required to submit to the ESFA a return detailing the related costs in September 2023. These returns identified a total of £9,000 which could be subject to clawback and as such has been included as a creditor as at 31 August 2023.</p> <p data-bbox="651 887 2112 1031">Income for 2022/23 includes Mainstream Schools Additional Grant funding of £163,000, the receipt of this funding has positively impacted the operating result of the Trust. While similar additional funding is in place for 2023/24 and future periods, the need for this additional funding to maintain operational margins highlights the continued cost pressures which are present within the sector both in terms of staff and non-staff costs.</p>

Area	Issue and response
Regularity	<p>Risk: Regularity and the use of government funding continues to be a substantial focus of the ESFA and National Audit Office. Ensuring regularity within the Academy Trust is the responsibility of the Board and all of the current focus on regularity in the academy sector has only increased the level of responsibility for the Board to monitor and document management of risk including risk of irregularity. ESFA expects all academies to implement appropriate procedures and policies at all times, including during periods of school closure, which mitigate the risk of irregularity in (but not limited to) the following areas:</p> <ul style="list-style-type: none"> ● Procedures and policies in relation to risk management and ensuring that these are regularly considered; ● Procedures and policies in relation to general procurement, use of credit cards and expense claims; ● Procedures and policies in relation to the appropriate remuneration of payroll staff, agency staff and consultants; and ● Procedures and policies in relation to the management of conflicts of interest and related party transactions. <p>Results: <i>The regularity self-assessment was provided for audit, which was completed by the Academy Trust’s finance team and reviewed by the Accounting Officer. The regularity self-assessment confirms the processes in place to ensure regularity, propriety and compliance within the Academy Trust in relation to the above areas and the other requirements set out in the Academy Trust Handbook.</i></p> <p><i>The Academy Trust has not informed us of any material control weakness or irregularity. Based on our review of the self-assessment questionnaire, the work undertaken to verify the responses provided, and our consideration of the regularity and propriety of transactions selected for our sample based testing, we are satisfied that the conclusion reached in our regularity assurance report is appropriate.</i></p>

Area	Issue and response
Related party transactions	<p>Risk: In all organisations, there is an inherent risk that transactions with related parties could be undertaken on terms that benefit those who control the entity at the expense of other stakeholders or the entity itself. For this reason, UK Accounting Standards and the ESFA Academies Accounts Direction require transparent disclosure of all transactions and balances arising between the Academy Trust and its related parties. In addition, the ESFA Academy Trust Handbook places restrictions on the permissibility of certain related party transactions and required certain transactions to be reported to the ESFA in advance of being entered in to.</p> <p>Results: <i>The Academy Trust’s procedures for identifying related parties and associated transactions were reviewed. This includes the requirement for each of the Trustees of the Academy Trust Senior Management Team to update their declaration of interests annually, and to declare any interests they have at the commencement of business meetings. Based on the work undertaken, we have no concerns over the completeness of related party transaction disclosures.</i></p>
Management override of controls	<p>Risk: There is an inherent risk in all organisations that management may be in a position to override controls or agreed protocol. Such actions may be taken in order to conceal or process unauthorised or inappropriate transactions, or may occur due to weaknesses in the control environment. Such actions could lead to either deliberate or inadvertent misstatement of the results portrayed by the financial statements. The risk is greater this year given the change around in key finance personnel during the year, thus increasing the likelihood of agreed procedures not being followed due to unfamiliarity.</p> <p>Results: <i>Journal entries were reviewed, particularly those surrounding the year end and explanations were sought for any large or unusual items. All items tested and discussed with management were deemed appropriate. No suspense accounts were noted as being used during the year.</i></p>

Area	Issue and response
Accounting estimates	<p data-bbox="656 323 2114 507">Risk: Certain accounting entries within the financial statements are made on the basis of an estimate and changes in the underlying assumptions could lead to a shift in the reported results. The most material estimates within the Academy Trust’s financial statements include the estimate of the useful economic life of tangible fixed assets (and hence the depreciation charges), and the estimation of the pension liability made by the actuaries in respect to the Local Government Pension Scheme.</p> <p data-bbox="656 552 2114 620">Results: <i>We are satisfied with the estimation techniques utilised. Testing of depreciation was satisfactory with all items tested being depreciated at the approved rate.</i></p> <p data-bbox="656 665 2114 810"><i>The DfE commission valuations to be undertaken by Montagu Evans, chartered surveyors, to value their estate. The Academy Trust has obtained the valuations for 7 of the schools within the Trust. These valuations indicated that the value of the properties in aggregate was less than their carrying amount in the accounts. Therefore, the Academy has included an impairment charge of £11,285,000 to Land and buildings.</i></p> <p data-bbox="656 855 2114 919"><i>The year-end liability in respect of the Local Government Pension Scheme is consistent with the estimate provided by the scheme’s actuary and the assumptions used appear reasonable.</i></p>

Accounts format and compliance

The financial statements follow the principles and format prescribed by the ESFA in the Academies Accounts Direction 2022 to 2023 (the Accounts Direction) and the supplementary coronavirus bulletin. Compliance with the Accounts Direction also ensures that the requirements of companies and charities legislation are met. There were only a small number of changes introduced by the 2022/23 revision of the Accounts Direction. The notable changes of relevance to Kite were as follows:

i. Trustees' report and regularity statement– Estates management

The most notable change in the 2022/23 direction relates to clarification in respect of estates management in response to the risks affecting the safety of school buildings that have been identified by the Department for Education (DfE).

This change affects disclosures in the narrative elements of the annual report and financial statements as follows:

- The trustees' report on principal risks and uncertainties should consider those risks impacting on trustees' responsibilities to ensure the trust's estate is safe, well maintained and complies with relevant regulations.
- Clarification that the review of value for money statement encompasses estates safety and management.
- Accounting officers should consider demonstrating how they have effectively used relevant funding to ensure the trust's estate is safe, well-maintained, and complies with relevant regulations, as one of their value for money examples.
- Clarification that the statement on regularity, propriety and compliance encompasses estates safety and management.

ii. Support staff numbers and costs

The direction has clarified that teaching assistants are considered as support staff as opposed to teaching staff for the purpose of staff cost allocation. The AAD clarified that the number of "Teaching Assistants" should be analysed as "administration and support" category (when choosing between "teaching," "administration and support," and "management" (see para 2.137 of the AAD), and this has to be on an average headcount basis, although additionally, the numbers may also be analysed on an FTE basis.

The AAD confirms that the cost of "Teaching Assistants" should be analysed as a "direct cost" of "expenditure on charitable activities" (in the same way as teachers, education welfare supervisors, cover supervisors, librarians, lab/workshop/technical assistants and exam invigilators) – see para 2.103 of the AAD – and appear within the staff costs column. We are aware that some Academy Trusts have elected to include the cost as part of "expenditure on charitable activities / academy trust's educational operations / allocated support costs" (rather than direct costs) to ensure

consistency with the categorisation of staff numbers above. We recommend that whatever approach is taken, that the analysis of the comparative is kept consistent with the current year treatment.

In all respects, the Academy Trust's annual report and financial statements have complied with the new requirements.

Accounting policies, estimates, and disclosures

Our work included a review of the adequacy of disclosures included in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the Academy Trust. We believe that the disclosed accounting policies, significant accounting estimates and the overall disclosure and presentation to be appropriate for the Academy Trust and in compliance with the Accounts Direction.

Professional ethics

In accordance with our profession's ethical guidance and further to our letter to you confirming audit planning arrangements there are no further matters to bring to your attention in relation to Integrity, Objectivity and Independence.

Audit adjustments and unadjusted misstatements

Under Auditing Standards, we are required to provide you with details of any adjustments identified during the course of our audit work which have been made to the figures presented to us for audit.

Audit adjustments

Other than presentational amendments which have no impact on the reported results for the Trust, there were no adjustments made to the figures presented to us for audit.

Unadjusted misstatements

Other than clearly trivial misstatements, all misstatements identified during our audit have been adjusted.

Materiality

Materiality threshold £230,000

Reporting threshold: £12,000

You will note that our report refers to ‘material misstatement;’ materiality refers to the relative significance of a particular matter in the context of the financial statements as a whole. An item would be considered material if its omission or its erroneous inclusion would reasonably influence the decisions of those using the financial statements.

We are required to report corrected audit misstatements, and uncorrected audit misstatements in excess of our reporting threshold which is set at 5% of overall materiality. Our materiality threshold is based on 1.5% of operational income. A lower level of materiality may be selected for specific areas of the financial statements. For many disclosure items however, materiality is an absolute and not a relative concept. This specifically applies to transactions and other financial arrangements with Trustees and their connected persons, which would usually be considered material regardless of relative value.

When considering the impact of misstatements discovered during the course of our audit and considering the implications for our report of such misstatements, we will refer to this level amongst other things. Whether a misstatement is ‘material’ or not is ultimately down to the auditor’s judgement.

Accounting and internal controls systems

Our work during the audit included an examination of some of the Trust's transactions, procedures and controls with a view to expressing an opinion on the financial statements for the year ended 31 August 2023. This work was not directed primarily towards discovering weaknesses, other than those that would affect our audit opinion, or towards the detection of fraud. We have included in this report only matters that have come to our attention as a result of our normal audit procedures and consequently our comments should not be regarded as a comprehensive record of all weaknesses that may exist or of all improvements that might be made.

For the first time this year, and in light of the revised auditing standard (ISA 315) referred to in our Audit Strategy paper, we placed increased emphasis on the Trust's IT controls and wider IT environment. Information was gathered at the planning stage in respect of access permissions to key systems storing financial data with controls over access, including password changes, being checked as part of the audit. We also gained a deeper understanding of the Trust's general IT infrastructure, its data storage and back up procedures.

We have the following **recommendation** as a result of the above:

We note that the Trust is not currently Cyber Essentials certified although it has plans to, given it is a DfE recommendation. A review may identify vulnerabilities that could be addressed to reduce risk, and could also serve as a starting point for any enhancements in training offered / policies in place. Increasingly, we are also seeing that one of the conditions of cyber security insurance is the need for the organisation to have some form of accreditation.

We recommend that the Trust undertakes, as soon as possible, the NCSC's self-assessment toolkit to assess any potential risk exposure and if needed, seek a specialist to undertake a full Cyber Essentials check.

Our work in this area is primarily performed to aid risk assessment for external audit purposes and should not be considered a substitute for a dedicated ICT and Systems audit review. The general environmental risk in relation to systems failure and cybersecurity is high, and we recommend that the trustees ensure they continue to consider the mitigations and controls in place as part of their annual review of risk and, their cyclical programme of internal scrutiny. Further ESFA guidance on minimum cyber security standards for education establishments is available at: <https://www.gov.uk/guidance/meeting-digital-and-technology-standards-in-schools-and-colleges/cyber-security-standards-for-schools-and-colleges>

Audit observations and recommendations

We are pleased to report that we found no significant deficiencies in the accounting and internal control systems during our audit. We have no further observations or recommendations to make in respect to the accounting and internal control systems or in respect to regularity and propriety.

We are pleased to report that the following observations made last year have been satisfactorily dealt with:

Priority	Relating to
A	Opening reserve balances
B	Fixed asset register Reduce number of bank accounts held Supporting schedules for accruals and prepayments S106 funds

Financial performance and position

Audited results

The results reported within an academy trust set of financial statements include a number of non-cash movements including Local Government Pension Scheme adjustments, transfers of schools from local authority control and depreciation charges, which do not usually appear within the management accounts. The analysis below shows the financial performance reported in the financial statements excluding these items so that the results can be more easily related to figures that are being reported in-year. Excluding movements on tangible fixed assets, the defined benefit pension liability, and other non-recurring items, the Academy Trust's "operational" surplus for the year was £168,000 (2022: £264,000), as reconciled below.

	2023 £'000	2022 £'000
Overall net movement in funds	(9,936)	9,976
Add: net (expenditure) / income attributable to the fixed assets fund (note 1)	11,387	(2,415)
Less: accumulated surpluses and pension deficits inherited (note 2)	–	158
Less: LGPS actuarial gain (note 3)	(1,612)	(8,775)
Add: LGPS service cost adjustment (note 3)	197	1,213
Add: LGPS interest cost adjustment (note 3)	132	179
Operational surplus for the year excluding fixed asset purchases	168	336
Add: fixed assets from revenue funds (note 4)	–	(72)
Operational surplus for the year	168	264
Reconciliation of revenue reserves		
Revenue reserves brought forward (note 5)	1,390	1,050
Operational surplus for the year (as referred to above)	168	264
Add: Revenue reserves transferred into the Trust (note 2)	–	76
Revenue reserves carried forward	1,558	1,390

Note 1: Movement on fixed assets fund

For the purposes of determining the “operational” surplus, the net income in respect of the fixed assets fund has been disregarded on the basis that the principal movements within this fund relate to capital funding received and the depreciation applied on assets purchased from such funds, and therefore are not in relation to the day-to-day operation of the Academy Trust. The £11.3m net expenditure on the fund reflects an impairment charge on the Academy Trust’s land and buildings.

Note 2: Accumulated surpluses and pension deficits inherited

For the basis of calculating the operational result, these transfers are disregarded because they relate to one off transfers of reserves to the Trust and are not part of the day-to-day operational activity. No new schools joined the Academy Trust in 2022/23.

Note 3: LGPS (Local Government Pension Scheme) adjustments

The Academy Trust is one of several employing bodies included within the Surrey and Hampshire Pension Funds. The scheme’s actuaries, Hymans Robertson and Aon, have prepared a valuation of the assets and liabilities which are specific to Kite so that the net liability may be included on the balance sheet. For the purposes of determining the “operational” surplus, the non-cash adjustments necessary in accounting for the change in the liability since 1 September 2022 have been excluded.

Note 4: Fixed asset purchases from the revenue fund

The purchase of fixed assets from revenue (operational) funds is shown in the accounts as a transfer from unrestricted and restricted general funds to the restricted fixed asset fund. This additional investment in fixed assets is in addition to the restricted capital funding that the Academy Trust received.

Note 5: Revenue reserves

The revenue reserves of the Academy Trust exclude the tangible fixed asset fund and Local Government Pension Scheme reserve. The revenue reserves therefore represent the funds available for the day-to-day operation of the Academy Trust.

Comparison of key financial ratios

For your information, we have included at Appendix 2 to this report a comparison of the Academy Trust's key financial ratios for 2021, 2022 and 2023 and also against the sector averages for 2021 and 2022.

Note that the ratios presented in the Appendix may differ from your own ratios where a slightly different formula is used. In addition, the population is drawn from data on approximately 100 academies based in the South East of England and Greater London and whilst they may provide a guide as to how the Academy Trust compares to the sector, there is a substantial amount of diversity across the sector depending on the individual circumstances of each academy.

Letter of representations

We take this opportunity to enclose a final draft of the letter of representations which we will ask the Trustees to sign at the same time as the approval and signature of the annual report and financial statements. This includes acknowledgement of the Trustees responsibility for the design and implementation of internal controls to prevent and detect fraud.

As set out in our planning letter, we understand the following applied to the year ended 31 August 2023.

- The Board of Trustees of the Academy Trust exercised effective oversight of management's processes for identifying and responding to the risks of fraud in the Academy Trust and a system of internal controls was in place to mitigate these fraud risks.
- The key areas at most risk of fraud at the Academy Trust are:
 - The payment of unauthorised expenditure through the override of key controls; and
 - Third party fraud leading to payment being made to the incorrect recipient including cyber fraud.
- The Board of Trustees were not aware of any instances of actual, suspected, or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets.
- There have not been any out of the ordinary transactions.

If the above information is no longer correct, please contact Shachi or Stephen.

Integrity, objectivity and independence

In accordance with our profession's ethical guidance and further to the External Audit Strategy document issued to you as part of the pre-audit planning process, we confirm that there are no further matters to bring to your attention in relation to our integrity, objectivity and independence as auditors.

Other work undertaken as part of the 2022/23 audit cycle

As set out in our External Audit Strategy to you we have also been engaged to provide you with the following services:

- **Teachers' Pension End of Year Certificate (EOYC) assurance**

We can confirm that we have concluded our work on this area. Our assurance report was issued to Teachers' Pensions along with the final End of Year Certificate. Our work did not raise any significant concerns which need to be drawn to your attention.

- **ESFA Accounts Return assurance**

Our work on the Accounts Return assurance will begin in December. We do not have any concerns at this stage and we will work with management to ensure that the Accounts Return together with our assurance report is filed ahead of the 30 January 2024 deadline.

Use of this report

This report has been prepared for your private use only. It has been prepared on the understanding that it will not be shared with any third party, other than the ESFA, without our prior written consent and we can therefore assume no responsibility to any other party. The advice contained herein is based on the information you have provided and UK law and judicial and administrative interpretation as of the date of this report. Should the facts provided to us be incorrect or incomplete or should they change, our advice may be inappropriate. Buzzacott LLP accepts no liability for losses arising from changes in UK law, interpretation or practice or in public policy that are first published after the date of this report.



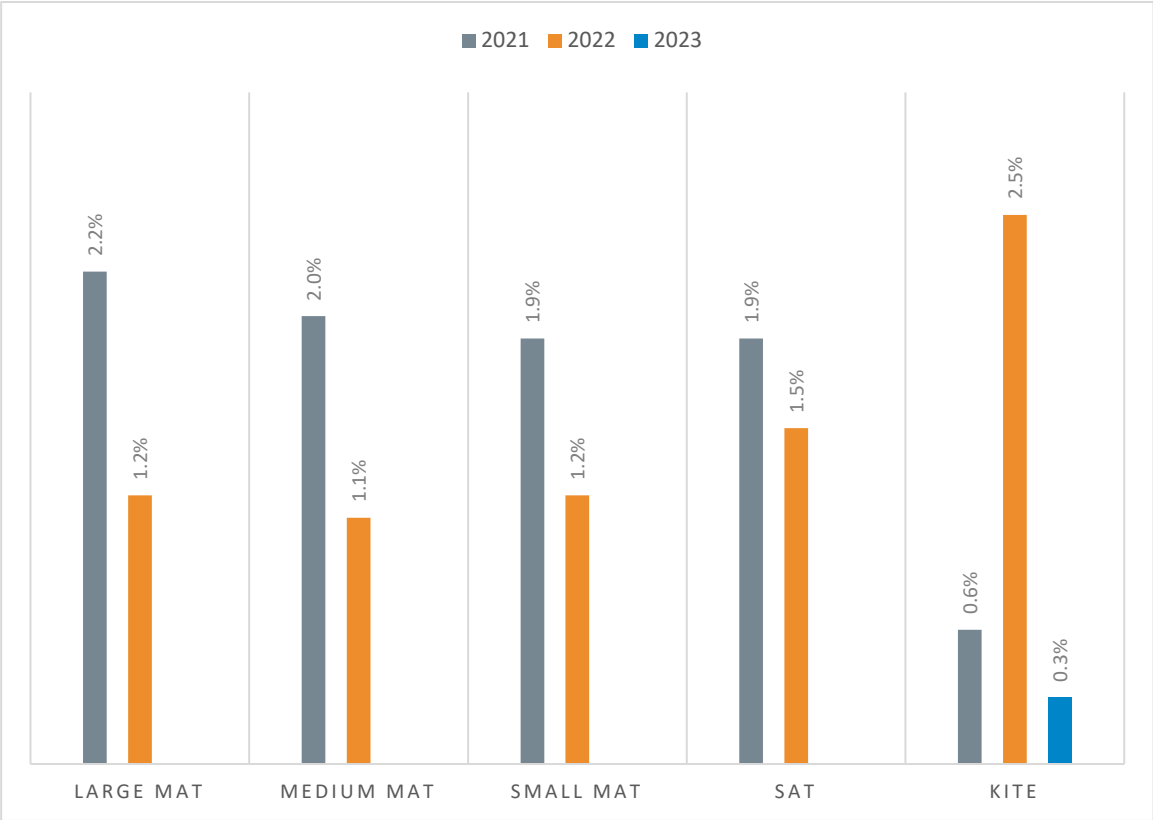
Buzzacott LLP

Date: 18 December 2023

Appendix 1: Comparison of financial ratios

The analysis of ratios is split between Single Academy Trusts and Small (fewer than 2,500 pupils), Medium (2,501- 9,000 pupils) and Large (9,001+ pupils) MATs.

Operational margin after transfers from revenue funds



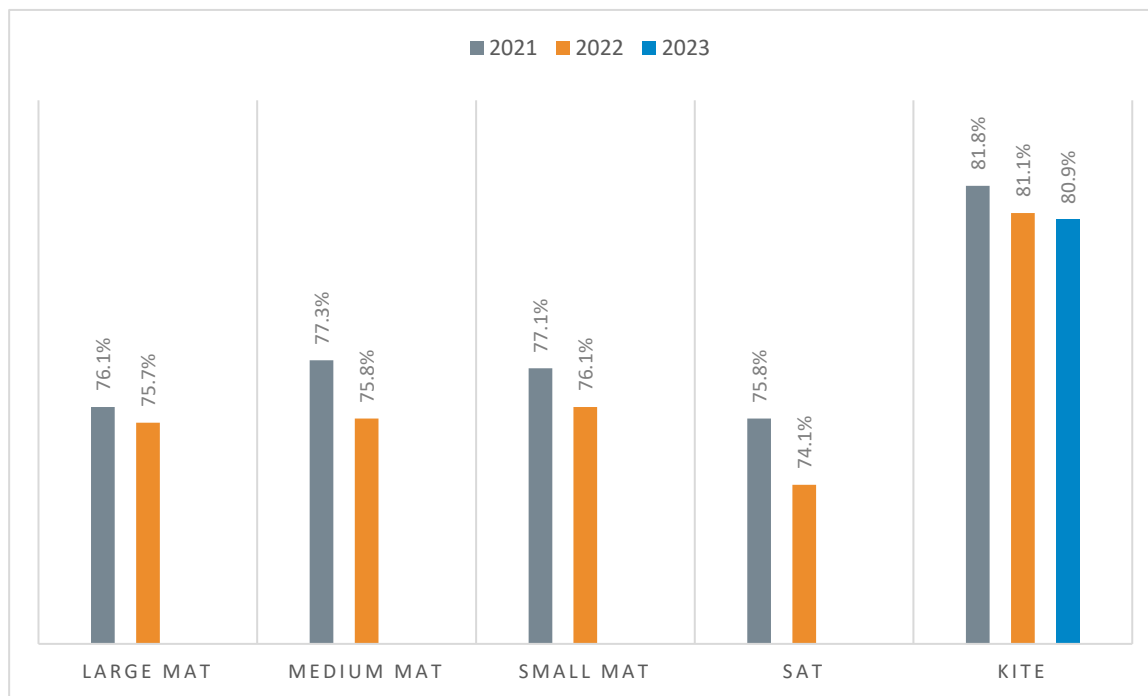
Formula: Surplus (deficit) for the year excluding fixed asset fund, LGPS adjustments and amounts donated on conversion ÷ Total income excluding fixed asset fund income and amounts donated on conversion.

The aim of an academy trust is not to generate profits on trading or capital gains, but to provide quality education and fully utilise its resources in so doing.

The most significant factor on the operations margin of trusts is payroll, the largest of a trust’s costs. Though schools set their teachers’ pay, these are determined by national pay scales, which along with employer pension and national insurance contributions are not within the control of an academy trust.

The impact of rising costs relative to funding levels began to be seen in 2022, with operational margins reducing across the sector.

Payroll as a % of operational income



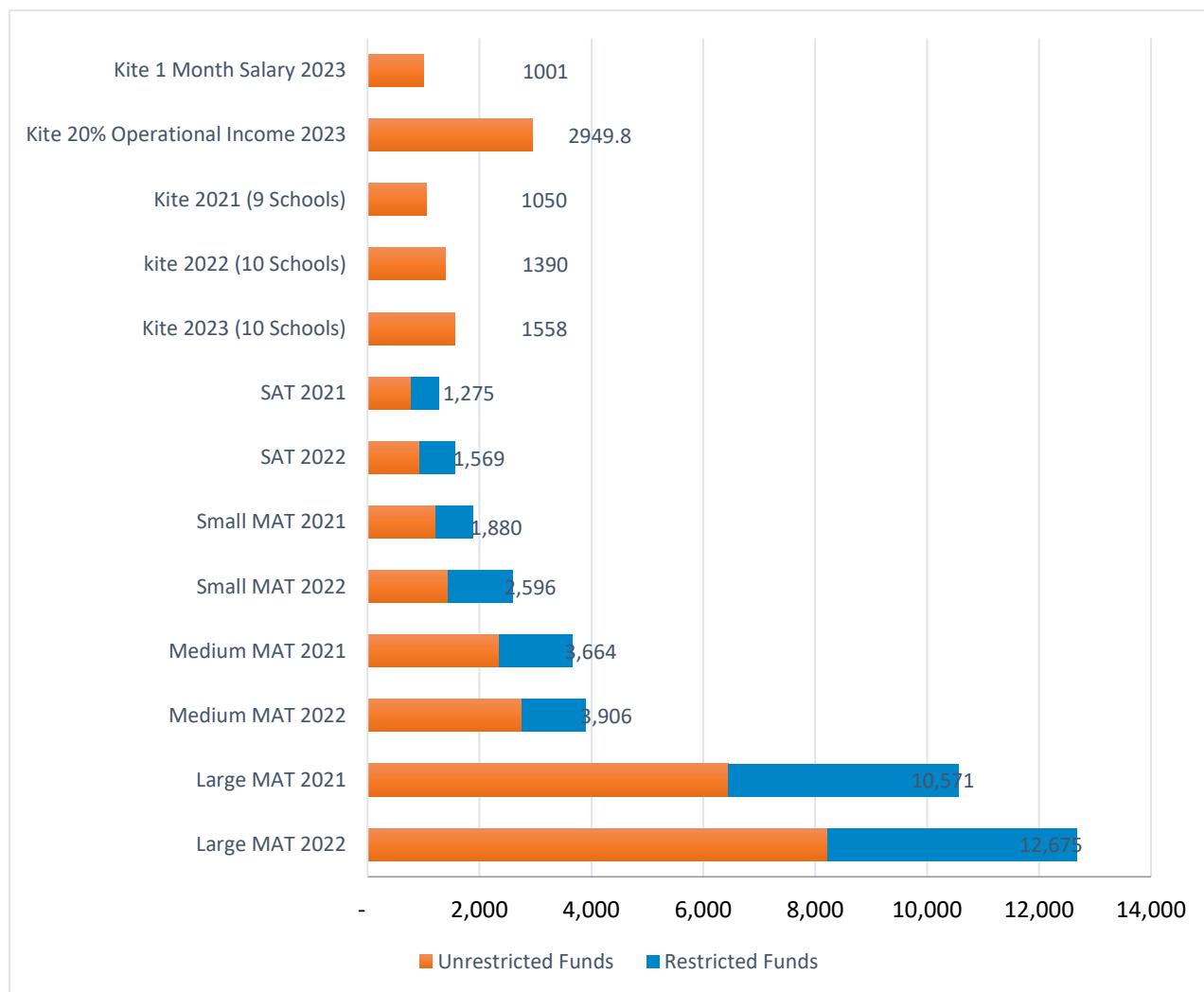
Formula: Total payroll costs (including agency costs but excluding defined benefit pension scheme adjustments and one-off severance payments) ÷ Total income (excluding capital grants, conversion balances, sponsorship and start up grants)

Staff costs represent the most significant area of expenditure for all academies and are viewed by third parties as a critical indicator of financial and operational efficiency. Typically, staff costs make up 70% - 80% of both total costs and total income. The sector has seen increases in pay costs, but at a slower rate than the increase in non-pay costs. Trusts have looked to control payroll cost increases in light of increased costs elsewhere. This has resulted in a reduction in payroll as a percentage of operational income between 2021 and 2022.

Using the data for 2021/22, we also considered the overall payroll ratio by banding, which demonstrates a continued overall trend towards a higher payroll ratio.

Payroll banding	% Trusts 2022	% Trusts 2021
< 70%	13.6	10.0
70 – 75%	25.5	21.9
75 – 80%	47.1	41.2
80 - 85%	12.8	23.5
> 85%	1.0	3.4

Revenue reserves



The graph to the left shows the split of the Academy Trust’s reserves between unrestricted funds (including designated funds) and restricted funds (excluding the fixed assets fund and pension reserve) shown in £’000.

The government recommend that the amount an academy trust set aside is based on the type and size of the academy trust as well as the particular risks that it faces (for instance, if they are locked into a PFI contract). They encourage academy trusts to ensure that they keep at least one-month's salary cost as a revenue reserve.

When considering a reserves policy, academy trusts should consider wider financial risks and future plans to determine the appropriate level of reserves in the academy trust’s own context. MATs should also consider how the reserves policy applied across constituent schools and to what extent risk can be spread across the trust. As a trust grows in size, the reserves held on a per pupil basis will typically be lower. In 2022 a “Large MAT” held on average around £600 of revenue reserves per pupil compared to £1,900 for a “Small MAT”.

LGPS Assumptions

As for all academy trusts, support staff are eligible to participate in a relevant Local Government Pension Scheme, a multi-employer defined benefit scheme. In accordance with the requirements of the reporting standards, the Trust has included its share of the liability in the scheme on its balance sheet, as estimated by the scheme actuary. As slight changes in the actuarial assumptions used can have a substantial impact on the overall net pension liability, we have provided in the table below a comparison of the 2022/23 LGPS retirement benefit assumptions against those of other educational organisations.

Assumptions	Sector Average	Kite
Price increases	2.95%	3.0%
Salary increases	3.83%	4.0%
Pension increases	2.95%	3.0%
Discount rate	5.25%	5.2%

Appendix 2: Sector developments

Policy and compliance

Commissioning high quality trusts

In July 2023, the Department for Education published the guidance document “Commissioning high-quality trusts” providing information about decisions made by Regions Group on behalf of the Secretary of State, about the creation, consolidation and growth of academy trusts.

The guidance covers decisions:

- For schools to join or form new academy trusts
- To move underperforming schools to new trusts
- To approve applications for trust transfers; and
- To approve which trusts can open new free schools.

Annex A to this guidance also provides further detail with respect to “Trust Quality Descriptions,” the five pillars of High-Quality and Inclusive Education, School Improvement, Workforce, Finance and Operations, and Governance and Leadership.

<https://www.gov.uk/government/publications/commissioning-high-quality-trusts>

<https://www.gov.uk/government/publications/academies-regulatory-and-commissioning-review>

Academy Trust Handbook 2023

The Academy Trust Handbook 2023 (ATH 2023) provided relatively few changes from the previous iteration, with the primary intention of updates in 2023 being to simplify existing conditions and ensure that academies are afforded the right balance of autonomy.

The key changes applicable following the publication of the revised ATH 2023 were:

- Confirmation of the withdrawal of the Budget Forecast Return Outturn.
- Changes to related party transaction requirements, with the threshold for obtaining prior approval for entering in to a transaction increasing to £40,000.
- Clarification that prior approval of staff severance payments in accordance with HM Treasury’s Guidance on Public Sector Exit Payments applies only to certain ‘special’ (non-statutory/non-contractual) payments.
- Confirming that trusts will be able to enter in to indemnities which are in the normal course of business without seeking approval.
- Extending the scope of religious authorities to include all faiths rather than exclusively dioceses.

Additional changes are detailed in full on page 7 of the ATH 2023 and include updates to matters with respect to roles and responsibilities, financial requirements, delegated authorities and intervention.

<https://www.gov.uk/guidance/academy-trust-handbook/academy-trust-handbook-2023>

FRED 82 Exposure Draft

The Financial Reporting Council ('FRC') is currently undertaking its second triennial review of Financial Reporting Standard 102 (FRS 102), the underlying accounting framework under which the Trust prepares its accounts. During 2023, the FRC released FRED 82, which outlined the proposed revisions to the next edition of FRS 102 and the consultation period closed on 30 April 2023. The FRC is currently considering the responses to this, and we expect a final version to be released later in 2023.

For more information please visit:

<https://www.frc.org.uk/getattachment/e7cf66c5-7f1b-45b1-8620-2bd754f6c97f/20221215-FRED-82-At-a-glance.pdf>

One of the key changes proposed in FRED 82 is the alignment of lease accounting treatments with International Financial Reporting Standards. These changes will have a significant effect on the trust's accounts given its material leasing commitments. In summary, the proposed amendment to section 20 of FRS 102 will require all leases, not just finance leases, to be recognised as 'right of use' assets on the balance sheet, along with a corresponding liability reflecting the discounted cashflow value of all future lease payments. The exposure draft includes provisions for entities to use interest rates on deposits

(or failing that gilt rates) as the discount rate instead of cost of capital which will simplify the process.

The proposed effective date for FRED 82 is for accounting periods beginning on or after 1 January 2026.

Further clarification will be available following final consultation, however the trust's accounts to 31 August 2027 *may* need to show comparative figures reflecting the changes for the period to 31 August 2026. The trust may need to consider the implications of the new requirements once guidance is clarified, in order to make the transition and preparation of comparative figures smoother when it becomes applicable.

The other change expected is in respect of income recognition whereby a five-step recognition model is planned and the impact on trusts will be clarified with respect to this once guidance is confirmed.

Development of new Charity Statement of Recommended Practice (SORP)

An exposure draft of the new SORP is expected in late 2023, with implementation expected for accounting periods commencing on or after 1 January 2025. Briefings on 15 topics with proposed changes that have been considered by the SORP Committee are available at: <https://charitySORP.org/engage-briefings-to-inform-the-engagement-process-in-developing-the-next-sorp>

Sustainability and reporting

Whilst many companies are including sustainability and climate change-related information in their annual reports, only the largest private and listed companies are required to provide such information, with large Multi Academy Trusts currently only required to publish Streamlined Energy Carbon Reporting disclosures. This disclosed information is not yet subject to any independent 'checking' which has resulted in the 'greenwashing' claims about some unverified information contained in annual reports.

June 2023 saw the issue of the first two international sustainability reporting standards aimed at improving trust and confidence in company disclosures about sustainability and climate change. The two IFRS Sustainability Disclosure Standards are internationally effective from 1 January 2024 though have not yet been adopted by UK standard setters. However, it is likely that compliance will become mandatory in the near future. To begin with, the obligation may only be for large companies but, the 'trickle down' process is likely to require many companies to ensure that they can provide adequate information to others in their supply chain who have the reporting obligation. As is usually the way, the reporting obligation will ultimately be extended to smaller companies.

In anticipation of the above, it is advisable to start discussions around sustainability reporting and data early and more information can be

found at: <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/>

Teachers' Pension Scheme (TPS)

On 26 October 2023, the latest actuarial valuation of the TPS was published, this confirms that employer contribution rates will increase from 1 April 2024 to 28.6%.

The Department for Education will provide additional funding to cover the increase in the employer contribution rate for directly funded scheme employers for the year ending 31 March 2025, with funding for future years to be considered as part of subsequent spending round reviews.

<https://www.teacherspensions.co.uk/news/public-news/2023/10/valuation-result.aspx>

HMRC challenges to VAT reclaims

Academies are entitled to claim refunds of VAT incurred on the cost of providing non-business state education. Non-VAT registered academies do this via the VAT126 form and VAT registered charities make the claims as part of their usual VAT returns.

Recently there have been instances where HMRC have refused VAT refunds where the school or MAT concerned is not listed on the Department for Education's Get Information About Schools (GIAS)

database. HMRC are claiming this means they cannot verify Academy status.

It is recommended that all Academies and MATs ensure that their details are on GIAS, and that any change of status (such as becoming an Academy or joining a MAT) are recorded on GIAS to avoid delays in refunds.

Funding

National Funding Formula changes

The Minister of State for School Standards set out the National Funding Formula (NFF) for 2024 to 2025 on 17 July 2023. This announcement was followed by the publication of provisional allocation tables and the annual NFF policy document.

The document gives details of the changes to the funding regime for the next accounting year, which include:

- An overall increase to school funding of 2.7% and an increase to high needs funding of 4.3%;
- An increase in the minimum per pupil funding level of 2.4%;
- An increase to the funding floor such that each school will attract at least 0.5% more pupil-led funding per pupil compared to 2023/24.
- Increased requirements for local authorities, intending to ensure that local allocations of funding are more closely aligned with the NFF.

From 2024/25, the Mainstream Schools Additional Grant (MSAG) will also be rolled into the National Funding Formula and will therefore no longer be administered as a separate grant.

Policy document:

<https://www.gov.uk/government/publications/national-funding-formula-for-schools-and-high-needs>

Provisional funding:

<https://www.gov.uk/government/publications/national-funding-formula-tables-for-schools-and-high-needs-2024-to-2025>

Teachers' pay additional grant

Also in July 2023, the ESFA announced funding to support schools in meeting the cost associated with the September 2023 teachers' pay award. The funding was confirmed for a period up to August 2025 for academy schools, receivable in both 2023/24 and 2024/25 directly from the ESFA.

Teacher's pay additional grant funding will be based on factors used for the determination of MSAG funding:

- A basic per-pupil rate with different rates for primary, key stage 3 and key stage 4;
- A lump sum paid to all schools, regardless of pupil numbers;
- A per-pupil rate for pupils who are recorded as having been eligible for free school meals at any point in the last 6 years;

- An area cost adjustment due to geographical variations in labour costs.

School level allocations:

<https://www.gov.uk/government/publications/teachers-pay-additional-grant-2023-to-2024>

Conditions of grant:

<https://www.gov.uk/government/publications/teachers-pay-additional-grant-2023-to-2024/teachers-pay-additional-grant-2023-to-2024-conditions-of-grant-for-local-authorities>

ESFA Guidance

Digital and technology standards

In March 2023, the Department for Education provided update to its guidance document “Meeting digital and technology standards in schools and colleges”. The document provides guidance for educational establishments with respect to cyber security standards, this includes those relating to:

- Boundaries and firewalls;
- Security features;
- Access restrictions;
- Multi-factor authentication;
- Anti-malware;
- Application downloads;
- Licenses and patches;

- Data backups;
- Business continuity;
- Reporting of cyber-attacks;
- Data protection; and
- Staff training

Updates in 2023 included new guidance with respect to filtering and monitoring, cloud solutions and servers and storage.

<https://www.gov.uk/guidance/meeting-digital-and-technology-standards-in-schools-and-colleges/cyber-security-standards-for-schools-and-colleges>

Value for Money: School resource management

In June 2023, the Department for Education published supplementary guidance “Monitoring progress and impact of the strategy” to accompany the existing “School resource management: building a stronger system”.

These documents set out how the DfE aim to work in partnership with the sector to ensure that academy trusts are equipped with the tools they need to get the best value from all their resources.

The new guidance details how the Department for Education will:

- Assess the effectiveness of resource management practices;
- Assess the engagement with school resource management tools and services;

- Measure the savings schools have made by using school resource management tools; and
- Monitor trends in schools' financial health.

The guidance is accessible at the below links:

<https://www.gov.uk/government/publications/supporting-excellent-school-resource-management>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1161148/Monitoring_progress_and_impact_of_the_strategy.pdf

Value for Money: DfE commercial initiatives

The Department for Education has published a summary of the progress made by commercial initiatives in August 2023. The Department now has over 65 endorsed frameworks which all aim to ensure that schools continue to obtain good value for money when entering into significant contracts.

The Department intends that increased utilisation of these frameworks will help deliver efficiency within the sector.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1180799/Schools_commercial_-_performance_of_initiatives_-_2022_to_2023.pdf

ESFA assurance themes

On 13 September 2023, the ESFA published an update detailing common themes arising from reporting in the 2021 to 2022 assurance year (covering the period ended 31 August 2023).

The report notes that just under 96% of accounts were submitted in advance of the 31 December 2022 deadline (a decrease from just under 97% in the previous year).

The financial statements of just 0.2% of trusts included a qualified audit opinion (2020/21: 0.5%), the reasons for which were exclusively due to the accounting for Local Government Pension Schemes or Land and Buildings.

The percentage of modified regularity reports rose from 7.9% in 2020/21 to 8.1% in 2021/22, with the increase attributable to modifications with respect to breaches of internal financial reporting requirements and related party transaction requirements.

The full report is available to read at the below link. The full report also details themes with respect to internal scrutiny reporting, financial management and governance reviews, academy funding audits, School Resource Management Self-Assessment Checklist returns and education recovery grant reviews.

<https://www.gov.uk/government/publications/academy-trusts-themes-arising-from-esfas-assurance-work/common-themes-arising-from-esfas-assurance-work-in-2022-to-2023>

Safeguarding

Keeping Children Safe in Education

The latest version of the Keeping Children Safe in Education (KCSIE) guidance was published on, and applies from, 1 September 2023. The full guidance is available here:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1161273/Keeping_children_safe_in_education_2023_-_statutory_guidance_for_schools_and_colleges.pdf

As in previous versions, the guidance emphasises that it is essential that everybody working in a school or college understands their responsibilities with respect to safeguarding. All staff at academy trusts must therefore read Section 1 of the document at the very least. The substantive changes to the guidance this year, excluding minor clarifications and presentational changes, are as follows:

Additional clarification has been provided with respect to responsibilities education staff have in relation to filtering and monitoring.

Highlighting that pupil absences from school can be an indication that safeguarding issues may be present.

Information on requirements for notifying shortlisted candidates of online searches which should be performed as part of due diligence checks;

Information on responding to safeguarding incidents reported relating to outside organisations or individuals upon school premises for example community groups, sports clubs or service providers for after school activities.