



Archdiocese of Birmingham

Diocesan Education Service

GUIDANCE REGARDING DUE DILIGENCE IN RESPECT OF MULTI ACADEMY COMPANIES (MACs)

DUE DILIGENCE IN RELATION TO MULTI ACADEMY COMPANIES (MACs)

WHAT IS DUE DILIGENCE?

A fair translation of due diligence is an investigation and research into and examination of the background and financial condition, business operations and contractual obligations of a school or MAC. It is done to establish a complete, accurate and reliable vision of the school or MAC so that realistic, fact-based decisions can be made by another organisation considering joining with the school or MAC.

The theory behind due diligence holds that performing this type of investigation contributes significantly to informed decision making by enhancing the amount and quality of information available to decision makers.

In other words, ensuring that you fully understand all of the risks, assets, liabilities and relevant information to make a fully informed decision before entering into a Multi Academy Company.

It is essential that due diligence is carried out before any decisions are formally made. It should be further noted that all Governors have been made aware of this information and that this information is minuted in case the need for referral at a later date.

Existing MACs which are considering forming a larger MAC should ensure they fully understand what they are becoming part of. It is important that a certain level of due diligence is carried out so that the financial and legal position of the whole group is clear in order to avoid any hidden 'issues' arising at a later date.

This is by no means an exhaustive list but a good indication of what is required when carrying out due diligence appropriately. The principles of due diligence are relevant to:

- An existing MAC considering joining with another MAC
- A voluntary aided maintained school considering academy conversion and joining an existing MAC or forming a new MAC with other schools

WHAT SHOULD BE INVESTIGATED UNDER DUE DILIGENCE?

Due diligence work would normally involve obtaining an understanding of:

- ❖ Income and expenditure profile over the past 3 years;
- ❖ Budget position for the past 3 years and any future changes that are known;
- ❖ Predicted budgetary position (assuming business as usual) for the forthcoming three years;
- ❖ Student forecast number on roll and any housing developments in the area;
- ❖ Scrutiny of all board meeting minutes for at least the most recent 3 years;
- ❖ Review of all legal contracts including suppliers, leases and consultants and potential contingent liabilities (e.g. contractual conditions attached to grant funding received);
- ❖ Analysis of all HR contracts including any existing TUPE requirements and special conditions/clauses relating to that particular academy;
- ❖ Inspection of the physical assets of the academy i.e. what is the condition of the buildings and facilities? What are the future strategic plans? Is the academy compliant with all H&S aspects and is this evidenced?
- ❖ Scrutiny of all legal documents, insurance, H&S audits, Audit outcomes, 'Near miss' reports and potential liability claims;

- ❖ Scrutiny of safeguarding complaints;
- ❖ Scrutiny of Freedom of Information requests received (and responses);
- ❖ Details of any fraud or financial irregularity;
- ❖ Review of all Internal processes and controls including checks as to whether practice reflects policies;
- ❖ Review of effectiveness of overview and scrutiny role played by governing body acting as ‘critical friend’ or ‘second line of defence’;
- ❖ All student files should be retained for 3 years after the student attending reaches 18 years of age. Are these kept and available?

All of these documents should be retained in one folder (electronically if possible) and a findings report produced overall for submission to the Governing Body for consideration.

WHO SHOULD CARRY OUT DUE DILIGENCE?

You will need a team to carry out due diligence. Where necessary this may involve external companies to look at:

- ❖ Accounting and auditing aspects
- ❖ Legal
- ❖ Fixed assets including condition and suitability review
- ❖ H&S Audit
- ❖ HR Review
- ❖ Any other specialist deemed necessary depending on initial findings (e.g. legal)

You should allow a budget depending on the size of the Academy for a full due diligence process to be undertaken and this should be very much looked upon as ‘invest to save’.

WHAT SHOULD HEADTEACHERS & GOVERNORS/BOARD OF DIRECTORS EXPECT FROM AN APPROPRIATE DUE DILIGENCE REPORT?

A full report with evidence and an overall opinion or guidance as to recommended course of actions along with any identified risks. Some MACs also ask for a strategic Risk Review for the Governors to consider.

DUE DILIGENCE SAMPLE CHECKLIST (Guidance only)	X/✓
Strategic due diligence	
Latest financial statements and accounts, including the Accounting Officer’s Statement of Regularity, Propriety, and Compliance	
Academy’s Development Plan	
Academy’s Self Evaluation Form (SEF)	
Latest OfSTED report and OfSTED Action Plan	
Latest S48 report and corresponding action plan	
Latest Audit Reports, both from the internal assurance function/responsible officer and the external auditor	
Copy of latest Risk Register with details of frequency of review	
Most recent H&S Audit with action plan	
Most recent Fire Risk Audit with action plan	
Minutes of all board meetings, including sub-committees, for the past 3 years	
Articles of Association	
Funding Agreement	
Academy Policies including list stating update frequency and responsibility	
Academy Risk Assessments including availability to employees and SEN info	
Governors Skills Audits and details of governor training undertaken	
Are there any outstanding legal claims or potential claims?	

Details of any safeguarding complaints	
Levels of governor turnover, especially resignations mid-term	
Details of any transactions with related parties	
Who are the academy's Accountants / External Auditors	
Who are the Academy's Solicitors or Legal Advisors?	
Is payroll provided 'in house' or by an external bureau?	
Financial analysis (business plan / accounts) of any significant trading activities undertaken, e.g. in house catering, pre-school.	
What financial and information systems are used	
Details of what partnerships and joint ventures are currently undertaken	
Details of other limited companies under the control of the Trust (e.g. trading companies)	
Details of any significant communications with parents or members of the community, including Freedom of Information requests (and responses)	
Details of fraud investigations or other financial irregularities	
Summary of significant marketing communications, publications and materials	
Copies of any significant correspondence with external legal counsel	
Income/Funding/Sales/Services due diligence	
What funding is there and other revenue streams?	
Breakdown of full income analysis	
KPI data on a monthly or termly basis	
Student numbers against forecasts and at least 3 year forecast data	
Any losses of students or income?	
What are the surrounding educational circumstances?	
Expenditure due diligence	
Analysis of monthly gross margin and operating margin with explanations for any significant changes	
What are the variable costs?	
What are the fixed costs?	
% of staffing against EFA budget (now and for previous 3 years)	
% of staffing against total budget (now and for previous 3 years)	
Total generated income per student	
Information of any one-off costs in the last 3 years	
Breakdown of costs by supplier	
If there are any supplier dependencies	
Cash Flow due diligence	
Details and timing of large payments/receipts include EFA and SEND funding	
Bank statements for the past 12 months	
Cash flow analysis for the past 3 years	
Analysis of the degree of bank balance fluctuation within a month	
HR & Employee due diligence	
Organisation chart (including grades & allowances)	
Details of Attendance and average attendance for the past 3 years	
Details of any complaints for the past 3 years	
Details of any staff on pre-capability support programmes	
Details of Performance Related Pay procedures	
Experience / qualifications of Finance / HR staff	
Information regarding any compromise agreements in the past 3 years	
Information regarding any formal disciplinary issues (inc "live" warnings" & referral linking to DBS / NCTL)	
Standard employment contract, plus any variables	
All employees' salaries and benefits (inc Termination payments, Staff Salary Sacrifice, Safeguarding, Family Benefits)	
Details of any consultants used to support HR or Payroll including details of LTA's	
Details of any staff on secondments	
Salary projections for at least the next 3 years	
Details of relevant Trade Unions	

Capital & H&S due Diligence	
H&S registers (including Statutory Testing & Maintenance registers) and Plans	
Strategic Condition Improvement & Maintenance Plans	
Details of any Capital bids for the past 3 years including any retentions, conditions of funding and liabilities	
Condition Survey (within last 12 months) including any potential projected costs for the next 3 years	
Fixed Asset Register	
Future contracted Commitments?	
Potential contingent liabilities (e.g. contractual conditions attached to grant funding received)	
H&S practice including Risk Assessments and their implementation	
Details of any current equipment requiring replacement/upgrade (IT Maintenance programme?)	
Inventories of all furniture and equipment over an agreed amount (eg. £100?)	
Balance Sheet and Tax due diligence	
Debtors ageing report at the most recent balance sheet and each year end date during the historical period along with explanations for any items aged greater than 90 days.	
Breakdown of bad debt provision at the most recent balance sheet date.	
Details of all debtors written off or provided for over the historical period.	
Creditors ageing report at the most recent balance sheet and each year end date during the historical period along with explanations for any items aged greater than 90 days.	
Bank reconciliations for the most recent balance sheet date and each year end during the historical period	
Details of any exceptional assets of high value, e.g. heritage assets, artwork	
Breakdown of accruals, prepayments, deferred income, deferred revenue at the most recent balance sheet date and each year end during the historical period.	
Has any cash been received from any clients in advance of performing all work required for that payment (these amounts should be included in the deferred revenue balance	
Details of outstanding corporation, VAT and payroll taxes due at the most recent balance sheet date	
Corporation Tax Exemption documents	
Any correspondence received from HMRC over the last six years	
Details of any tax investigations over the last six years	
If VAT is paid quarterly what months are returns made up to?	
Copies of all VAT returns	
Results of any HMRC inspections	

Other areas of information may need consideration depending on each organisation and the educational climate it is operating within.

NOTES:

- It should be noted that Academy costs excluding staffing are usually around 15% of the total budget, as with VA schools. Whereas it is noted that significant savings can be made, these will normally be from the 15% overall unless relating to reduction in staffing and curriculum costs.
- Any central MAC costs are limited to 5% or less otherwise the EFA will want to know why.
- If appropriate due diligence is carried out the MAC may be able to negotiate with the EFA additional funds for those proposed academies requiring significant capital work to bring up to the appropriate standard.

OUTCOME OF DUE DILIGENCE REPORTS

Following the outcome of the Due Diligence investigations a SWOT analysis should be completed stating the current position of the MAC or individual school. This type of summary is useful for the Governing Body/board of directors.

MACRO SWOT OF INDIVIDUAL SCHOOL

STRENGTHS	WEAKNESSES
OPPORTUNITIES	THREATS

This could then lead to a SWOT analysis of the proposed MAC grouping as a whole.

SWOT OF ALL POTENTIAL ACADEMIES IN GROUP

STRENGTHS	WEAKNESSES
OPPORTUNITIES	THREATS

This type of summary could help Governors/directors to consider the overall strategic position and to develop a suitable action plan to move forward as part of the proposed MAC grouping more easily.