

Academy Finances 2018/19

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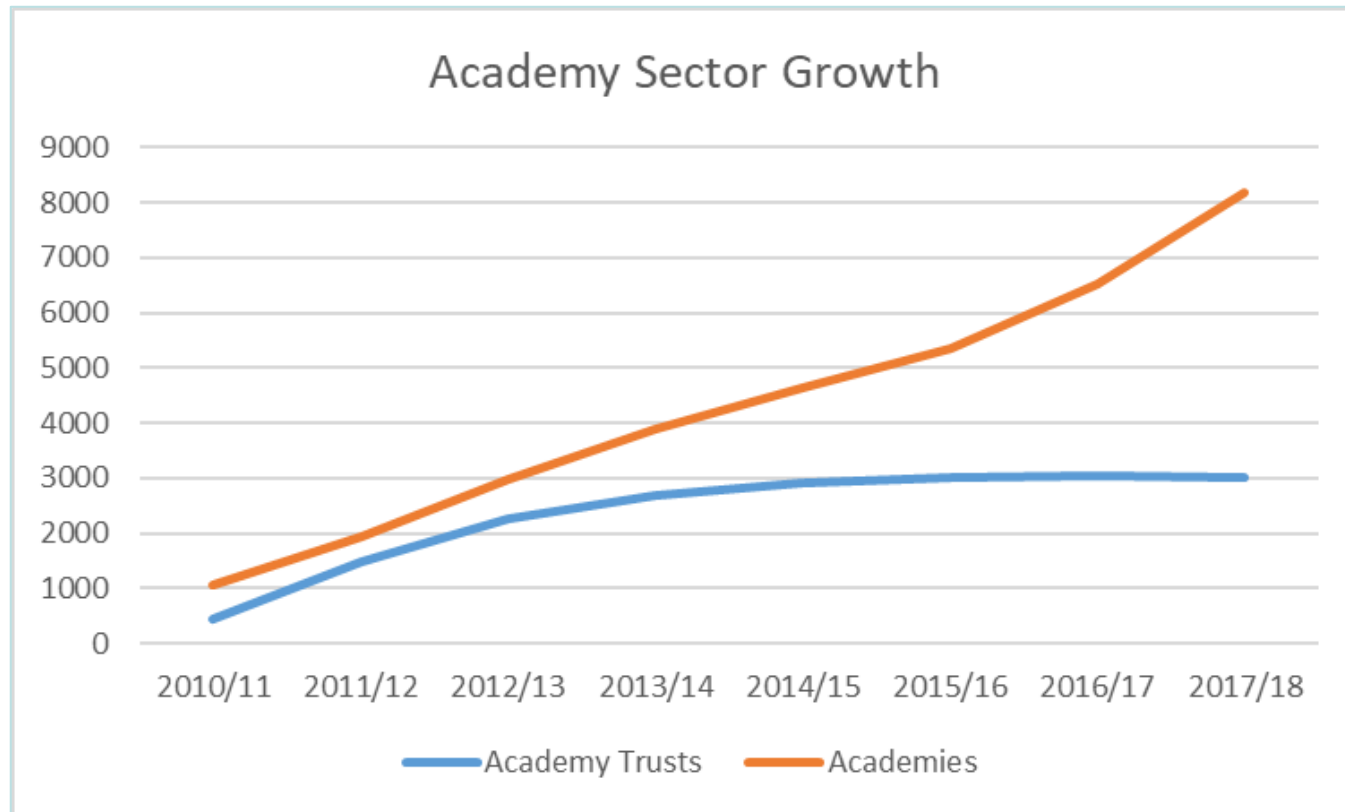
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Academy Sector Summary

Trust Size	Academies 2017/18	Academy Trust 2017/18	Academies 2016/17	Academy Trust 2016/17	Academies 2015/16	Academy Trust 2015/16
1	1,686	1,686	1,915	1,915	2,033	2,033
2	624	312	580	290	536	268
3-5	1,848	491	1,338	365	1,091	304
6-10	1,652	219	1,061	145	675	96
11-20	1,149	84	468	34	414	29
21-30	555	22	347	14	204	8
31-40	307	9	178	5	68	2
41+	356	7	200	4	281	6
	8,177	2,830	6,087	2,718	5,302	2,716

Academy Sector Summary (cont'd)



Academy Sector Summary (cont'd)

- In 2017/18 there were over 8,000 (2016/17 6,000) Academy Schools comprising almost 3,000 Academy Trusts;
- In 2017/18 8,177 Schools are Academies 38% (2016/17 35%), 13,359 are Maintained Schools 62% (65% 2016/17);
- The majority of 8,177 Academies are Primary Schools 5,167 (63%) compared to Secondary 3,010 (37%)
- The majority were single Academy Trusts in 2016/17 but are now MAT's in 2017/18;
- However, whilst there has been an increase of approximately 2,000 (2017 1,000) schools from 2017/18 converting to Academies, almost all have been absorbed within existing Academy Trusts;
- 2017/18 and 2016/17 has seen a further 2,000 (1,500 2016/17) schools becoming Academies, but **NOT** an increase in Academy Trusts;
- It is expected that a further 2,000 maintained schools will become academies during 2018/19;
- Overall, Academy Trusts will just become larger.

Converting to an Academy

Main steps for converting maintained schools to an Academy

- Register an interest with DfE;
- Obtain written consent from:
 - Governing body;
 - MAT;
 - Diocese;
- Prepare an application to DfE based on:
 - last 3 years exam results;
 - Ofsted reports;
 - School finances;
- DfE will assess application and grant an Academy order after 4-6 weeks;
- £25,000 support grant received and indicative letter of funding;
- Appoint a legal adviser;

Converting to an Academy (cont'd)

- Undertake statutory consultation with:
 - Staff
 - Governors;
 - Pupils;
 - Community.
- Obtain an actuarial assessment;
- Obtain details of ownership of Land and Buildings;
- Compile a list of Service Level Agreements to be transferred;
- Undertake TUPE consultation;
- Agree draft funding agreement with DfE;
- Set up a Charitable Company.

Converting to an Academy (cont'd)

Pre Conversion



Converting to an Academy (cont'd)

Pre-conversion

- Due Diligence – Educational, Financial & Much More
“the care a reasonable person should take before entering into an agreement or transaction with another party”
- Educational Due Diligence
Best described as an Ofsted style report on the school, however going into much more detail.
- Financial Due Diligence
Reviewing the financial position of the school both now and in future.
 - Budgets & forecasts
 - Surplus & deficits
 - Pupil intake numbers
 - Staffing structure and costs
 - Pensions & National Insurance impacts
 - Resource / capital requirements
- Financial Planning
Understanding the financial needs and requirements at and post conversion.
 - New financial management software (FMS SIMMs, PS Financials, Sage)
 - Resource purchasing pre-conversion.

“MACs are becoming more selective over which schools they invite to join them”

Converting to an Academy (cont'd)

At conversion

At conversion the Education and Skills Funding Agency issues a “Welcome pack for new openers”.

The pack contains a host of useful information, ranging from financial issues right through to admissions and insurance protection.

Some of the key financial deadlines for new academies are shown as:

- ❖ Within 6 weeks of opening
 - ❑ Complete and submit your land & building valuation form
 - ❑ Submit your budget forecast
- ❖ Within 2 months of opening
 - ❑ Submit your claim form for national non-domestic rates relief and income
- ❖ Within 4 months of opening
 - ❑ Submit your financial management & governance self-assessment form

“ The first few months of opening can be a busy time for the finance and admin team ”

Converting to an Academy (cont'd)

Post Conversion

Financial compliance & statutory deadlines

Being an academy or part of a MAT/MAC comes with a number of financial obligations and strict deadlines which VA schools don't need to comply with. Your freedom comes with responsibilities.

These financial obligations include:

- The preparation of full Accounts and their submission to the ESFA and Companies House;
- The auditing of those Accounts;
- The preparation of the Annual Accounts Return and its submission to the ESFA;
- The preparation of the TPS pensions certificate and its audit as well as its submission to the TPS.

"Your accountants and auditors will help you fulfil all your statutory obligations"

Converting to an Academy (cont'd)

Multi Academy Companies (MAT/MACs)

Pros

- Ensuring value for money through:
 - Greater purchasing power; and
 - Economies of scale through the consolidation of certain back office functions.
- Finances of weaker schools can be supported by stronger schools;
- Staff are employed by the MAT/MAC rather than the school, providing greater opportunities for career advancement; and
- Higher quality staff can be employed across more than 1 school.

Cons

- Inconsistent accounting systems and governance between schools; and
- Individual schools may feel their independence is threatened.

Converting to an Academy (cont'd)

Financial management assistance

- Due Diligence Support
- Creation and enhancement of financial governance and internal control procedures, through the introduction of 'best practice' policies
- Support in development of the Chart of Accounts and the coding and reporting structures
- Liaising with local authorities
- Liaising with software providers
- Company secretarial support
- Pension valuation support
- Inherited assets support
- Ongoing free tax and VAT advice
- Free telephone support on all finance matters
- Quarterly newsletters on academy finance matters for example on VAT
- Training in finance matters for Trustees and the management team
- Establishment of accounting policies e.g.. capitalisation limits, depreciation rates
- Fulfilling the Internal Auditor role by a 6 monthly inspection of the internal accounting systems.
- Establishment and maintenance of a balanced budget
- Review and maintenance of the financial governance framework:
 - risk register
 - internal controls
 - accounting controls
 - regular updates
- Support in preparation of budget estimates and final budgets

Converting to an Academy (cont'd)

Free services

- Telephone support on all finance matters
- Close day to day involvement of the partner and senior manager
- Weekly blogs on academy finance matters
- Quarterly newsletters on academy finance matters
- Benchmarking against other Academies
- Technical updates on emerging financial issues
- Access to academy schools microsite
- Access to the UHY National Academy Sector group on all matters of educational financial interest

Main issues arising from the Audit Reporting Season 2017/18

1. Audit reports largely unqualified	2017/18	2016/17
• Unqualified	2,621	2,562
• Trust closing	81	21
• Going concern	93	89
• Inadequate salary trustee disclosure	8	10
• No land and buildings valuation	17	21
• No actuarial valuation	10	15
	2,830	2,718
2. Management letter points increasing		
• Total number of management letter points	10,894	9,586
• Average number of management letter points a trust	3.5	3.3
• Number of trusts with a high risk weakness	403	409

Main issues arising from the Audit Reporting Season 2017/18 (cont'd)

3. Management letter points main themes

- Inadequate internal controls:
 - poor division of duties;
 - control accounts not reconciled;
- Inadequate budgeting:
 - not in agreement with actual year end results;
- Inadequate governance:
 - no finance and resource committee/audit committee;
 - no internal audit;
 - trustees with the wrong skills;
- Related party transactions occurring:
 - at more than cost;
- No declaration of interests:
 - when trading with connected parties;
- Tendering procedures not followed;
- Academy website documentation not upto date e.g. audited accounts must be available on website by 31 January, pupil premium not detailed.

Main issues arising from the Audit Reporting Season 2017/18 (cont'd)

Governance

Governance arrangements at Academies were generally good, with Management letter issues identified being of low risk, however schools with:

- poor leadership;
- weak board of trustees;

usually had:

- financial issues;
- weaknesses in procurement practices;
- failure to disclose related party transactions;
- inadequate controls.

Main issues arising from the Audit Reporting Season 2017/18 (cont'd)

Irregularity themes

In cases where there were irregularity issues a general theme consisted of:

Overly strong Headteacher/
Principal

Weak Board of Trustees

Under developed and under
resourced finance departments
resulting in lack of governance
and poor financial controls

Academies Financial Handbook

changes and updates 2018/19 (cont'd)

- From 1 April 2019 all related parties must:
 - be reported to the ESFA;
 - have prior approval if any transaction individually or in aggregate is greater than £20,000.
- Management accounts must be produced and shared with the Chair of Trustees monthly, all other Trustees 6 times a year;
- Financial information to be benchmarked against similar academies;
- Senior management pay levels to be evidenced and must be agreed by the Board of Trustees;
 - transparent;
 - proportionate;
 - justifiable.
- Boards of trusts must meet a minimum of 3 times a year and 6 times a year for larger trusts (if meet less, there is a requirement to explain)
- Robust cash management procedures to be maintained;
- Budget forecasts to be compiled realistically and pupil numbers not used as a balancing figure;

Academies Financial Handbook

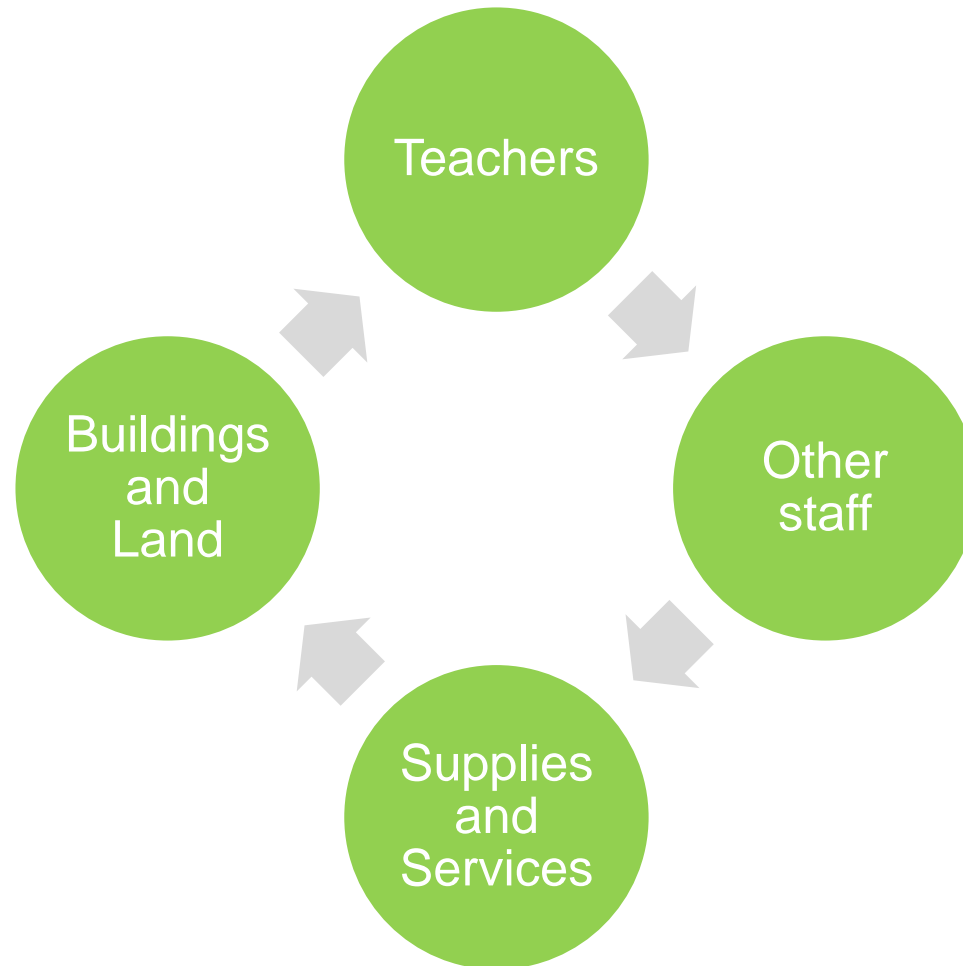
changes and updates 2018/19 (cont'd)

- Where possible ESFA National Funding Arrangements to be used for procurements, for example:
 - risk protection;
 - photocopiers and printers;
 - energy and water;
- Whistleblowers procedures must be in place and all staff must be aware of the process;
- Written evidence of internal checks must be retained and carried out through:
 - internal audit;
 - external audit;
 - trustees of the Trust;
 - peer review;
- Academy trusts to be named and shamed for 2 or more late returns.

Majority of changes are all about maximising efficiencies within schools to obtain best value for money.

Benchmarking and KPI's

There are 4 main areas to benchmarking:



Benchmarking and KPI's (cont'd)

Benchmarking helps you:



- identify areas of spend



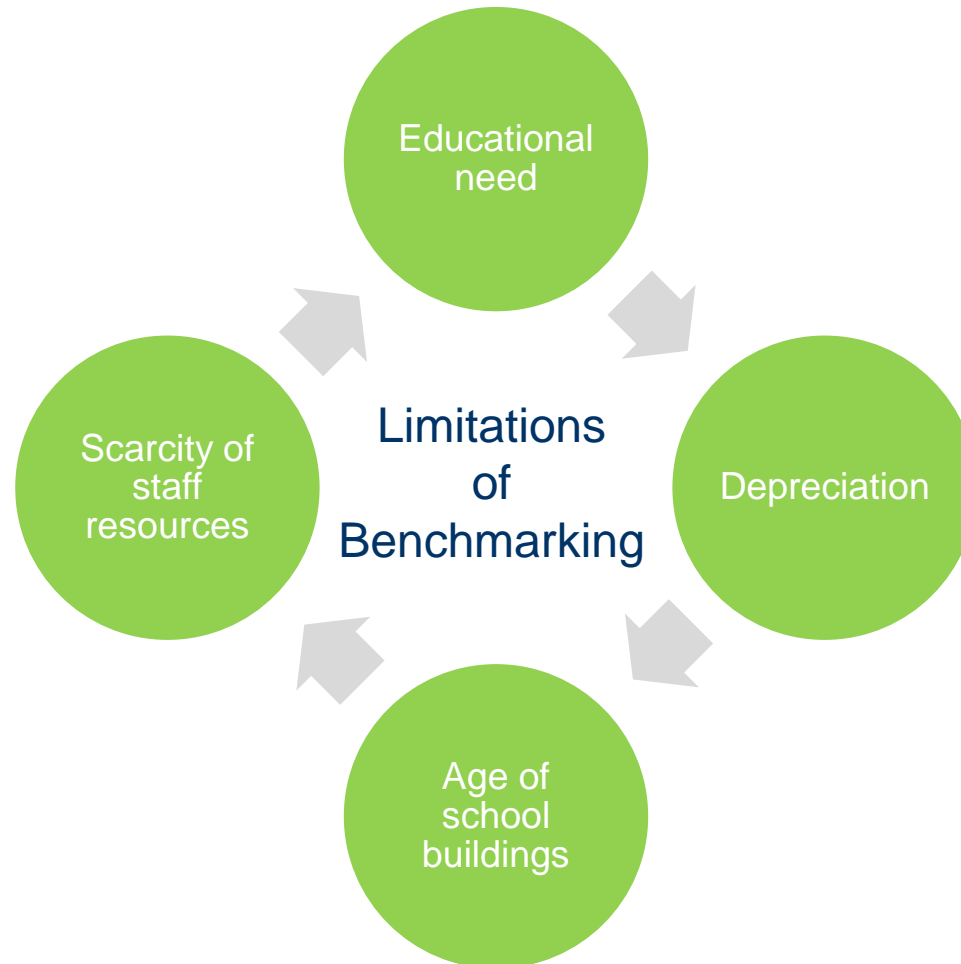
- compare the expenditure with other similar schools



- informs the decision making process of where savings and improvements can be made

Benchmarking and KPI's (cont'd)

Benchmarking is only a guide and other factors should be taken into account, such as:



Benchmarking and KPI's (cont'd)

To get the most from benchmarking it is best to:

- Join or form a 'benchmarking group' of **similar schools** in your area through:
 - the local authority;
 - school business managers network;
- Review the differences and consider the reasons for them;
- ESFA benchmarking website;
 - 2016/17 KPI data in June 2018 uploaded to ESFA website for Maintained Schools and Academies comprising:
 - financial;
 - non financial information;
- ESFA website enables you to:
 - compare a single school against your own school;
 - compare a group of schools so you can obtain an average benchmark against your school;
 - have a default school.

Benchmarking and KPI's (cont'd)

Useful financial KPI's are:



• Pupil : Teacher ratio



• Teacher : Administration ratio



• Grant income to total income



• Income per pupil



• Staff costs to total income



• Supply/agency costs to staff costs



• Current asset ratio

Financial Forecasting

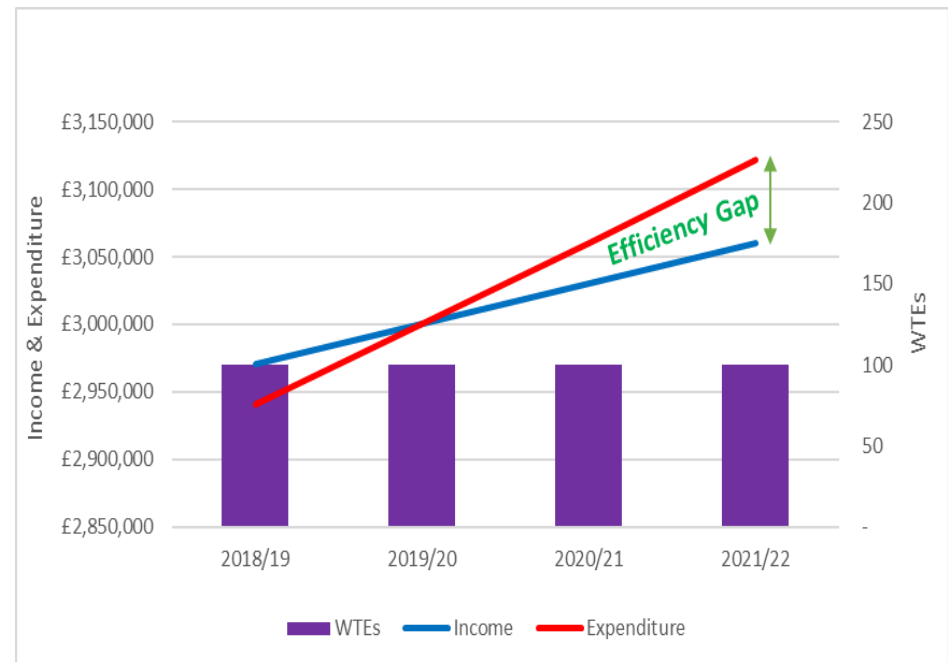
Importance of forecasting

- Academy Financial Handbook emphasises the need to;
 - submit a budget forecast and 3-year budget forecast return to the ESFA which must be approved by the trustees before submission
 - prepare management accounts every month with cashflow forecasting
- Helps to identify future financial risk to allow the development of mitigations/recovery plans
- Aids strategic decision making
 - Capital investments
 - Utilisation of reserves
- Becomes a tool for option appraisals and sensitivity analysis – pay rises, income linked to pupil numbers etc

Financial Forecasting

Approach to Forecasting

- Establish a baseline by understanding the recurrent and non recurrent make up of both income and expenditure
- Identify volume changes
 - Pupil numbers
 - Staff numbers
- Identify price changes
 - Income streams (pupil funding formula)
 - Pay award
 - Non pay inflation
- Efficiency requirement
- Cashflow items
 - Capital Investments
 - Loan repayments



Summary

UHY's view

- Academy Trusts are becoming accustomed to the Academy Accounts Direction regime
- Academy Trusts are becoming larger
- Governance at most Academy Trusts is improving
- Academy Trusts at risk are those with weak Board of Trustees and under resourced finance departments
- Budgetary control and benchmarking will become increasingly important as Academy Trusts costs continue to increase
- Going concern will become an increasing issue

About UHY Birmingham

- Birmingham office of UHY Hacker Young audits over 50 academies across the West Midlands comprising 30 Academy Trusts consisting of:
 - SATs
 - MATs/MACs
 - UTCs
 - Free Schools
- Nationally, UHY audits over 400 Academy Trusts across the UK from the majority of our offices

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