

# Academy Finances 2018/19

*Helping our clients to prosper*  
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THE ARCHDIOCESE *of* BIRMINGHAM

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*Helping you prosper*

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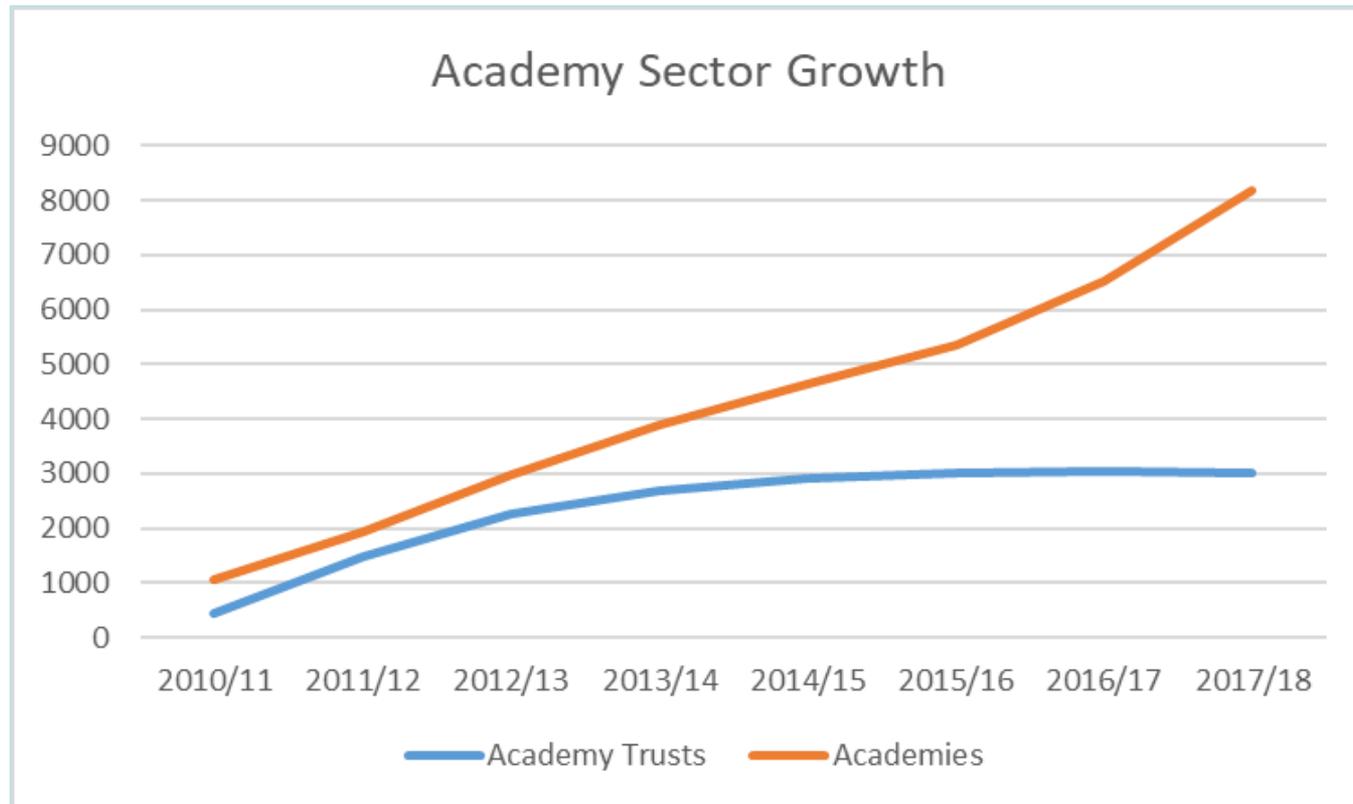
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# Academy Sector Summary

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
	<b>8,177</b>	<b>2,830</b>	<b>6,087</b>	<b>2,718</b>	<b>5,302</b>	<b>2,716</b>

# Academy Sector Summary (cont'd)



# Academy Sector Summary (cont'd)

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- 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

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## 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)

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- 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)

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## 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)

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## 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)

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## 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)

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## 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)

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## 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)

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## 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

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<b>1. Audit reports largely unqualified</b>	<b>2017/18</b>	<b>2016/17</b>
• 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
	<b>2,830</b>	<b>2,718</b>
<b>2. Management letter points increasing</b>		
• 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)

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## 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)

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## **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)

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## 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)

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- 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)

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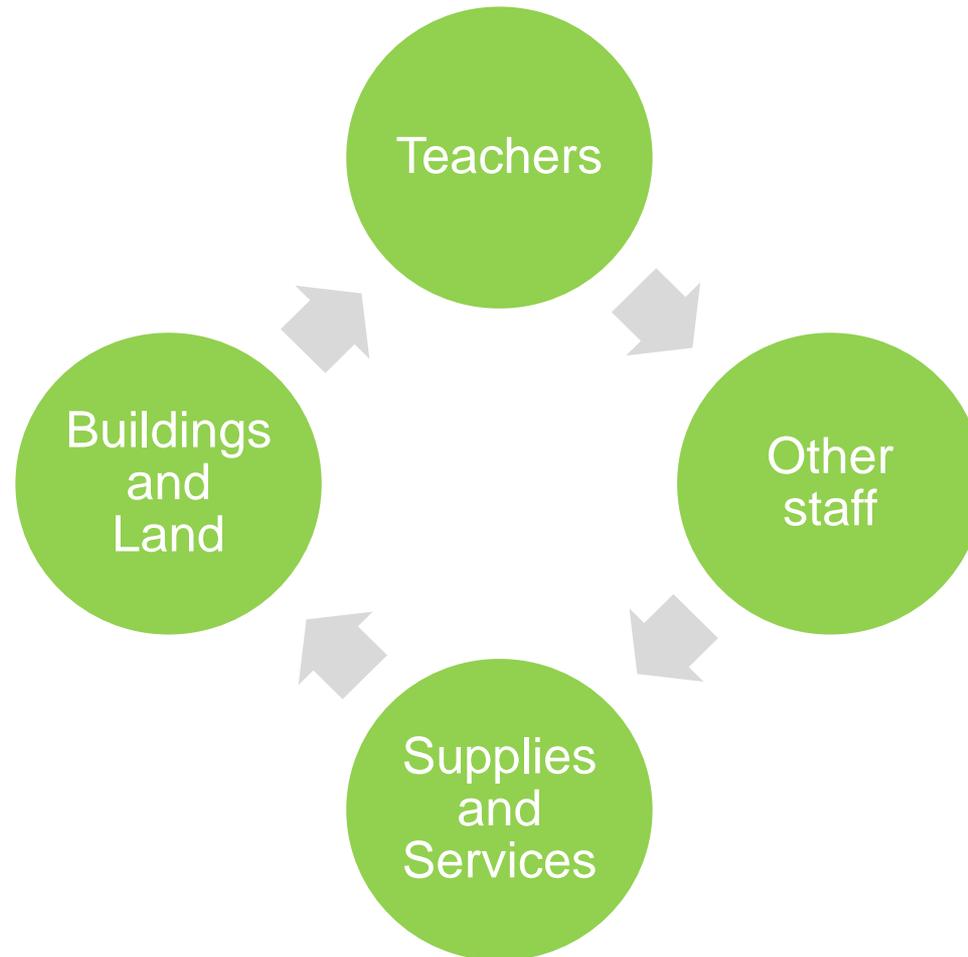
- Where possible ESFA National Funding Arrangements to be used for procurements, for example:
  - risk protection;
  - photocopiers and printers;
  - energy and water;
- Whistleblowers procedures must be in place and all staff must be aware of the process;
- Written evidence of internal checks must be 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

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There are 4 main areas to benchmarking:



# Benchmarking and KPI's (cont'd)

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Benchmarking helps you:



- identify areas of spend



- compare the expenditure with other similar schools

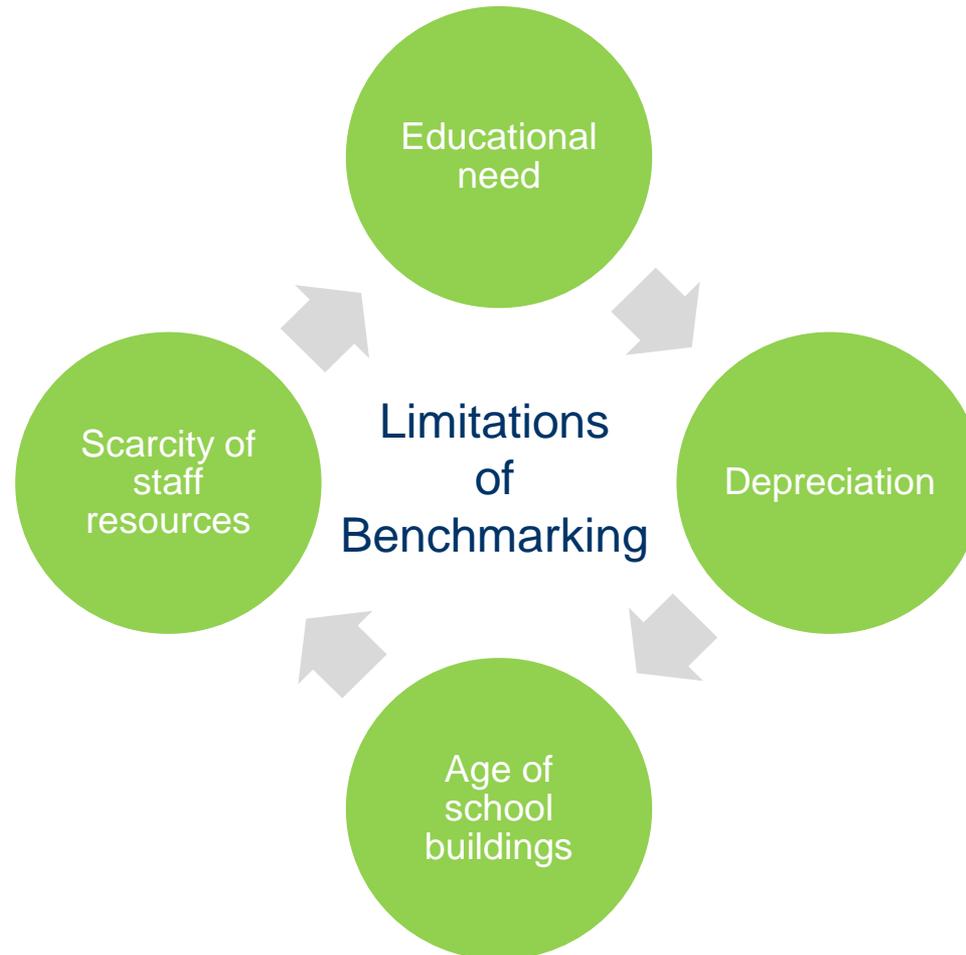


- informs the decision making process of where savings and improvements can be made

# Benchmarking and KPI's (cont'd)

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



# Benchmarking and KPI's (cont'd)

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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)

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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

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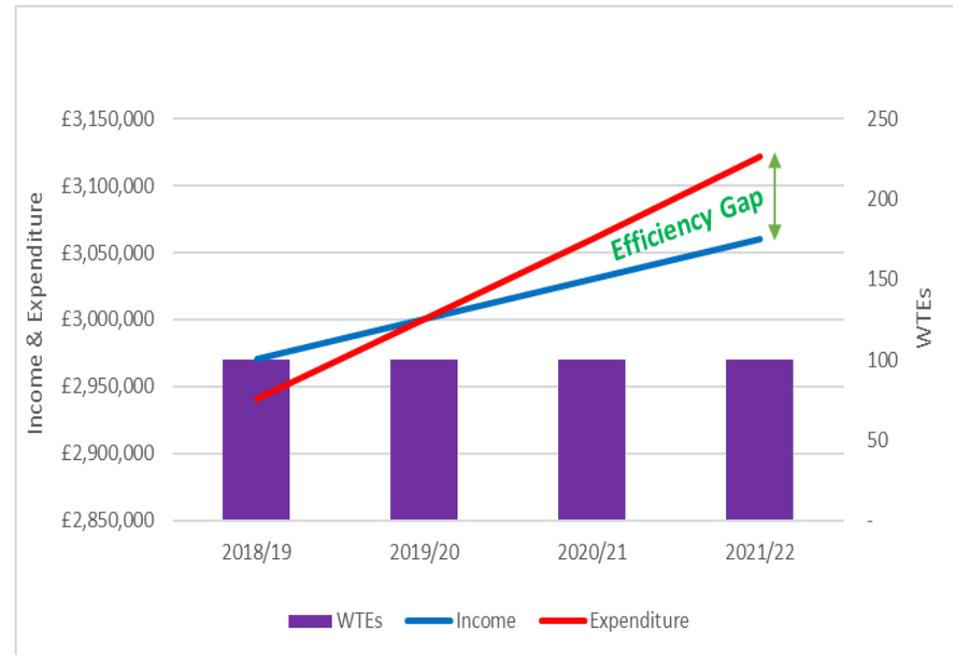
## Importance of forecasting

- 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

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## **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

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- 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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