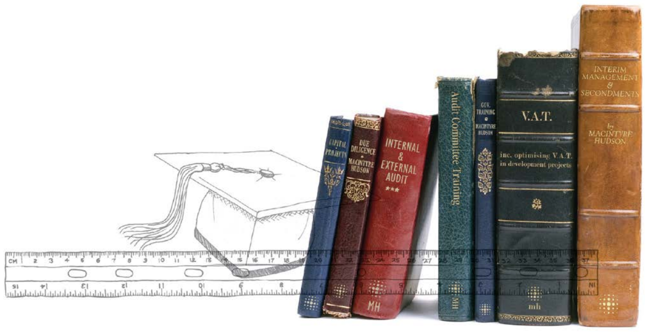
MHA MacIntyre Hudson

GLOBAL EXPERTISE • NATIONAL EXPERIENCE • LOCAL EXCELLENCE®

Academy Advisor

Autumn 2016



Welcome to our regular newsletter for Academies and Free Schools.

In this edition we cover:

- Academies Financial Handbook 2016
- Financial Health & Efficiency
- Funding Reforms
- The Apprenticeship Levy
- A matter of going concern
- Top 10 Planning Checks for Governors
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Academies Financial Handbook 2016

The EFA have published the 2016 edition of the Academies Financial Handbook, which applies to the accounting period beginning on 1 September 2016.

The main changes are as follows:

Governance

- Boards of trustees should identify the skills they need and address any gaps through recruitment or training
- To align with the terminology used in the Governance Handbook, the EFA refer to the trust's publication of its governance structure and remit as its 'scheme of delegation for governance functions'
- All trusts must have a senior executive leader who should also be appointed as accounting officer, and that these roles must not rotate
- Trusts must publish the relevant business and pecuniary interests of their accounting officer regardless of whether they are a trustee. They confirm that local governors are included when identifying relevant interests from close family relationships
- Trusts must use Edubase to notify the Department for Education (DfE) of the appointment and vacating of the positions of member, trustee, local governor in a multi-academy trust, chair of trustees, chairs of local governing bodies, accounting officer and chief financial officer.

Financial control

- Variances between budget and actual income and expenditure must be understood and addressed
- Exposure to investment products must be tightly controlled so that security of funds takes precedence over revenue maximisation
- Where there are concerns about financial management in a trust, the trust may be required to report information about its cash position to the EFA
- A whistleblowing procedure is now a requirement, rather than a recommendation
- Trusts should consider opting into the risk protection arrangement (RPA) unless commercial insurance provides better value for money
- Trusts must implement reasonable risk management audit recommendations that are made to them by risk auditors
- The audit committee's oversight must extend to the controls and risks at its constituent academies, where the trust has them. Oversight must also ensure that information submitted to the DfE and EFA that affects funding is accurate and compliant.
- When considering a staff severance payment, trusts must satisfy the conditions in the handbook and obtain the required approval before making a binding commitment to staff.

Financial Health & Efficiency

To support schools in becoming more efficient and financially healthy, MHA MacIntyre Hudson has signed up with the EFA to offer academy schools a comprehensive financial health check. The EFA have a financial health and efficiency section on their website for schools, which brings together relevant information, tools, guidance, and links to external resources into one easily accessible place.

MHA MacIntyre Hudson has experience supporting schools strategically and would welcome the opportunity to work with you to review your current financial position, identify issues and take appropriate action to achieve savings and efficiencies. Please contact us for further information.

Funding Reforms

With the uncertainty following the result of the EU referendum and the appointment of Justine Greening as the new Education Secretary, academies are keenly aware that funding reforms are on the horizon. Whilst the new national funding formula is uncertain, budget pressures mean it is important to consider and plan for what potentially lies ahead.

Key points to consider:

- What changes do you anticipate?
- Are your financial plans robust?
- Are you confident about the impact of previous efficiencies?
- Can you identify further efficiency savings?
- Is your leadership team fully engaged in making savings decisions?

Good budget planning will help identify potential shortfalls. We recommend a 3-year budget plan which indicates the effect of short term costs on the long-term improvement of the academy's financial health. The first year is spent on budget planning and ensuring staff, governors and unions are on board, with changes implemented gradually in years 2 and 3.

Where significant savings are

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required, it is often unavoidable to consider changes to the staffing structure and it is crucial that you engage early with HR where potential redundancies may be necessary. Initial focus should be on areas such as:

- Where you may be over or under staffed
- Where natural changes to staffing are likely; such as retirement or where staff are more likely to move on
- The Senior Leadership Team structure; can it operate effectively with fewer members if some responsibilities were managed by more junior staff?
- Do the working patterns of support staff match the schools needs and is their time used effectively?

Other potential cost savings include:

- Buying through consortiums and energy brokers to benefit from economies of scale
- Joint procurement between groups of schools
- Consideration of cloud based computing
- Switching from written and postal communication to email and text messaging
- Income generation from lettings, events, outsourcing after school provision
- Possible expansion (additional pupils)
- Check sixth form hours v funded hours (are you subsidising the sixth form?)
- Utilise Cover Supervisors where possible instead of Supply Teachers
- Reduce inventory of staff computers and printers
- Manage staff culture, focusing on team spirit and driving down absence – could an occupational health provision help?
- Investment in new LED lighting or other green energy provision for long term savings?*
- Consideration of joining or establishing a MAT for benefits such as centralised services, sharing best practice, flexible staffing resources and more opportunities for staff

* the EFA quote a case study of a school spending £15,000 on new LED lighting, which is expected to cut the yearly energy bill from £22,000 to £10,000. As the lighting comes with a 5 year warranty, they expect savings to amount to £60,000 over 5 years and reduce their carbon footprint.

All budget planning documents should be straightforward and transparent, presenting potential savings scenarios as clearly as possible, so a non-financial audience can carry out their roles effectively. It is also crucial to ensure good channels of communication between staff, governors and parents to aid understanding of changes being considered.

The Apprenticeship Levy

Larger Academies and MAT's in England are facing further pressure on their budgets as the government confirms those with staff costs of £3 million per year and above, will be required to put aside 0.5% of their 'pay bill' towards the apprenticeship levy from April 2017. The levy is intended to help fund 3 million apprenticeships by 2020.

There is a £15,000 allowance, effectively removing those with a pay bill of less than £3 million.

For example, the levy for schools with a £5 million pay bill would be:

Total levy: 0.5% x £5,000,000
= £25,000
Subtracting levy allowance:
£25,000 - £15,000
= £10,000 annual levy payment

A MAT with staff costs of £30 million would have a levy of £135,000

Whilst not being introduced until next year, any costs should be included in your Budget Forecast Return.

A matter of Going Concern

Ensuring the academy is a going concern is a key responsibility of the Trustees / Governors. Technically, for an academy to be considered a 'Going Concern' it needs to be able to continue in operational existence for at least 12 months from the date of signing the year end accounts. This reflects the auditors' opinion on the academy's ability to meet its liabilities as they fall due.

Academies need to provide evidence to support the basic assumption that the entity is a going concern through accurate management accounts with cash flow forecasts for a 3-5 year period, as well as balance sheets with accruals and predicted outturn.

Trustees should meet at least three times a year to review financial performance and take appropriate steps to address any issues to ensure ongoing viability. Trustees must monitor income and spending to keep track of any variations to ensure budgeting is accurate and robust. A sound reserves policy and good cash flow management is also crucial; often it is the lack of available cash that leads to an organisation's inability to meet its liabilities as they fall due.

Top 10 planning checks for governors

The EFA have published a list of the Top 10 planning checks for governors, to help guide effective financial management.

1. Staff pay as percentage of total expenditure
Staff pay typically represents over 70% of expenditure.

2. Average teacher cost
Calculated by dividing the total teaching cost by the full time equivalent (FTE) number of teachers.

3. Pupil to teacher ratio (PTR)
Calculated by dividing the number of FTE pupils on roll by the total number of FTE teachers.

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A relatively low PTR suggests small class sizes.

4. Class sizes
Generally more relevant to secondary schools – the smaller the class size the greater the cost of delivery per pupil.

5. Teacher contact ratio
Calculated by taking the total number of teaching periods timetabled for all teachers in the school and dividing that by the total possible number of teaching periods (the number of teaching periods in the timetable cycle multiplied by the FTE teachers).

6. Proportion of budget spent on the leadership team
Schools have many different leadership and management structures, so comparisons are not straight forward. The total number of teachers in the leadership group (FTE) is collected in the Workforce Census annually and published in school workforce statistics.

7. 3 to 5 year budget projections
Assumptions you may want to review include projected pupil numbers, free school meal numbers, likely pupil premium income and projections of the staffing that will be necessary in these years.

8. Spend per pupil for non-pay expenditure lines compared to similar schools
Governors should consider the spend per pupil for catering, ICT, estates management, business administration, energy and curriculum supplies.

9. School improvement plan priorities and the relative cost of options
The budgetary process sits firmly within the strategic leadership framework and should link into the overall management and planning cycle rather than being seen as an additional activity that is the sole responsibility of the finance manager.

10. List of contracts with costs and renewal dates
Schools should review contracts across all of its services annually to determine which ones are due for renewal. It is important that contract renewal is planned for and aligned with school requirements.

Further guidance is available on the EFA website: **www.gov.uk/guidance/schools-financial-efficiency-top-10-planning-checks-for-governors**

Mergers & Financial Due Diligence (FDD)

As more schools look to collaborate and merge to form larger Multi Academy Trusts, a comprehensive FDD undertaking should be considered the first priority. The heart of 'good' FDD is the provision of information that enables all parties to make an informed judgement as to the balance of risks and opportunities and the terms on which to proceed.

In any FDD undertaking, it is important that you cover all material issues, looking beyond the obvious and investing the time to investigate properly in order to avoid unexpected issues later on.

What should be investigated?

- Funding, income and expenditure profile over the past 3 years, including cash flow
- Budget position for the past 3 years and any future changes that are known
- Forecasts of predicted pupil numbers on roll; considering wider issues such as local housing developments
- Scrutiny of all board meeting minutes from the past 3 years
- Review of all legal contracts
- Analysis on all HR contracts including any existing TUPE requirements and special conditions
- Inspection of the physical assets of the Academy, such as the condition of buildings and facilities
- Scrutiny of all legal documents, insurances, health & safety audits, audit outcomes, 'near miss' reports and potential liability claims
- Review of internal processes and controls (does practice reflect policies)?
- Liabilities and any restrictions
- Skills profile of current staff and Trustees

Many schools work closely with others around them, leading to a temptation to conduct a simple 'desk top' review. This is approach can lead to many pitfalls and is easy to get wrong. The better the FDD process, the more successful any potential merger will be. Have a timeline and state who is responsible for what – and consider appointing a lead person to co-ordinate all efforts, who will bring together all of the information and report to the Board.

MacIntyre Hudson's Corporate Finance teams are experienced in the education sector, having undertaken considerable due diligence work of this nature over the past 10 years; initially in the realms of higher education establishments and subsequently with academies looking to merge into a new or larger MAT. They can support you throughout the process with a comprehensive financial due diligence offering.

For an informal discussion regarding our services and your needs, please contact: Cameron Cook, Head of Transaction Services on 01494 441 226 or email: academies@mhllp.co.uk

National database of governors

The Department for Education (DfE) has confirmed arrangements for implementing a national database of governors by extending the information collected via EduBase. These new arrangements aim to increase transparency on who governs schools. Single and multi-academy trusts should now use EduBase to check their entries, make any updates, and populate any fields that are empty.

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Trustees' Impact Narrative

An example from the Finance Committee of a High School:

Activity: What have we been working on (past few years)

- Budget & cashflow: including 3yr year forecast
- New accounting requirements (inc. capital assets & depreciation)
- Audit and regularity processes
- Reserves policy
- Risk management and business continuity
- Planning for reduced budget
- Review implications of Accounting Officer Letter
- Adopt new Academies Financial Handbook

Strategy: How are we shaping the school's future

- Providing budget forecasts to give 'financial envelope'
- Campaigning / representing 'academic schools' in political milieu
- Advising on cash flow management and budget sensitivity to reserves
- Financial assessment of curriculum changes

Challenge: Areas we specifically questioned the provision, decisions or actions

- Determining appropriate levels of reserves
- Ensuring probity with unsigned payments (such as DD renewals)
- Ensuring best value with 'repeat contractors'
- Assessing the necessity for internal audit
- Confirming accuracy of forecast predictions

Impact: What difference have our decisions and actions made

- Evaluated the financial gains of Academy conversion: sustained income
- Ensured regular targeted capital funding bids; securing significant sums
- Focused attention on private fund raising revenue
- Insisted on relevant high-level expertise on appointment of Director of Resources

External liaison: How our work extends beyond the school

- Training provided for NASBM including webinars and national conferences
- Representation on the Schools Funding Forum (LA)
- Campaigning meetings with local MPs / DfE
- Participate with Working Group / Local Bursars' Association
- Organisation of joint governance: finance seminar

Future Issues: Known focus areas for the following year

- Substantial reduction in per-student Sixth Form income
- Budget control and planning for revenue realities
- Harnessing capital income for development
- Harnessing capital income for estate maintenance
- Focus on income generation
- Manage project costs (CIF)

Academies Annual Return 2016

The AAR for 31 August 2016 will be a new online form, replacing the excel spreadsheet previously completed. The AO will need to register the Academy trust and obtain a unique username and password. The AO will then be able to set up other users with access rights, including us as Auditor.

Some data will be pre-populated, and there will be prompts where adjustments or explanations may be required. Online sign off will be required by both the Academy and the external Auditor, and it is likely that the AAR will need to be submitted by 17 January 2017 instead of the usual 31 January.

The EFA will issue guidance and a webinar in due course about the new online form and process.

How to contact us

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