



Academy Advisor

Spring 2015

Welcome to our regular newsletter for Academies and Free Schools.

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The Academies Financial Handbook 2014

The Academies Financial Handbook 2014 sets out, without fanfare, a number of what may be fairly substantial changes. At Annex B there is a helpful list of when EFA approval is required for certain actions and Annex C is the Schedule of Requirements i.e. obligations which must be adhered to. We have picked out three items included in the changes:

1. Income generation (section 2.2.12)

This states: 'Academy trusts should set fees for their chargeable services at full cost'. For those schools with boarding facilities, boarding fees must be set at full cost plus 8% from 01 September 2015, but ideally earlier if possible.

Calculating full cost can be complex - it includes the cost of capital as well as overheads. In addition, where a service competes directly with private business, an additional rate of return can be charged. Assistance may be required where in-house expertise does not exist.

Academy Trusts should ensure that where items are

charged for, a calculation is made and retained to set the price. Consideration should also be given to local providers of that service to decide whether an additional return should be charged. With any new income stream Academy Trusts must also consider trading and VAT implications.

2. Register of interests (section 3.1.19)

Governors and senior employees have long been used to completing pecuniary interest forms. Trusts should also consider whether to capture the interests of other individuals such as close family members of individuals already listed, although where doubt exists the Handbook states that presumption should be towards including an interest.

The 2014 Financial handbook introduces a new requirement to publish on the trust's website relevant business and pecuniary interests of trustees and members. Fortunately trusts have discretion over the publication of interests of other individuals including parent, spouse, civil partner, cohabitee and child.

Items that should be published on the website are relationships with businesses which provide goods or services to the trust, and trusteeships or governorships at other charities or educational establishments, regardless of whether goods or services are exchanged. We expect this requirement to be strengthened in the coming years.

The current Handbook does not specify the format of how this information should be shown on the website nor when Academy Trusts need to publish the information, and the current Business cycle wall planner 2015 also does not specify the timescale. If you have not already done so, include this matter as an agenda item at the next meeting of the Board of Trustees so that approval can be given to the website information

3. Management accounts (section 2.3.3)

More hints are provided as to the EFA's expectation of management information to be provided by the school to the senior leadership and Governors/Trustees; switching from the cash basis used by LA schools to an accruals basis. Staff and Governors/Trustees may be unfamiliar with management information prepared on the accruals basis, and so where this format is to be used, training should be considered to ensure that the information provided is interpreted correctly.



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The requirement is “to prepare timely monthly management accounts, including income and expenditure reports on an accruals basis, cash flow forecasts and balance sheets as appropriate.”

Boards of Governors/Trustees should confirm what information they consider “appropriate”, what level of judgement is used for accrual accounting during the course of the year, and when they will consider the management information. The Handbook requires Trustees to consider financial performance of the Trust at least three times a year, and, most importantly, to take action to “ensure on-going viability”.

Financial Reporting Standard: FRS 102

A new Accounts Direction which complies with FRS 102 and the 2015 Charities Statement of Recommended Practice (SORP) is in the process of being drafted, and is expected to be released around April 2015. The new Reporting Standard is introduced for all UK entities preparing financial statements, to bring them in line with international accounting rules.

This new legislation will first apply to academies with a company incorporation date in January or February 2015. Those academies incorporating on or after 01 March 2015 are expected to have a long accounting period, with the first set of statutory financial statements being prepared to 31 August 2016.

For academies incorporated prior to 1 January 2015, the 31 August 2015 accounts will be prepared under the old Accounts Direction, with a new Accounts Direction applying for the first time for 31 August 2016. Some revision to the 2015 figures may be required in the 2016 accounts to ensure that the comparative information complies with the new Accounts Direction. More information will follow about the changes needed, and help will be on hand from the EFA as well as your auditor.

Future Funding and Increased Costs

Future grant funding is looking to be increasingly tightened, with funding mooted to remain static in cash terms for the next few years resulting in a decrease in funding once inflation is taken into account. Add in pension fund increases and the scrapping of the NI rebate for qualifying defined benefit schemes, and school budgets will be increasingly squeezed.

Employer’s contribution rates for Teachers’ Pension increases from 14.1% to 16.48% with effect from 01 April 2015 (but collected from 01 September 2015). For an average secondary school this could equate to additional costs of £60,000 per annum.

From 06 April 2016 there are changes to national insurance which will result in increased costs for academy Trusts. The current basic state pension and state second pension are being abolished, to be replaced by a single state pension. The implication for Academy Trusts is that they will no longer continue paying employer national insurance contributions at the lower rate of 10.4% for staff in the contracted out teachers’ pension and local government pension schemes. Instead, Trusts will pay national insurance rates of 13.8%, an increase of 3.4%. For an average secondary school this could equate to additional costs from April 2016 of £85,000 per annum.

The third cost impact may be from increased pension costs for the handful of staff who have not previously been in either Teachers’ or Local Government pension schemes, but following introduction of pension auto enrolment are now required to be included in a scheme if they do not opt out.

Some academies will face the necessity of staff restructuring. Business managers should ensure that the requirements of the Financial Handbook are complied with, both for disclosure and approval processes.

Staff Severance

In the absence of a Financial Notice to Improve, academies continue to be required to seek EFA approval for non statutory/ non contractual staff severance payments in excess of £50,000. However the expectation is that, regardless of the value of these payments, the same process and scrutiny will be adopted. HM Treasury will inspect a sample of these payments, and where the academy is unable to show that the correct steps have been taken, the payment may be clawed back. It is therefore important that proper advice and consideration is taken prior to making special severance payments. Further guidance is expected from the EFA prior to May 2015.



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The Handbook at section 3.7.4 reiterates that Trusts must demonstrate value for money for any staff severance payment, and three tests must be passed before payment can be made:

1. Is it a reasonable payment in the interests of the trust?;
2. Having taken legal advice on the matter, is it likely that costs of defending the case at an employment tribunal would be high and it is more than likely that the Trust would lose the case?;
3. Is the level of severance payment less than the legal assessment of what might be awarded at tribunal?

Education Funding Agency Accounts Qualification

The EFA's 2014 accounts were qualified due to the difficulties of consolidating the financial statements of 3,905 academies. The main difficulties arose over short and long accounting periods; basis of valuation, recognition and impairment of land and buildings; pension disclosures and validation of accounts return information. A revised approach to the accounting treatment of Academy Trusts, whereby academies would be consolidated into a sector group outside the EFA's accounts has been proposed. It is unknown at this time what impact this will have with regard to the work required by business managers.

Land Registry

The EFA e-bulletin on 29 January 2015 reminded Trusts to check that the relevant title to land and buildings has been registered. Your solicitors are likely to have dealt with this on conversion, but a check can be done at the Land Registry.

Complaints Procedure

The EFA have updated their [guidance on academy complaints procedures](#). This briefly sets out the complaints procedure, good practice suggestions, and the role of the EFA. It is a useful guide to check whether you are compliant.

www.gov.uk/government/publications/setting-up-an-academies-complaints-procedure

Capital Funding for Multi Academy Trusts (MATs)

MATs with at least 5 academies and more than 3,000 pupils are barred from the Condition Improvement Fund and will instead receive a formulaic allocation. The EFA will use a risk based approach to monitoring the use of this funding, and will also collect information on how MATs have used this funding. A Guidance note was published by EFA on 09 January 2015. Allocations for 2015-2016 will be confirmed in April 2015, and grant payments will be made from May 2015 in nine equal instalments.

Risk Protection Arrangements (RPA)

The EFA have been trying to bring down the cost of academy insurance for a number of years now, with the RPA starting from 1 September 2014. There were 768 members of the scheme at 1 December 2014. Academy trusts can opt into the scheme prior to conversion or when their current insurance arrangements come to an end at no additional cost or premium. Currently, an online form can be used to opt into the RPA, starting in any month up to 01 August 2015. The funding agreement will be updated as appropriate.

A few things to watch out for:

1. RPA is an alternative to insurance, i.e. it is not an insurance scheme. Insurance is often specified as a requirement under leasehold agreements, and in these instances insurance will still be required. RPA may not therefore be beneficial.
2. The RPA administrator (the Secretary of State for Education) should be contacted to ensure that any activities/assets of a subsidiary company are covered.
3. Generally, the territorial limits are Great Britain, Northern Ireland, the Channel Islands and the Isle of Man. Where activities take place outside these limits, ensure they are covered by the RPA or that alternative insurance is held.
4. Ensure that all risks are covered, for example motor vehicles and overseas travel may not be included – if not, additional insurance must be purchased.



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EFA Reviews

The EFA continue to visit schools where whistle blowers have voiced concerns. Recent points highlighted in the EFA reviews include:

1. Share information on pupil premium expenditure with governors, alongside pupil achievement
2. Ensure Head's activities and movements are known and matched to expense claims
3. Ensure vacant posts are appropriately advertised
4. Review EFA irregularity reports to aid in identifying appropriate and inappropriate expenditure (in one case, including the purchase of alcohol for staff social events from the private fund!)
5. Expand budget monitoring and other procedures to include private funds
6. Governors should set out the risk areas to be covered by the RO/internal auditor
7. Ensure declarations of interest are complete (i.e. subsidiary companies, teaching partnerships etc.)
8. A staff member was paid £2,000 in recognition of his hard work and dedication – the EFA consider this to be an ex gratia payment for which EFA approval should have been sought
9. Review policies to ensure practicable and complete. EFA reviews are carried out in the context of existing academy policies, and lack of detailed policies is taken as evidence of weak control
10. The EFA will claw back funds deemed to have been spent inappropriately (e.g. the £28,000 of legal fees incurred by one of the 'Trojan Horse' schools, challenging OFSTED conclusions, not authorised by the EFA).

Climate Change Levy

Please check your utility bills to see whether you are being charged the Climate Change Levy. If so, you should contact your utility providers, who will send you a short form to complete. If you are paying VAT at 5%, it is likely that you are already exempt from the Climate Change Levy.

Recent updates on the EFA website

- Becoming an academy: top tips for governors
- Welcome pack for new openers
- EFA Business cycle wall planner for 2015
- "The Essential Trustee" published by the Charity Commission is being updated and views are being sought from Trustees to make this guidance as clear and helpful as possible

Upcoming dates

March accounts return to be submitted to EFA by 31 May 2015 for academies who did not prepare audited financial statements to 31 August 2014 or who opened new academies between 1 September 2014 and 31 March 2015

Teachers' Pensions (TP) EOYC to be submitted to TP by 31 May 2015. If this is not audited, an audited copy to be submitted to TP by 30 September 2015

Budget forecast returns to be submitted to EFA by 31 July for academies open at 31 March 2015

MHA Events

We have a number of seminars and workshops for Academies and Free Schools taking place across our MHA network of firms including:

- Management Accounts & Cash-flow
- Tax Compliance, Fundraising & Trading
- Preparing for the Year End & Audit
- Charity SORP for Academies
- VAT Issues
- Key points from the Academies Financial Handbook
- Governors' / Trustees' Report – content & requirements (including Reserves Policy & Governance issues)

Full details of all our events can be found at:
www.mha-uk.co.uk/events