

# Academies Financial Handbook 2018 – what's new?

The Education and Skills Funding Agency (ESFA) has recently published its 2018 Academies Financial Handbook (the Handbook). Whilst you will still be adhering to the 2017 Handbook until the end of your financial period and during the forthcoming audit cycle, consideration should be given to the changes in the updated Handbook which will become effective from 1 September 2018.

As you are aware, compliance with the Handbook is a condition of your trust's funding agreement with the ESFA, so it's vital that trustees, finance staff and the Accounting Officer are aware of the changes.

You'll be pleased to know there's no significant changes to the requirements or significant extra work required. The main focus of this year's update is instead on governance, related parties and budgeting/forecasting. Updates to these areas aren't surprising, especially with regards to budgeting in light of the recent changes to the Budget Forecast Return, requiring a three year forecast, and the funding issues affecting the sector with reducing reserves and increasing costs.

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## Governance

Included in the Handbook is a Top 10 list of 'musts' that now apply, specifically for chairs and other trustees. Some of these are existing requirements, such as taking personal responsibility in applying the highest standards to governance, though there are some new requirements in respect of meetings and the oversight of budgeting and forecasting.

Trustees should focus on the three core functions of governance:

1. Ensuring the strategic direction of the trust.
2. Holding senior management to account for the educational performance and performance management of the staff of the trust.
3. Overseeing effective financial performance.

The Handbook specifically now states that trustees 'must' ensure regularity and propriety in use of funds and achieving value for money (economy, efficiency and effectiveness). The chair is also responsible for ensuring the effective functioning of the board and setting professional standards of governance.

These points shouldn't be too much of an issue for an experienced academy board, but if you feel that you would benefit from a refresher or an update, we would be happy to provide governance training to ensure your board meet the updated Handbook requirements.

The description of the role of members is now specifically mentioned in the Handbook and aligns with the Governance Handbook. Indeed, the whole of Part One of the Handbook is now clearer in regards to roles and responsibilities, compared to the older version – there are now clear headings as to the roles of the Department for Education (DfE), ESFA, Trustees, Members, Accounting Officer and Chief Financial Officer. Whilst the majority of the responsibilities remain the same as in previous years, the clarity now makes it easier to refer to your own specific role.



All boards still need to meet at least three times a year but, now, larger trusts which do not meet at least six times a year are specifically required to include a note in the governance statement in the accounts outlining how the board maintains effective oversight of funds with fewer meetings. The Handbook doesn't define what a large trust is, but we would consider this to be a multi-academy trust with ten or more schools.

### Related parties

Your trust must report all transactions with related parties to the ESFA in advance of the transaction taking place, using the ESFA's online form.

Approval needs to be obtained from the ESFA for contracts for the supply of goods or services by related parties where:

- the contract exceeds £20,000;
- a number of contracts with the same supplier exceeds, on a cumulative basis, £20,000 in an academic year;
- a contract of any value if there have been contracts exceeding £20,000 individually or cumulatively with the same related party in the same academic year.

This excludes salaries and other payments to an individual under a contract of employment through your trust's payroll.

Both the reporting and approval requirements come into effect from 1 April 2019.

### Budgeting/Forecasting

For budget setting, the board must ensure that budget forecasts are accurate and based on realistic assumptions. Pupil number estimates should be challenged, as they will underpin the revenue projections.

We've recently issued a factsheet on the Budget Forecast Return to support you with your return, which can be found on our website.

Whilst this should have been happening already, it's now mandatory for management accounts to be prepared on a monthly basis, setting out your trust's financial performance position. This should include budget variance reports and cashflow forecasts to help trusts manage their cash, debtors and creditors. These accounts must be shared with the Chair of Trustees every month and with other trustees at least six times a year. Consideration needs to be given to the management accounts each time the board meets, ensuring appropriate action is being taken to maintain financial viability including addressing variances. There should also be key financial performance indicators in place and you should measure performance against them regularly. These key financial performance indicators also need to be included in the annual trustees report, as referred to in the Academies Accounts Direction (AAD). We've also recently issued a factsheet on the Academies Accounts Direction, which can be found on our website. We would be happy to help you implement a robust management accounts system and discuss appropriate KPI's to support your budgeting requirements.

As well as budgeting, there is a new emphasis on cash management. You must manage your trust's cash position robustly and avoid becoming overdrawn.

### Other matters

#### DfE extra power

The Secretary of State of the DfE now has power (subject to the funding agreement) to require you to remove a member or trustee, and can prohibit individuals from taking part in academy trust management. This shouldn't be too much of an issue if good due diligence is undertaken when a member or trustee is appointed.

In certain cases, where there are concerns about the administration of a trust, the ESFA may refer the trust to the Charity Commission.

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#### Internal control

The internal control framework has been tightened up by the inclusion of the following:

- delegated financial authorities now need to be 'complied with' rather than just respected;
- appropriate segregation of duties needs to be maintained.

In addition to the requirement for some form of internal audit, you must now confirm in the governance statement in the accounts which of the options you've applied and why. The outcome of the internal audit work should also inform the accounting officer's statement of regularity in the annual accounts. Findings must be made available to all trustees promptly and details should be made available to the ESFA on request.

#### Executive pay

As always, there are increased regulations over executive pay, specifically that an individual cannot be involved in deciding their own remuneration. You must ensure your approach to this is transparent, proportionate and justifiable, with:

- the procedure for determining pay being agreed in advance and documented;
- decisions being made independently and objectively, and conflicts of interest avoided;
- factors in determining pay being clear, including performance considerations and the degree of challenge in the role being taken into account;
- pay being defensible relative to the public sector market. Note the recent letters that have been sent to some trusts about high levels of executive pay, names of which have been made publically available. The ESFA could challenge inappropriate pay, especially if there is poor financial management of the trust;
- the rationale behind the decision making process being documented;
- a basic presumption that non-teaching pay should not increase at a faster rate than that of teachers.

#### Whistleblowing

In regards to whistleblowing, there is now a requirement for all concerns raised to be responded to properly and fairly. The ESFA have published guidance on this.



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#### Submission deadlines

The ESFA have tightened up their submission deadlines – if they are missed, the ESFA may publicise the names of late returners. This is to enforce compliance where trusts fail to fulfil their duties to provide information in the timelines provided. No one likes to be named and shamed.

#### Responding to audit findings

Finally, in regards to our Audit Findings Report, you must ensure you actively respond to our findings, taking opportunities to strengthen your systems of financial management and control where risks are highlighted and recommendations for improvement outlined.

Remember, the Findings Report is shared with the ESFA. They will be particularly interested in what you have done in response to recommendations that have been raised in previous years.

The Academies Financial Handbook 2018 is available on the ESFA website, which also provides links to the other publications noted above.

#### Further assistance

If you would like advice on any aspect of the new Academies Financial Handbook, or any other academy queries you may have, please contact one of our academy specialists below or your usual Moore Stephens contact.

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