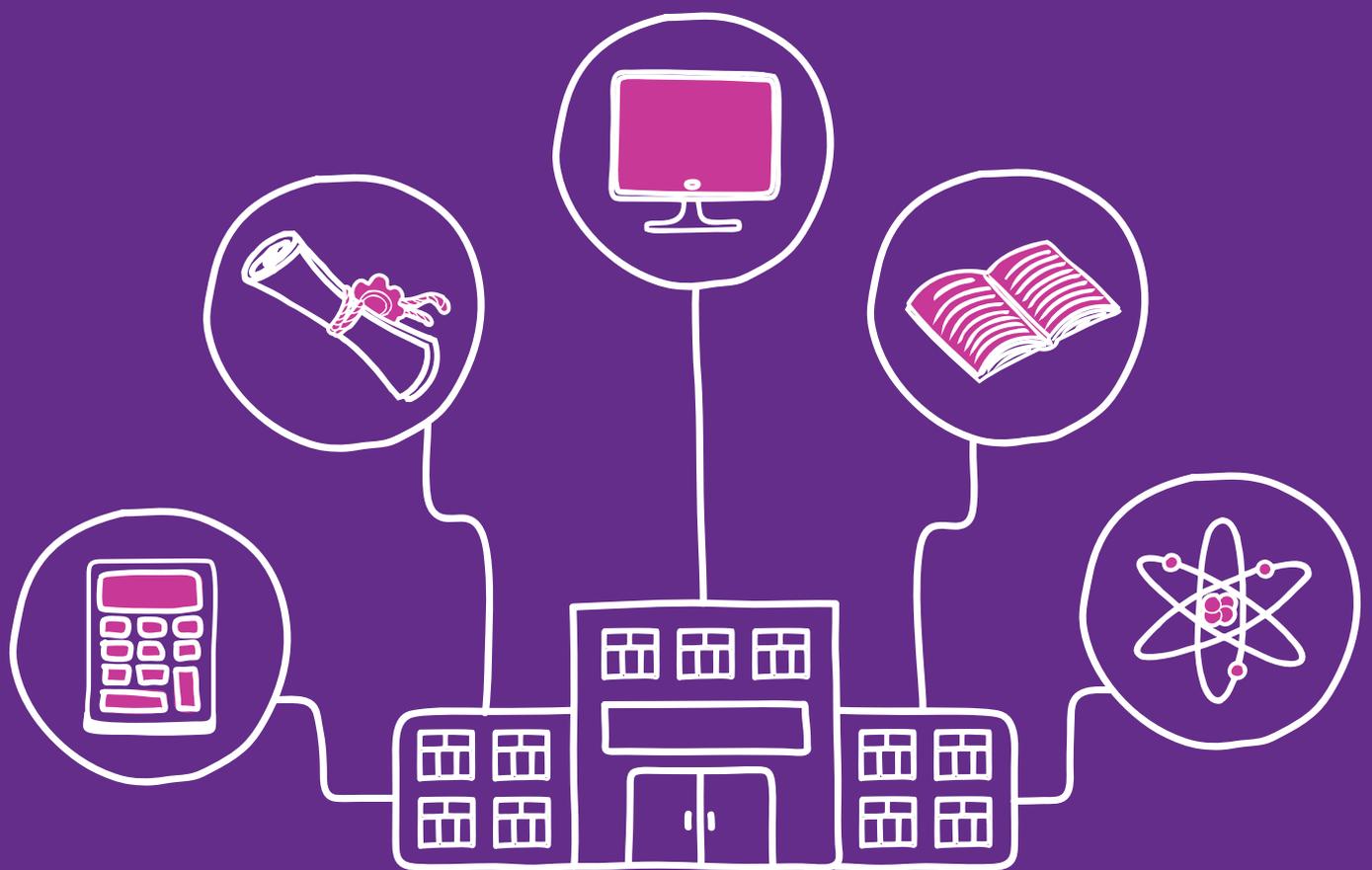


financial management for academies

What next?



CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our members and trainees work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a route to qualification and membership for people already working in senior financial management positions. These are taught by our own CIPFA Education and Training Centre, as well as at other places of learning around the world face to face, online and by distance learning.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, counter fraud tools and qualifications, courses and conferences, property and asset management solutions, advisory and recruitment services for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with international aid donors and agencies, partner governments, accountancy bodies and the wider public sector as well as private sector partners around the world to advance public finance and support better public services.

a new educational landscape

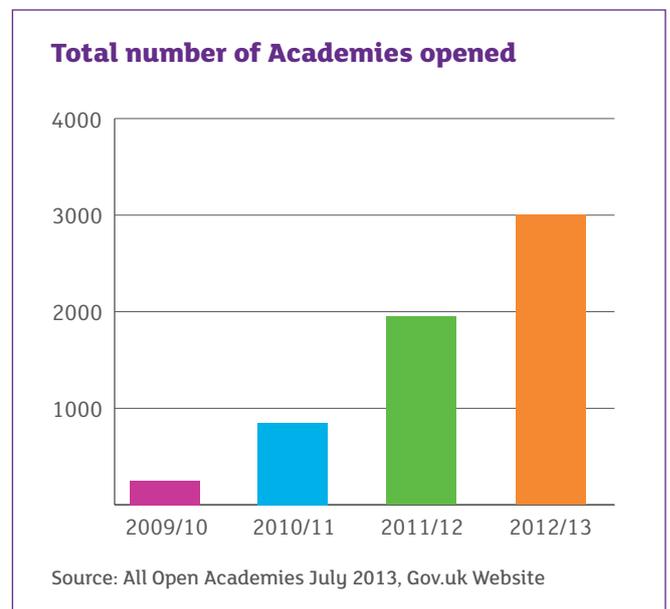
The number of academies has grown at a dramatic rate in the past few years, as sponsored academies have expanded and more and more local authority schools have been persuaded of the benefits that come with converting.

In fact, research from the National Audit Office (NAO) suggests that the number of academies has grown more quickly than the Department for Education (DfE) was expecting to handle.¹ Costs have perhaps risen faster than anticipated too, as demand has accelerated among schools seeking to convert.

Academies are publicly-funded independently governed schools operating outside of local authorities, being overseen centrally by the DfE instead. Essentially, they are run as companies, although they do have exempt charity status. In terms of education, they have more control over their curriculum and the length of school terms and days. Financially, they are subject to the same standards as other private companies, with reporting conducted through company accounts instead of going through local authorities.

Governors are also classed as trustees or directors of the company, sitting on the board rather than a committee. Heads or chief executives are named as the accounting officers of their organisations, meaning they are personally responsible to the governing body for upholding good accounting standards.

School leaders are now responsible and accountable for managing multimillion pound budgets. But in a period of widespread educational reform and demographic change, a wide range of cost pressures are also feeding into academies and making what could be a tough situation even more difficult.



¹ National Audit Office, Managing the expansion of the academies programme, 2012

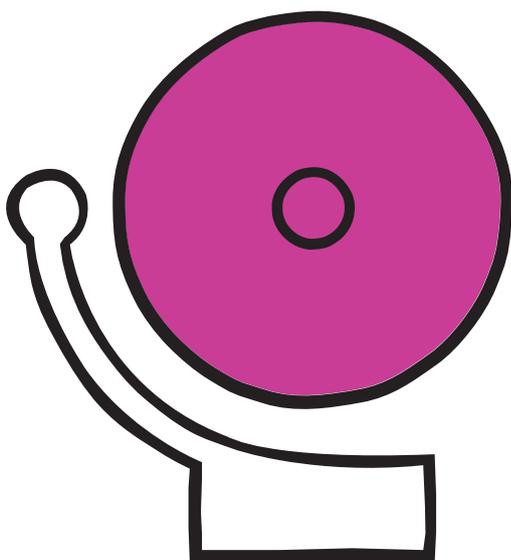
² Ibid

Issues such as rising or falling pupil numbers and demand for special educational needs (SEN) support directly affect pupils. But there are also new expenses such as pension contributions and performance-related pay for teachers which have to come out of academy budgets, and could therefore indirectly affect the quality of education delivered.

As greater autonomy has given academies more responsibility for managing their own finances and changed the governance requirements they have to meet, it has become more important to ensure schools have the personnel and skills for the task. However, a number of high-profile investigations have shown that this is not always the case and, occasionally, a lack of skills and awareness can contribute to financial problems down the line.

The National Audit Office (NAO) found that effective use of DfE's public funding depends on strong financial management and governance at the level of individual academies.² As a result, the government needs to consider how its "light-touch oversight regime" could potentially contribute to the risk of mismanagement. But does that mean that academies need greater oversight from central government to reduce that risk?

Ensuring that academies' finances are managed effectively will come down to furnishing talented staff and leaders with the right knowledge and skills to succeed in a challenging environment, where academies are often faced with fairly limited resources and a growing list of financial commitments. The question is whether decision-makers are equipped to detect skills gaps and address them with the right actions.



skills for the job

Academies have been provided with a range of resources setting out what is expected of them. Organisations such as CIPFA are producing their own resources to offer support and guidance to academies and an array of material is already available. Academies will also have the benefit of using the new Charities Statement of Recommended Practice (SORP), for which CIPFA will be providing the secretariat support.

Nor has the government neglected to provide information: the Education Funding Agency (EFA) provides detailed guidance in a series of publications and resources. Its financial handbook for 2014 explains everything that an academy has to achieve to meet its requirements.³

It states clearly that the board of trustees must understand their statutory duties under the Companies Act 2006, as well as providing details of the academy trust's governance arrangements along with its annual accounts. That will include a review of the skills held by members of the board, which will enable trustees and managers to demonstrate that they have the skills, knowledge and experience that the EFA says is needed to run an academy trust.

Every academy trust needs a chief financial officer (CFO) appointed by the board, whose role involves both technical and leadership duties. Yet it is up to the trust to decide whether the CFO or anyone on their team actually needs a business or accountancy qualification, depending on the nature of the role.



³ Education Funding Agency, Academies Financial Handbook 2014, 2014

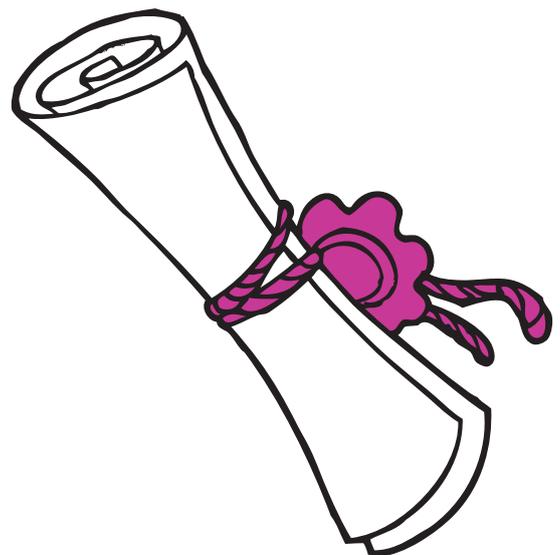
academy-level assessment – a shortage of the right skills

Jacqui Smillie, director (DfE: Finance) at the NAO, points to the broader issues thrown up by the organisation’s recent study into financial management more generally as an indicator of the status of academies.⁴

“One of the challenges we identified was a lack of skills in important areas of financial management such as commercial skills,” she explains. “We recommended that government should evaluate for itself where skills shortages existed.”

‘This recommendation applies to academies as well. We think that it would be healthy for each academy to review for itself what skills are most important for it to develop given the particular challenges it faces.’

Jacqui Smith, director (Department for Education: Finance), NAO



⁴ NAO, Financial management in government, 2013

skills for business managers

As a result, the skills that are required to run an academy successfully can be different from a local authority-run school. For Sue McAvoy, business manager at Bennett Memorial Diocesan School in Tunbridge Wells, Kent, it's a question of an expanding rather than a shifting skillset.

“I think you just need some additional skills, not necessarily something totally different,” she explains. “Perhaps you need better accountancy knowledge than previous business managers had. Take reporting – a lot of the work was done for you when you were an authority-run school, but as an academy you have a lot more autonomy and have to do it yourself. Even if you purchase external support you do need that knowledge in-house.”

Coming from a business background left Sarah Bagshaw, finance director at St Bede Services in Preston and member of the EFA's Academy Technical advisory board, quite well-prepared for the changing financial responsibilities that came with working in a large primary academy. As a result, she tends to prefer recruiting finance staff with a technical background and then supporting them to move into the education context, rather than vice versa.

However, the individuals that play a role in governing and managing the finances of academies come from a wide range of backgrounds, and for some academies it is likely to be tougher than for others. Schools that were used to simple cash accounting are likely to have felt the effects of the transition the most.

“In many ways you get a double whammy- you deal with enormous statutory audits like any limited company and all the extra reporting requirements from the EFA. If you came in from a non-finance or non-accounting route the statutory requirements, governance issues and even the paperwork from EFA was quite daunting,” she explains.

“One of the first things you're hit with that is you have to have a responsible officer and an internal audit every 12 weeks, plus the annual audit. It's a lot more demanding.”



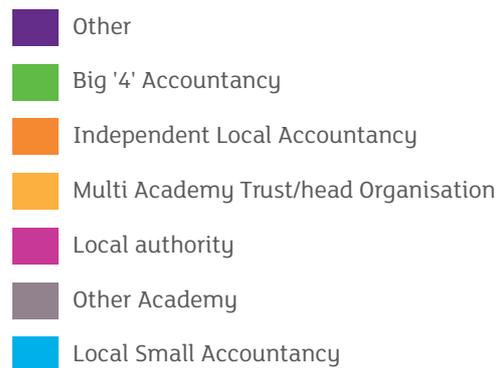
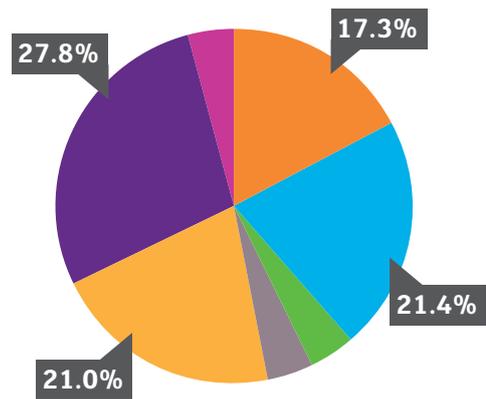
supporting business managers

Academies do have sources of advice and support to turn to when they face financial and planning challenges. CIPFA's survey found that more than a fifth had the benefit of a multi-academy trust or head office to assist them, and many did actually have the expertise in-house. But the most popular answer was to turn to an accountant – some 44 per cent said they either went to an independent local accountant, local small firm or one of the “big four”. Just 3.2 per cent looked to their local authority.

Law firm Eversheds has been working with academies since the first ones emerged in 2007. Ben Wood, partner in the education team, says that it's obvious from the start which schools have the benefit of a properly qualified finance director.

“Headteachers have got lots of other things to think about and unless they can rely on a good finance function, there's an obvious weakness,” he explains. He adds that he has come across academies where business managers didn't necessarily have those qualifications – borne out by the findings of CIPFA's own research above - but had previously been able to rely on support from the local authority. Those academies are likely to be at a disadvantage without that safety net.

When you need help with your financial management and planning challenges, where would you go?



equipping leaders

Ian Bauckham, headteacher at Bennett Memorial, says that many schools are actually likely to have felt fairly confident about how they would operate as academies. Experienced heads and governors who worked in grant maintained or voluntary aided schools will have experience of managing their finances and the accountability that goes with that. But for some schools, and particularly those with no experience of such autonomy, conversion has probably been a much bigger transition.

A joint study from the University of Bath and National Governors' Association (NGA) indicates that recruiting governors is easier in academies than in non-academy schools, but it is still difficult to find individuals willing to take on the responsibility.⁵ In particular, this can mean that specialist expertise such as finance skills can be hard to find among governors, even though governing bodies strongly prioritise financial issues alongside educational performance.

Crucially, the study found that the governing bodies of academies rate themselves as equally effective as peers in other schools, with roughly the same levels of time commitment. However, because academies have greater autonomy, governing bodies in these institutions are likely to make more and more significant decisions.

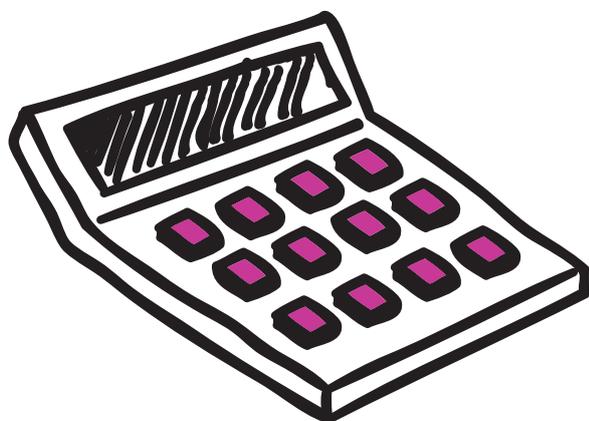
For Morag Roddick, senior associate in the education team at Eversheds, the diversity of capabilities among governing bodies is one of the major issues facing academies.

“Governing bodies are made up of people interested in supporting that community, who may just by chance also have some professional skills,” she says. “The drive now is to focus on the breakdown of the skill set on the board- for example, where they may need to become more entrepreneurial because they are more accountable.

“I don't think that analysis is necessarily taking place everywhere. A lot of people who have to make quite difficult decisions around risk and finance just aren't equipped to make those sorts of decisions.”

‘It's not about the micro-processes that a business manager does every day- they're perfectly capable of doing that. It's about the governance structures, accountability, scrutiny, transparency and the understanding that we're operating a company here.’

Ian Bauckham, Headteacher, Bennett Memorial Diocesan School



⁵ University of Bath and National Governors' Association, The state of school governing in England 2014, 2014

effective oversight

Oversight also continues to be an issue. For example, in converter academies that do not have a founding trust, there are still situations where governing bodies and members of the academy company are effectively the same group of people.

Ultimately, many of the issues that arise in academies stem from the fact that not all leaders have truly understood the nature of their changing responsibilities. There's a difference between a leader's role in a school and a company, and everyone engaged in the governance of academies needs to understand where they fit into the latter structure.

The Education Fellowship Trust

Investigators from the EFA reported a lack of oversight from the board of trustees and an inadequate internal control framework, with no scheme of delegation formal policies or procedures and limited internal audit or responsible officer work being carried out. There were also "significant breaches" of the Companies Act 2006, Charity Commission rules and Academies Financial Handbook. Non-compliance with its own Articles of Association and spending irregularities were also identified, including a £20,000 research trip to New York. A £38,000 fraud was also not reported.



cost pressures

In many cases, the issue that defines financial management in academies is simply that cost pressures are mounting and tough decisions have to be made to support the academy's obligations. Some are being felt across the education sector, but others are specific to academies and their new-found autonomy. All of them can lead to stretched budgets, and one way or another that is likely to impact on educational outcomes.

Six major cost pressures for academies

- Rising or falling pupil numbers
- Performance-related pay for teachers
- Employee pensions
- SEN support
- Pupil premium
- Managing capital assets

'Heads have come through the ranks as teachers, but now they're effectively in businesses and they need to add new skills to manage funds amid increasing pressure.'

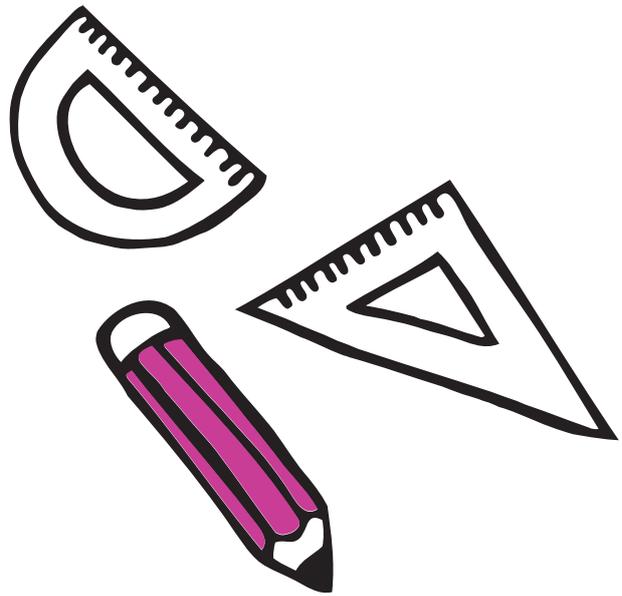
It's a changing mindset in a way - you can't ignore the fact you might have a deficit budget. You need to address it by scrutinising your spending and you might need to change how you deliver education.'

Lisa Forster, finance advisor, CIPFA

rising pupil numbers

There are massive variations in demographic between communities, and in some areas that has led to a sharp upswing in the number of pupils. Academies quickly become oversubscribed and that places a huge strain on their resources. Not only do they have to find teaching and support staff to work with these new pupils, but they also have to find the physical space for them.

Finding the funds to support building extensions and temporary classrooms is a major problem for some academies – and if those additional teaching spaces have to be built on other facilities such as playing fields, alternative provision will have to be sought. High land prices could therefore compound the problem.



falling pupil numbers

At the other end of the spectrum, an ageing population in some communities means that the register is getting shorter in some classrooms. It follows that academies need to decrease their headcounts to remain efficient, but leaders often take too long to react and the number of staff is never reduced.

Even though good and outstanding institutions can access government support on a short-term basis, budget deficits can easily be the result. Once they have emerged it can

be difficult to redress the balance and get the academy's finances back on track.

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There is a block within the schools funding formula that is set aside for pupils with high needs. Every school and academy has a notional amount of funding for SEN and where necessary, this is topped up according to each individual pupil's assessment.

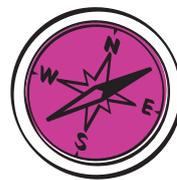
However, earlier identification of SEN is leading to additional pressures on academies and in some cases, it appears their "notional allocation" does not cover the support they have to provide. Because individual pupils rarely go above that level,

they are not gaining access to top-up funding. What's more, local authorities do not have the flexibility to maintain any significant funding pot to supplement stretched resources.

\ employment costs

Because the academy becomes the employer of its entire staff, it also takes on responsibility for paying National Insurance and pension contributions. Pensions are a significant concern, especially in academies where the average age of employees is higher.

After all, pension contributions have to be higher across the public sector to address sizeable deficits – and when academies leave local authority control, they take a percentage of that deficit with them. Some academies may have seen contributions fall but in other cases, they have risen considerably. All have to come out of the same budget.



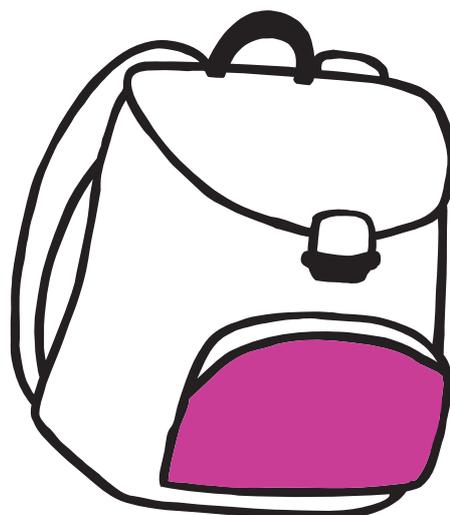
performance-related pay

It may have been highly controversial from the perspective of teaching unions, but the introduction of performance-related pay for teachers has its consequences for the institutions themselves. If a teacher achieves all of their objectives, they move up to the next point on the pay scale; while that does incentivise high performance, it means that schools have to ensure that they can afford to support those rising wages or risk potential legal implications.

To ensure fairness, progression criteria will have to be stringent and universally applied – and once it is obvious that a teacher has met them, schools will not be able to back out over affordability concerns. Ultimately most of the concerns over performance-related pay remain conjecture, and it will not be clear for several years what the fallout might be.

‘There’s a big question mark above this because when each head is assessing PRP objectives, they’ll have to assess each teacher and use very stringent progression targets. If a teacher has achieved all of them, the head and governors can’t refuse the payrise by saying they can’t afford it. That then becomes a legal issue.’

Lisa Forster, finance advisor, CIPFA



pupil premium

To all intents and purposes, the pupil premium is new money. It is intended to be used to target disadvantaged pupils and ultimately improve their educational outcomes. To ensure that it is being used for this purpose, academies are expected to demonstrate how it has been used and how these measures have been effective – although it can be difficult to isolate and target specific children for these funds. Though early indications suggest the initiative is working, the proof of the pudding will be in whether it actually reduces the attainment gap.

For academies who are already dealing with other cost pressures, the pupil premium can easily be seen as a means of bolstering a tight budget. A poll published by the Sutton Trust found that 23 per cent of teachers said their schools

use funds from the pupil premium to raise attainment of all pupils, or to support activities that have felt the impact of school budget cuts.

managing capital assets

Academies must obtain written approval from EFA before carrying out any transactions relating to some key capital, or fixed, assets. That means permission is needed before acquiring or disposing of a freehold of land or buildings. The same is true of the disposal of heritage assets if the moves would go beyond any limits set out in the trust's funding agreement. However, they can dispose of other fixed assets as they see fit with no need for approval – but they must ensure they receive the best price they could reasonably achieve.

Regularity, propriety and value for money are the key principles by which trusts have to conduct these transactions, but where the trust's personnel lack experience

and expertise in handling such transactions, these could become difficult to achieve. External support is likely to be necessary – but that also comes at a cost.

an uncertain future

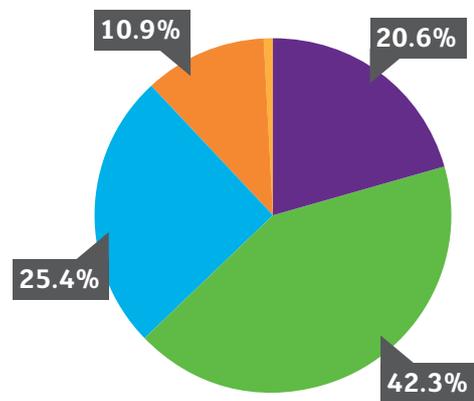
Academies, and the rest of the educational reforms that have coincided with them, are still in the infancy. Many current concerns may turn out to be ill-founded in a few years' time, and issues may appear that have not yet been discussed. At the moment much is still conjecture, which means the situation will be uncertain for some time to come.

Overall, academies are handling their new responsibilities well and looking forward to a sustainable future. But after a period of such rapid change, it is perhaps inevitable that many are looking ahead with limited confidence. In addition, concerns remain that in academies, where the skills gaps on financial management and governance are the widest, problems may be being stockpiled for the future.

The University of Bath and NGA study found that strategic planning and a focus on “the kind of school we want to be” is less of a priority in governing bodies across all types of school.⁶ The report authors say that it is a particular concern considering the decision-making powers being granted to schools as they become academies.

According to Mr Wood and Ms Roddick of Eversheds, some of the most common queries received from academies surround issues such as company secretarial requirements, conflicts of interest, staffing issues, outsourcing and procurement as well as freedom of information.

How would you characterise your academy's current financial situation?



- Currently well funded but with concerns about future funding
- Serious concerns about our current funding but robust plans in place for the future
- Serious concerns about current funding and no likelihood of change going forward
- Currently well funded with adequate plans for the future
- Don't know

⁶ Ibid

What's more, there is serious potential for a lack of forward planning to have knock-on effects on governance. Mr Bauckham says that in schools where financial management is unfit for purpose and unrealistic budgets are being set, insufficient oversight from the governing body could contribute to some schools facing major financial difficulties. Indeed, a small number of schools have already found themselves in that position.

Under-qualified personnel, poor understanding of regulation and a lack of checks and balances have been at the heart of many cases of financial mismanagement in Mr Wood's view. The existence of fewer controls on financial management than there were under local authorities has created higher risk of fraud or incompetence impacting on academies' finances.



Lymm High School Academy Trust

Senior staff suspensions, suggestions of financial irregularities and other concerns about the Trust's performance prompted a visit from the EFA's External Assurance Team, which identified a number of control weaknesses and failures in financial management and governance.

The EFA was advised by the trust that its principal finance officer may have lacked an accounting qualification and finance experience, even though this was the guidance when the academy was established. This could not be proven because the relevant personnel file was missing. After the principal finance officer was suspended, investigators considered that a staff shortage had led to weaker internal controls and inadequate separation of responsibilities.

catching up, getting ahead

So where does the future lie for academies? The Public Accounts Committee (PAC) has been clear that increased oversight on the part of DfE is crucial if financial management and governance is to be improved in academies.⁷

In its “Managing the expansion of the Academies Programme” report, PAC said DfE must clarify accountabilities, roles and responsibilities as well as deploying “robust mechanisms” to root out poor performance. It also said the department needs to request more detailed information, with every academy trust providing school-level expenditure details.

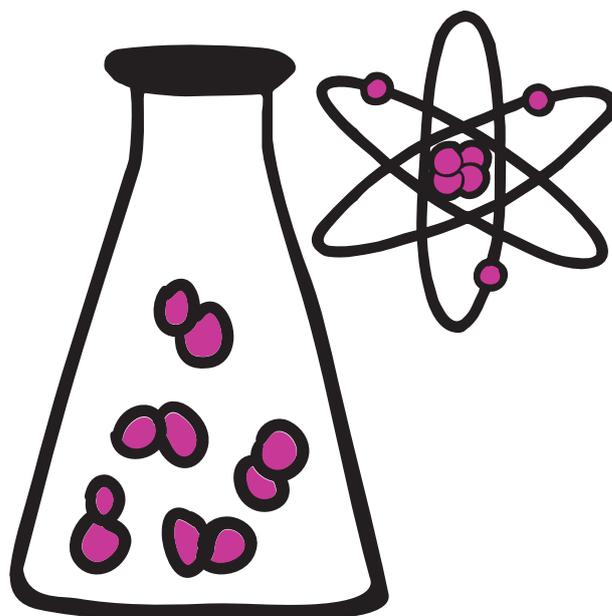
The NAO’s Jacqui Smillie says that the government’s role in enabling good financial management is crucial, and providing sufficient resources to support academies is an important step. Overall, the evidence suggests that guidance coming from the EFA and the DfE is bridging that gap successfully. But Ms Smillie also points out that oversight should play a role.

“Oversight is also an important part of the answer. However, there is a tension between strong stewardship of public money and administrative burden on schools. We would therefore suggest that ‘intelligent’ oversight is preferable to ‘closer’ oversight,” she explains.

“For example, we’ve recommended that the Education Funding Agency needs to strengthen its approach to risk management. Good intelligence gathering mechanisms are an intrinsic part of making risk management work, a point the Public Accounts Committee have made strongly.”

Overall, the evidence suggests that guidance coming from the EFA and the DfE is bridging that gap successfully. However, it seems clear that reporting alone will not solve these problems - especially not if skills gaps have damaged the quality of the data schools produce. Enhancing the capabilities of staff within academies is just as important. In fact, it appears that many cases of mismanagement and bad practice emerge simply because academies haven’t realised that they are not allowed to do certain things.

“It’s about a clearer understanding among those engaged at governance level of what an academy actually is - the role of a director in company law, who the owners of the company are in terms of members and their role in accountability down to the director level,” explains Mr Bauckham.

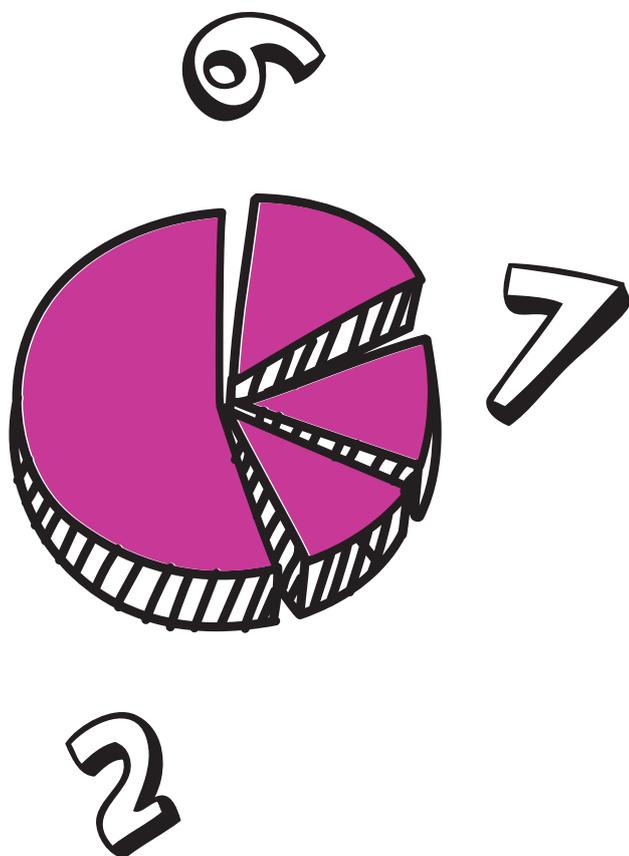


⁷ Public Accounts Committee, Department for Education: Managing the expansion of the Academies Programme, 2013

“There’s still a sense among many academy governors that they’re sitting on a committee. They’re not; they’re directors of a legally established company with all the responsibilities that go with that.”

As a result, it seems that basic training for school leaders and governors in areas such as accounts is vital. There is a strong feeling among leaders and business managers that governors often lack understanding of either how they fit into the structure of a company or how to understand annual accounts - key if they are going to provide effective scrutiny.

“It’s down to schools to make sure that the governors have the right skills to be on that body,” says Ms McAvoy. “In general, if you have a good governing body involved in the financial and resources committee, you will have qualified people who will ask the right questions and know what to expect.”



The whole point of the academy is to give more autonomy to headteachers and governors to make the right decisions for their pupils. As a result, it will be for them to decide how they get the best value for money from their budgets and what constitutes a responsible use of public funds. But to do that, they will need to be aware of their responsibilities as well as being equipped to handle them. Academies need to make the right choices to develop high-level skills and effective processes that will ensure a sustainable future.

5 key points for academies

- Trustees and school leaders need to understand their responsibilities in a limited company
- They need the legal and financial awareness to fulfil them
- Finance teams must be appropriately skilled and experienced
- Seek external advice in times of uncertainty
- Look into external training to fill the skills gap

‘People need to be aware they can’t keep doing what they used to do. You are running a limited company, and if you don’t have the skills you need to look for help and get trained up.’

Sarah Bagshaw, Finance Director, St Bede Services



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