

THE ACADEMIES FINANCIAL HANDBOOK 2018

What is it and what does it mean for you?

The 'Academies financial handbook 2018' (the handbook) sets out the financial accountability system, duties and obligations for academy trusts (ATs).

Compliance with the handbook is a requirement of an AT's funding agreement: it should be adhered to by academy members, trustees, accounting officers, clerks to the board of trustees, local governing boards (LGBs), academy auditors and other senior employees.

It applies to all variants of the academy model, including:

- Single ATs and MATs.
- Sponsored academies and converter academies.
- Free schools and studio schools.
- Alternative provision.
- University technical colleges (UTCs) and special school academies.

This version of the handbook is effective from 1 September 2018.

Main changes for 2018

- The directions the Secretary of State may make in relation to members, trustees and other individuals have been highlighted.
- The Charity Commission's role in addressing non-compliance with the handbook has been explained.
- Greater emphasis has been placed on trustees applying high standards of governance, the role of the chair and working with the ESFA.
- The description of the role of members has been updated in line with the [Governance handbook](#).
- The term 'ex-officio' has been removed from the handbook to avoid suggesting an AT's senior executive leader would automatically act as a trustee.
- The reporting requirements for if the board meets less than six times a year have been explained.
- ATs' responsibility to apply robust cash management has been highlighted.
- Clearer requirements have been set for budgeting.

Main changes for 2018

- Expectations for setting executive pay have been strengthened and ATs' duty to report on the gender pay gap has been highlighted.
- The section in the handbook regarding risk protection arrangements has been clarified.
- Clarification has been offered for the proper handling of whistleblowers.
- Reporting requirements relating to internal scrutiny have been confirmed.
- New requirements for related party transactions have been explained, alongside arrangements with dioceses.
- There is a focus on the importance of acting on audit advice.
- The actions the ESFA may take where ATs do not comply with requirements for submitting financial information have been highlighted.

Our [guidance](#) outlines all the changes to the handbook, including what's new, what's been removed and what's been emphasised or clarified.

Role of the DfE and ESFA

- The DfE has ultimate accountability for the effectiveness of the financial system for academies.
- There is a chain of accountability from each AT, through the ESFA to the DfE.
- The Secretary of State can require ATs to remove a member or trustee, subject to an AT's funding agreement.
- The Secretary of State can prohibit individuals from taking part in AT management, under section 128 of the Education and Skills Act 2008.
- If the ESFA has concerns about financial management and/or governance in an AT, it may issue a [Financial Notice to Improve](#) (FNtI), which the AT must comply with – non-compliance will be deemed a breach of the AT's funding agreement.
- The ESFA may refer ATs to the Charity Commission where there is a concern. The Charity Commission may use its regulatory powers as described in its [Memorandum of Understanding](#) with the DfE.
- Where the ESFA has concerns about the financial management of an AT, it may prescribe working with an expert in school resource management, such as a School Resource Management Advisor (SRMA). ATs should make reasonable efforts to implement improvements suggested by an SRMA – failure to do so may result in a FNtI.

Duties of trustees

The board of trustees **must**:

- Apply the **highest standards of governance** and take full ownership of their duties.
- Discharge the trust's funds reasonably, in accordance with **the law, the articles of association, the funding agreement, and the handbook**, in a way that ensures value for money (economy, efficiency and effectiveness).
- Understand their duties as prescribed by the **Companies Act 2006**, including to:
 - Act within their powers.
 - Promote the successes of the AT.
 - Exercise independent judgement.
 - Exercise reasonable care, skill and diligence.
 - Avoid conflicts of interest.
 - Decline benefits from third parties.
 - Declare interest in proposed transactions and arrangements.
- **Publish its governance arrangements** in their governance statement, including its **scheme of delegation** for governance functions.

Duties of trustees

The board of trustees **should**:

- Follow the guidance in the **Governance handbook**.
- **Identify the skills and experience** it needs, and **address any gaps** through recruitment, and/or induction, training and other development activities, and address skills gaps in any LGBs in place.

Trusts producing audited accounts for the first time **must** include what they have done to **review and develop** their **governance structure** in their first **governance statement**.

Established trusts **should** also include an **assessment** of their **governance**, including a **review** of the **composition** of the board in terms of **skills, effectiveness, leadership and impact**.

The chair of trustees is responsible for ensuring the effective functioning of the board and setting professional standards of governance – the ESFA will help chairs to do this where required.

The accounting officer

- The board of trustees must appoint, in writing, a named individual to be the **accounting officer**; they must be fit and suitable for the role, and should be the **senior executive leader** of the trust (i.e. in single ATs, the principal; in MATs, the chief executive or equivalent). The roles of senior executive leader and accounting officer must not rotate.
- The accounting officer has **personal responsibility** for the trust's financial resources, and ensuring compliance with the handbook and the funding agreement, but the board maintains responsibility for proper conduct in financial management.
- Where required to do so, the accounting officer **must report any breaches** of the above or the academy's articles, or the board's failure to act, to the trustees in writing. If the board proceeds with their actions despite advice from the accounting officer, the accounting officer **must notify the ESFA's accounting officer** in writing.
- The three main areas of concern for an accounting officer are **value for money, regularity and propriety**.
- The ESFA's accounting officer sends a '[Dear Accounting Officer](#)' letter annually to all AT accounting officers – this must be shared by accounting officers with their members, trustees, chief financial officers (CFOs) and SLT, and they must arrange for the board to discuss the letter and take any necessary action.

The accounting officer

The accounting officer **must** sign and submit a '**statement on regularity, propriety and compliance**' to the ESFA each year, along with the audited accounts.

To have appropriate oversight of financial transactions, the accounting officer **must**:

- Ensure all assets and properties of the AT remain under the control of the trustees.
- Ensure measures are in place to prevent losses or misuse, including maintenance of fixed asset registers.
- Ensure all bank accounts, financial systems and financial records are operated by more than one person.
- Keep full and accurate records to support their annual accounts.

Financial oversight

- ATs must **take full responsibility for their financial affairs** and **use resources efficiently** to maximise outcomes for pupils.
- The board must arrange a **minimum** of three board meetings a year; the frequency of meetings should be determined by the actions identified to be accomplished during the year.
- If the board meets **less than six times a year**, it must explain in its governance statement how it maintained effective oversight with fewer meetings.
- The board **cannot delegate responsibility for the AT's funds**, but they must approve a written scheme of delegation of financial powers that maintains robust internal control arrangements.
- ATs should delegate financial scrutiny and oversight to a **finance committee**.
- ATs should appoint a **clerk to the board of trustees** who is not already a trustee, principal or chief executive.
- Delivery of the trust's detailed accounting processes should be delegated to **CFO**. The CFO is the trust's finance director, business manager or equivalent.
- The Institute of School Business Leadership's [Professional Standards](#) outline the main areas that the CFO role may cover.
- All the finance staff appointed by the board must be appropriately **trained and qualified** to hold the positions.

Internal control

ATs must have a **control framework** in place which adheres to public expectations of **openness, standards and governance**. The framework must include the following:

- Coordinating the budgeting and **planning processes**
- Applying discipline in **financial management**, including banking, debt and cashflow, with appropriate **segregation of duties**
- Preparing monthly **budget monitoring reports**
- Ensuring **value for money** in the AT's activities
- Reducing risks from **theft and fraud**
- Managing and overseeing **assets**
- Segregating duties when managing banking, debt and cashflow
- Effective planning and oversight of **capital projects**
- Ensuring that **delegation** of financial authorities is respected
- The **propriety and regularity** of financial transactions
- Processes for independent checking of **financial controls, systems, transactions and risks**

Budgeting

The **board of trustees** must:

- Approve a **balanced budget**.
- Minute the approval of any **significant changes** to the budget, for the financial year, which can draw on unspent funds brought forward from previous years.
- Submit a copy of the **budget forecast** by 21 May and a three-year budget forecast by 30 July to the ESFA. Both of these must be approved by trustees – more guidance on the returns can be found [here](#).
- Ensure that budget forecasts are compiled accurately, based on **realistic assumptions** and **reflective of lessons learned** from previous years.
- Prepare **management accounts** every month, and share these with the chair of trustees, setting out its financial performance and position. The board must consider the accounts when it meets and ensure action is being taken to maintain financial viability.
- Select **key financial performance indicators** and measure the AT's performance against them regularly.
- **Notify the ESFA** within **14 days** of its meeting if the academy is formally proposing to set a **deficit revenue budget** for the current financial year, which it is unable to address after unspent funds from previous years have been taken into account.
- **Manage its cash position** robustly and avoid becoming overdrawn.

Investments

The board of trustees is permitted to invest in their charitable trust. When considering an investment, the board of trustees **must** ensure that:

- Investment **risk** is properly **managed**.
- They act in accordance with the AT's **articles of association**.
- An **investment policy** to manage, track and control financial exposure, is in place and reviewed regularly.
- **Value for money** is achieved.
- They are considerate when making investment decisions and, where appropriate, seek clarification from a **financial advisor**.
- **Security of funds** is prioritised over revenue maximisation.
- Investment decisions are made in the **best interests of the AT**.

ESFA approval must be received for **novel and/or contentious** investment transactions.

Spending

In relation to the use of public funds, ATs must ensure that:

- Spending has been for the **intended purpose** and represents value for money.
- Money has been spent correctly and appropriately.
- Internal **delegation levels** are applied.
- A competitive **Tendering Policy** is in place.
- Official Journal of the European Union (OJEU) procurement **thresholds** are observed.
- **Professional advice** is obtained, when appropriate, including from the external auditor where necessary.
- Payroll arrangements for senior employees meet their tax obligations and comply with the HM Treasury's [guidance](#).

The DfE strongly recommends using its [deals for schools](#), aiming to provide value for money in a number of areas.

Setting executive pay

The board of trustees must ensure its decisions about executive pay follow a **robust evidence-based process** and are reflective of the individual's role and responsibilities. No person can be involved in deciding their own remuneration.

In relation to their responsibility for setting executive pay, **the board must ensure:**

- The procedure for determining pay is **agreed by the board in advance and documented**.
- Decisions about pay **reflect independent and objective scrutiny** by the board and that **conflicts of interest** are avoided.
- Factors for determining pay are clear.
- Pay is **proportional to the public sector** market.
- The **decision-making process** is recorded and retained.
- That non-teaching pay should not increase at a faster rate than that of teachers.
- There is an understanding that **inappropriate pay can be challenged by the ESFA**.

ATs must also understand their requirements to publish information on their websites about the **gender pay gap** in their organisation.

Income generation, risk management and whistleblowing

ATs must:

- Charge for boarding provision on a **full cost recovery basis**, applying an **eight percent rate of return** on boarding charges.
- Manage risks to ensure effective operation, including **contingency and business continuity** planning.
- Have adequate **insurance cover** in compliance with their legal obligations or be a member of the academies **risk protection arrangement** (RPA).
- Cooperate with **risk management auditors and risk managers**, implementing reasonable recommendations made.
- Have appropriate procedures in place for **whistleblowing** and ensure all concerns raised are responded to properly and fairly.

ATs should:

- Set fees for **chargeable services** at full cost. When in a commercial environment, ATs may apply an additional rate of return.

Annual accounts

- ATs must maintain accounting records and prepare **annual audited accounts**.
- The ESFA issues the **Accounts Direction** by the end of May, prior to the end of the financial year to which it relates.
- The audited accounts **must be**:
 - Submitted to the **ESFA** by **31 December** each year.
 - Published on the AT's **website** by **31 January**.
 - Filed with **Companies House** in accordance with company law requirements, usually by **31 May**.
 - Provided to anyone who requests a copy.

Internal scrutiny

- ATs with an annual income of over £50 million must have a **dedicated audit committee** and receive assurances from the committee that any risks are being properly identified and managed by:
 - Reviewing the risks to internal financial control at the AT.
 - Agreeing a system which addresses and provides assurances on risks.
- Other ATs may choose whether they have a dedicated committee or include the audit functions within another committee.
- Finance and audit committees must ensure information submitted to the DfE and ESFA that affects funding is **accurate and compliant** with funding criteria. In MATs, oversight must extend to financial controls and risk at **constituent academies**.
- ATs should manage their internal scrutiny programme in the way most appropriate to their circumstances. ATs **must confirm which methods they have chosen** and why in their governance statement.
- The findings from any internal scrutiny must be **made available to all trustees** and provided to the **ESFA** if they request it.
- Internal scrutiny should also inform the accounting officer's **statement of regularity** in the annual accounts.

Transparency

ATs must provide details of its governance arrangements in the governance statement published with the annual accounts, including what the board has delegated to committees and LGBs where relevant. Additionally, ATs must publish up-to-date details of their governance arrangements in an easy-to-read format, including:

- The **structure and remit** of the members, board of trustees, its committees and LGBs (i.e. the scheme of delegation for governance functions) and the names of the chair of each.
- For each **member** who has served at any time over the last 12 months: full name, date of appointment, the date they stepped down (if applicable), and relevant business and pecuniary interests including governance positions at other educational institutions.
- For each **trustee and local governor** who has served over the last 12 months: full name, date of appointment, term of office, date they stepped down (if applicable), who appointed them, and relevant business and pecuniary interests.
- **Attendance records** for each trustee and governor over the last academic year.

Disclosure

ATs **must disclose figures for transactions of any amount**. For individual transactions worth **more than £5,000**, a separate disclosure should be made for each of the following:

- Gifts made by the AT
- Writing off debts and losses
- Guarantees, letters of comfort and indemnities
- Special payments for compensation
- Ex-gratia payments
- Acquisition or disposal of a freehold of land and buildings
- Disposal of heritage assets
- Taking up or granting a leasehold on land or buildings

Special payments or **staff severance payments** of any amount must be disclosed in total and individually. ATs must ensure **confidentiality clauses** used in association with staff severance payments don't inhibit the **individual's right** to make disclosures in the public interest.

Related party transactions

In relation to relationships with related parties, ATs must ensure:

- Trustees comply with their company director duties and **avoid conflicts of interest**.
- Trustees declare any interest in proposed **transactions and arrangements**.
- Members, trustees, local governors and senior employees complete a **register of interests**.
- Members, trustees, local governors, employees and related organisations do not use their connection to the AT for **personal gain**.
- **No payments** are made to trustees unless it is permitted by the **articles of association**.
- The process for connected relationships is applied across the AT, and personal relationships with connected parties are managed to avoid real and perceived conflicts of interest.
- They recognise that third party relationships attract **additional scrutiny**, such as transactions between senior trustees, payments to commercial entities and interactions with auditors that go beyond the auditing process.
- **Records are maintained** and **sufficient disclosures** are made in their annual accounts.

Related party transactions

From **April 2019**, ATs must:

- **Report all transactions with related parties to the ESFA**, using their online form, before the transaction takes place.
- Obtain **approval from the ESFA** for related party transactions that are **novel, contentious or repercussive**.
- Obtain **prior approval from the ESFA**, using their online form, for contracts or supply of goods or services to the trust by a related party where any of the following apply:
 - The contract **exceeds £20,000**
 - The contract, regardless of the value, **would exceed £20,000 in the same financial year ending 31 August**
 - The contract, regardless of the value, **would exceed £20,000 individually or cumulatively** with the related party in the same financial year ending 31 August

For the above purposes, transactions with related parties do not include salaries and other payments made by the AT to a person under a contract of employment through the AT's payroll.

Register of interests

ATs **must** keep a register of interests capturing all members', trustees', local governors' and senior employees' relevant business or pecuniary interests; the register **must** identify:

- **Directorships, partnerships and employments** with businesses.
- Trusteeships and governorships at **other educational institutions** and **charities**.
- For each interest, the name of the business, the nature of the business, the nature of interest and the date the interest began.
- Any material interests arising from **family relationships** between members of the AT and employees of the AT.

ATs must publish relevant business and pecuniary interests of the above on their website.

Goods and services

A trust must not pay more than 'cost' for goods or services provided by:

- **Members** or **trustees** of the AT.
- Individuals/organisations **connected** to members or trustees through **business** or **family** relationships.
- Individuals/organisations with the **right to appoint** members or trustees.
- **Sponsors** of the AT or related individuals/organisations.

Any agreement with the above individuals/organisations to supply goods or services to the trust must be procured through an open and fair process, supported by a statement of assurance confirming the 'at cost' requirement, on the basis of an 'open book' agreement.

The full cost **must not include an element of profit.**

ATs must have ESFA approval before:

- **Borrowing** from any source, where repayment is to be from grant monies or secured on assets funded by grant monies.
- **Writing off** debts and losses beyond delegated limits.
- Entering into **guarantees, letters of comfort** or **indemnities** beyond delegated limits.
- Authorising **novel or contentious transactions**.
- Considering a non-statutory/non-contractual **payment of £50,000 or more**.
- Making **ex gratia payments**.
- Acquiring or disposing of **freehold land or buildings**.
- Disposing of **heritage assets** beyond the limits set out in the funding agreement.
- Taking up a **finance lease**.
- Taking up a **leasehold** or **tenancy agreement** for a term of seven years or more.
- Granting a **leasehold interest** of any duration on land and buildings to another party.
- Completing related party transactions – in line with the requirements set out [here](#).

General Annual Grant (GAG)

- ATs should use the allocated GAG funding for the **full benefit** of their **current pupils**.
- If an AT has a **substantial surplus**, they should have a **clear plan** for how it will be used to benefit their pupils.
- For eligible academies, there is no limit on how much GAG can be carried forward from year to year.
- MATs may amalgamate a portion of the GAG funding for all its academies into **one central fund**, but **must not pool private finance initiative (PFI) funding**.
- MATs must consider the **individual funding needs** and allocations of each constituent academy, and have an **appeals procedure** in place.

To comply with the **Companies Act 2006**, all ATs must:

- Appoint an **auditor** to certify whether the accounts of the AT are a fair and true representation of the AT's financial performance and position.
- Produce **audited accounts**.

The **contract** for auditing must be **in writing**, in the form of a letter of engagement which only covers the external audit. If the AT purchases additional services, a separate letter must be obtained, which describes the exact requirements of the work and the fees paid. The letter of engagement must include **provisions for the removal** of auditors, before the expiry of the term of office.

Any proposals to remove auditors require a **majority vote** from members, providing reasons for the decision to the AT's board. The board must **immediately notify** the **ESFA** of the **resignation or removal** of auditors, including reasons in the case of removal or a statement of explanation from the auditors in the case of resignation, except where removal occurs at the end of term.

If the auditors resign, they must be required to provide a **letter of explanation** within **14 days** of the resignation.

The board of trustees must ensure there is an **appropriate, reasonable and timely response** by a trust to any findings by an auditor.

Auditing and providing information

The accounting officer's statement on regularity, propriety and compliance must be included in the AT's annual report. A review of the statement must be included in the external auditor's remit.

New ATs or academies joining trusts must complete a **financial management and governance self-assessment** (FMGS). This must be submitted to the ESFA within four months of opening.

ATs must cooperate with the National Audit Office (NAO), and must provide the **ESFA** with **access** to all its **books, records, information, explanations, assets and premises**, and copies if necessary.

ATs must **retain all records verifying the provision** it delivers, its sub-contractors, and those in relation to the handbook and its funding agreement, for at least **six years** after the related funding period.

The AT must **notify the ESFA** if any **position** on the board has been **vacated** or **filled within 14 days** of the change – this must be done through the governance section of [Get information about schools](#).

Sector annual report

Each year, a sector annual report and accounts (SARA) will be collated by the DfE. This is generated using audited accounts returns and other data supplied by trusts.

Each trust is a component of the SARA and must prepare the financial information that is requested by the DfE for this purpose.

ATs' auditors are required by the DfE to audit certain information, and this requirement should be incorporated within the terms of engagement.

The NAO will audit the SARA in accordance with HM Treasury's Financial Reporting Manual.

Fraud, theft and irregularity

ATs **must be aware** of the risk of theft, fraud and other financial irregularities. Where irregularity is suspected or identified, the AT must take the appropriate action.

ATs must **notify the ESFA**, as soon as possible, of **any instances** of fraud, theft and/or irregularity **exceeding £5000**, either **individually or cumulatively** during the financial year.

When reporting any instance of unusual or systematic fraud, of any value, the board must provide:

- **Full details** of the event(s) with dates.
- The financial **value** of the loss.
- Measures taken by the AT to **prevent recurrence**.
- Whether the matter was referred to the **police** (and if not, the reasons why).
- Whether insurance cover or the RPA have **offset any loss**.

What's next?

All delegations and freedoms outlined in the handbook must be interpreted in relation to the terms of an AT's own funding agreement.

- Ready the full 'Academies financial handbook 2018' [here](#).
- Read our [Changes to the Academies Financial Handbook 2018](#) to find out everything you need to know about the updated handbook.
- TheSchoolBus has a model [Register of Business Interests](#) and [Business and Pecuniary Interest Policy](#) to help you manage conflicts of interest.
- Reduce the risk of bribery or financial misconduct by implementing a [Gifts, Hospitality and Anti-bribery Policy](#).
- Ensure you have a comprehensive whistleblowing procedure in place with the policies and resources available in our dedicated [Whistleblowing](#) topic.
- If you're a new academy, you must complete the [FMGS](#) within four months of opening.