



Spring 2015

Academy schools update

Purchasing processes, reserves and reserves policy, tracking KPIs and the pros and cons of joining a MAT.

In our latest update, we summarise some of the best practice approaches to procurement to help you ensure you benefit financially from having effective processes in place and achieve the necessary compliance. A number of our clients have been asking questions in relation to reserves, so we have included an article which sets out some of the key considerations of achieving an adequate reserves policy and of appropriate levels of unrestricted reserves. We also touch on key performance indicators and give some examples of potential indicators that you could use. Finally, with the significant increase in multi-academy trusts (MATs) in the last year, and the DfE's push towards them, we briefly highlight their structure and some pros and cons of joining or forming one.

PREPARE YOUR PURCHASING PROCESSES

Academies have lots to consider when buying goods and services, and it is easy to overlook important parts of the process. Compliance with internal finance manuals, value for money, EU tendering regulations, connected party transaction rules... the list seems endless.

In addition to achieving the necessary compliance, there are many other benefits to having effective procurement practices in place, including financial savings that can then be re-invested to drive up standards, ensuring that all goods or services purchased are fit for purpose, and helping to manage whether suppliers deliver as agreed. With this in mind we thought it would be useful to summarise some of the best practice approaches to procurement.

Your starting point should be a good internal procurement policy, setting out the approach your academy will take. If you are a MAT it is preferable for the policy to be applied across the trust for consistency.

To help ensure transparency and value for money it is vital that you spend an appropriate amount of time on the process relative to the size of the contract, and it is common to treat contracts as either low, medium or high value in order to gauge this.

Your policy should state the agreed thresholds for treating orders as low, medium or high value. Naturally the levels should be appropriate to the size of the school and it may be appropriate to have more than just these three basic layers in larger schools.

Low value purchases

We recommend that academies have an 'approved supplier' list, which staff can turn to for lower value purchases. Low value purchases could cover orders of up to £10k, although you may wish to adopt a less stringent policy for purchases at the lower end of this scale, perhaps up to £2k or £3k.

These low value procurements do not require a detailed approach, but you should still investigate the market to obtain value for money, rather than going with the first supplier you can find. It is preferable if you can obtain three quotes for comparison, and to get these in writing, even if only by email.

A detailed specification is probably unnecessary, but a short paragraph or brief statement of requirement is often useful for suppliers.

You could also consider website comparisons, or benchmarking against other local schools.

Medium value purchases

A more detailed, carefully thought out approach is required here, starting with a clear specification which sets out precise details about the goods or services you require.



You should have a clear reserves policy, which includes your reasoning for building and maintaining reserves, and this must be disclosed in your financial statements.



It is a legal requirement to follow the EU directives for contracts above the EU thresholds.



Medium value purchases would typically be those over £10k but below £40k or £50k. A common approach would be to send out a detailed specification and request three written quotes by a specified date and time. Many academies require purchases in this range, or those towards the upper end of this range, to be approved by the finance committee.

Higher value purchases

A thorough approach is required for higher value purchases since these represent a significant proportion of your school budget, and the size of these purchases means costs can vary dramatically between suppliers.

The approach is often similar to medium value purchases, but sometimes four or five written quotes are sought. It could be appropriate to advertise your requirements somewhere that suppliers are likely to look, such as local newspapers, education specific publications, online education sector procurement portals or trade magazines.

You will then need to spend more time evaluating the quotes; assessing quality, following up references, calculating whole-life cost, considering future price increases, and factoring the importance of price versus quality.

Purchases above £172,514

Academies need to be mindful of the EU public sector procurement rules. From time to time the thresholds that these apply to are reviewed and, since 1 January 2014, all schools have had to consider non-education specific goods and services greater than £172,514 (this is the sterling equivalent of the EU threshold).

There is a higher threshold of £625,000 for goods and services used solely for the purpose of delivering education. Only services used specifically in education provision are subject to the light touch regime. Other less specific services, which could just as easily be used other than in a school, ie. building maintenance, ICT, catering services etc, attract the lower threshold.

There is a separate higher threshold of £4,322,012 for building works.

It is a legal requirement to follow the EU directives for contracts above the EU thresholds and, if you fail to follow the directives, unsuccessful suppliers would be entitled to challenge the process and, ultimately, force a contract to be cancelled. It is therefore important that you follow the correct procedures, which include:

- advertising non-specific education contracts in the Official Journal of the European Union (OJEU);
- setting time limits for tenders;
- not discriminating against foreign suppliers;

- offering debriefing to unsuccessful tenderers;

It is also worth noting that [Public Contracts Regulations 2015](#) apply to procurements from 26 February 2015.

How should an academy assess the value of a contract?

It is important that you estimate the total contract value (excl. VAT) of what you are buying. You must not artificially disaggregate a large contract into smaller sections to bring it beneath a threshold.

Example 1: a grounds maintenance contract is worth an estimated £80k per annum. Over a three year contract the value will be £240k, which brings the contract above the EU thresholds and the rules above must be adhered to.

Example 2: a contract to provide administrative services is worth £9k per year, which is just below an academy's internal threshold of £10k. If the contract is agreed for two years the academy ought to follow its own recommended procedures for contracts over £10k, unless there is a good reason not to do so. It is important that any decision to vary from the finance policy is documented in writing.

More information can be found in the following DfE publications:

- [Effective buying for your school](#)
- [Buying collaboratively](#)

ARE YOUR RESERVES AND YOUR RESERVES POLICY ADEQUATE?

Academy trusts must adopt a reserves policy and disclose this in their annual financial statements. But this is an area that can cause confusion. We are increasingly asked questions concerning reserves so summarise some of the key considerations here.

What is an appropriate level of unrestricted reserves?

You should have a clear reserves policy, which includes your reasoning for building and maintaining reserves.

Free, or unrestricted reserves, are income funds which are freely available for general purpose use. Your policy should state why the reserves are held, what level or range of reserves is considered appropriate, and how the academy trust intends achieving the desired level or range of reserves.

So what is an appropriate desired level? It is reasonable to build up an 'emergency' cushion or 'working capital reserve' which can be based on a specific number of days of operating costs. Some academy trusts aim for at least four weeks or 30 days. On this basis an academy trust with annual expended resources of £4m would need over £300k of free reserves.



If you are thinking about designating unrestricted funds to a special purpose fund, this decision ought to be made before the accounting year end of 31 August.



You are required to define your KPIs and to document how successful you have been in achieving these.



If your academy is not currently maintaining sufficient free reserves, or would like to increase the amount held, you should budget to leave an excess of income over expenditure in the coming years; making a decision now to put aside £10k per annum over the next 5 to 10 years may be possible if planned correctly, although in a challenging financial climate we appreciate this may not be easy.

Are there any restrictions on the level of reserves an academy can build up?

There are both 'yes' and 'no' answers to this question. It is perfectly acceptable for an academy trust to build up reserves if these can be justified, and there is no formula for calculating when reserves are too high.

You should bear in mind that The Academies Financial Handbook does state that 'trusts should use their allocated GAG funding for the full benefit of their current pupils', which is why reserves should not be built without good reasoning.

The EFA can challenge the level of reserves held, if these are deemed to be excessive, so we recommend that if the level of reserves held by your academy could be deemed high full disclosure is made in the trustees' report to explain the reasons.

A common acceptable reason would be where an academy trust is building reserves towards a longer-term capital project which they intend to fund or part-fund themselves.

Can we set reserves aside for a specific project?

Yes. If reserves are being held for something specific, like a capital project, then unrestricted reserves can be designated to a special purpose fund. This fund is then shown separately in the accounts, with an explanation of why it is held.

Although designated for a purpose, these funds would remain unrestricted, so the trustees would be free to change their minds and use the reserves for other purposes should circumstances change.

If you are thinking about designating unrestricted funds, this decision ought to be made before the accounting year end of 31 August, and the decision should be recorded in the minutes of an appropriate meeting.

ARE YOU TRACKING YOUR KPIs?

Academy trusts are required to include within their strategic report an analysis of the trust's key financial performance indicators (KPIs), however these are often not well understood.

You are required to define your KPIs and to document how successful you have been in

achieving these. Achievement can be considered against specific objectives for the current year, or as trends over time. Used well KPIs can drive improvement across your school.

Many academy trusts will have similar KPIs, but you need to consider what is 'key' for you. The starting point is choosing which indicators the trustees use to manage the school. KPIs can be financial and non-financial, and include things such as Ofsted inspection outcomes, examination/key stage results, pupil attendance data and pupil recruitment data, in addition to financial performance.

Some good examples of KPIs include:

- Net incoming and outgoing resources for the year to be positive, prior to any depreciation charge and other recognised gains and losses.
- Funds carried forward at the end of the year to be in surplus.
- Unrestricted funds to be in surplus.
- Restricted DfE funds to be in surplus.
- Net current assets/liabilities to be in surplus.
- Cash at bank and in hand to be maximised.
- Pupil numbers.
- Percentage of income received from the EFA spent on staff costs.
- Staff performance reviews.

THE PROS AND CONS OF JOINING A MAT

Over the past year the number of MATs has increased significantly.

Our recent blog article [Could your school be a sponsor?](#) suggested that the EFA see the MAT as the future, since the number of single academy trusts becomes almost unmanageable. It is inevitable that the number of MATs, and the size of existing MATs, will increase further.

More of our academy clients have formed MATs in recent months, and the DfE are pushing other academies into joining a MAT in response to financial or governance concerns.

What is a MAT?

A MAT is a single entity established to undertake a strategic collaboration to improve and maintain high educational standards across a number of schools. The MAT is responsible for the governance and is accountable for the performance of each member school. The MAT itself becomes the single legal entity employing staff across all academies within the MAT.



The EFA offer additional funding to encourage the formation of new MAT partnerships.



The structure and governance arrangements in MATs can vary considerably. It is common for a board of trustees or directors to sit at the top with ultimate responsibility, but for this body to delegate day to day responsibilities down to Local Governing Bodies (LGBs) of individual schools; however, there are other structures. The level of responsibility handed to LGBs can also vary, with some given substantial control but others receiving very little power.

MATs need to have service level agreements with their academies setting out what they receive for any "top slice" which is taken from an individual academy's funding to cover central trust costs and terms of reference for the LGBs. Many MATs allow LGBs different powers according to set criteria, for example the most recent Ofsted rating.

What are the advantages of a MAT?

Some advantages are clear. The formal structure allows more collaboration and more school to school support. Weaker or smaller schools can therefore benefit from the experience and skills evident in stronger or larger schools. Single, stand-alone academies usually convert into a MAT to support other schools in the locality or to become a formal sponsor of under-performing schools.

Economies of scale can often be achieved through shared services, and MATs can often negotiate preferable contracts and services if contracts at multiple schools are renewed together.

Since the trust itself is the employer it is far easier to transfer staff resources between academies within the trust.

Stand-alone academies usually join an existing MAT because they are either forced to (as a sponsored school), because they feel it will give them better access to resources, or because they already work closely with other schools in the MAT.

It is worth noting that the EFA offer additional funding to encourage the formation of new MAT partnerships. The [primary academy chain development grant](#) is available to groups of three or more primary schools. This offers a one-off grant of £100,000, plus £10,000 for each additional school joining the MAT, up to a maximum of an additional £50,000. Open and converting academies are also eligible to apply, provided they are setting up a MAT with at least two primaries.

...and the disadvantages?

There are risks and disadvantages. Directors of the trust, with ultimate responsibility, may feel that it is difficult to take on this responsibility for schools that they have had no day-to-day involvement with.

Expectations at individual academies need to be managed, and some individual academies may feel that their own independence is threatened. It is worth remembering that even if an LGB is provided with certain powers when an academy joins a MAT, it is possible for these powers to be taken away or altered in the future.

Should one of the academies in a MAT fail, there is a risk that this will affect the reputations of all the schools in the trust.

Should I join or form a MAT?

The decision to join or form a MAT should not be taken lightly, and it is important that you take professional advice at an early stage to help you understand all of the implications.

THE NEXT STEP

If you would like further information on any of the issues highlighted from this latest update, or would like to arrange a meeting to discuss your specific circumstances in relation to any of the above, please contact your usual UHY adviser or find your local academy expert on our website at www.uhy-uk.com/academy-schools.

Keep up-to-date with our weekly blog posts on the latest advice and issues affecting academy and free schools at:

www.uhy-uk.com/academy-schools-blog.

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