



## Multi-academy trusts

# FINANCIAL DUE DILIGENCE

**Financial due diligence is a must in assessing schools' financial stability before joining or expanding a MAT.**

Multi-academy trusts (MATs) are clearly the Department for Education's (DfE) preferred model for schools converting to academy status, as well as for existing academies. And with 97% of academies which opened in 2015/16 currently part of a MAT, it seems that schools are taking notice and looking to enjoy the benefits it can bring.

There are many benefits to operating as a MAT. The formal structure allows more school-to-school support so that weaker or smaller schools can benefit from sharing knowledge and best practice as well as the experience and skills of the stronger or larger schools. It can facilitate access to the very best leaders for hundreds more pupils. MATs also encourage economies of scale in shared services which often allows for negotiation of preferred contracts, improving value for money. Additionally, the central trust function deals with the year end accounts and liaising with auditors; freeing up local heads of schools to concentrate on their pupils.

But there can also be pitfalls if you do not fully understand what you are taking on and what this means for your individual school. When joining a MAT, forming a MAT, transferring from one MAT to another, or as an existing MAT taking on a new school, it is vital that a certain level of due diligence is carried out so that the financial position of the MAT and school(s) involved is clear from the outset.

## PROVIDING ROBUST ASSURANCE

The DfE's December 2016 best practice guide; 'Multi-academy trusts: good practice guidance and expectations for growth', suggests that this type of due diligence is essential for MATs, recommending that "effective due diligence takes place before the MAT agrees to a school joining the trust. This means the trust fully understands all the risks, assets, and liabilities they would take on, and either put appropriate plans in place, or decide that it is not appropriate for the school to join the trust at that time."

However, it is not just for the MAT to examine; a comprehensive assessment of the suitability of the arrangement and careful consideration ought to be taken on both sides. For example, a school may be looking to join a MAT because its financial future is uncertain; however, the DfE are unlikely to provide financial assistance to an academy within a MAT if the trust has cash elsewhere at other academies. Equally, where the MAT is considering sponsoring the failing school, it may need to negotiate funding with the DfE, as historical deficits have been known to be written off at this stage.

## THE KEY AREAS TO EXPLORE

Many schools carry out some form of assessment before making the final decision to join a MAT or before a MAT takes on a new school. However, it can often be





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further down the line that the full picture emerges and you realise your assessment was perhaps a little lack lustre and you wish you had delved a little deeper.

You need to review past financial performance as well as future budgets and unrestricted reserves. As a minimum, due diligence work would normally involve obtaining a full understanding of the income and expenditure profile, staff costs, a review of forecasts for the coming year(s), governance procedures and policies, and an assessment of what has gone wrong in the past.

Ask yourself, have the schools accounted for all known costs, including rising staff costs from pension and National Insurance rate increases? Is there a risk that a school is hiding something or inflates its projected financial results or forecasts? Is the school currently carrying a surplus or deficit? These are just some of the many questions you will want to consider.

### WE CAN DO THE HARD WORK FOR YOU

We can undertake this exercise on your behalf, ensuring the necessary questions are asked and reviewing all key financial areas exploring issues that we know can create future potential pitfalls. We deliver a cost-effective and robust service, resulting in completely objective and independent assurance. We will ensure no stone is left unturned and that you are fully aware of what you are getting into, in order to make the best decision for your school(s).

We will agree a scope of work with you in advance and will keep you updated on our progress throughout the assignment. At the end of our review, we will prepare a detailed written report on our findings and recommended solutions to mitigate any risks identified, and will be happy to attend meetings to discuss these and the way forward. We can then work with you to develop a plan to ensure smooth implementation of any chosen solution, where appropriate.

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### THE NEXT STEP

If you would like us to undertake a financial due diligence exercise for you before you make that big decision, please contact your usual UHY adviser or find your local academy expert on our website at [www.uhy-uk.com/academy-schools](http://www.uhy-uk.com/academy-schools).